

PROVECTUS PHARMACEUTICALS INC

Form 424B3

April 16, 2013

Table of Contents

Filed pursuant to Rule 424(b)(3)  
Registration No. 333-187803

PROSPECTUS

**PROVECTUS PHARMACEUTICALS, INC.**

8,453,941 Shares of Common Stock

This prospectus relates to the sale or other disposition from time to time of shares of our common stock, par value \$.001 per share, by certain of our security holders (the "selling security holders"). The shares offered for resale by this prospectus include the following:

3,400,001 shares of common stock issuable upon conversion of the Series A 8% Convertible Preferred Stock sold in our February 22, 2013 offering;

4,250,000 shares of common stock issuable upon exercise of the warrants sold in our February 22, 2013 offering which may be exercised at a price of \$1.00 per share; and

an estimated 803,940 shares of common stock issuable in lieu of the cash payment of dividends on the Series A 8% Convertible Preferred Stock sold in our February 22, 2013 offering payable through February 22, 2016.

We will not receive any of the proceeds from the sale of shares of common stock by the selling security holders. However, we will receive the proceeds from the exercise of warrants by the selling security holders, if any, to the extent that the warrants are exercised on a cash basis; to the extent we receive such proceeds, they will be used for general corporate and working capital purposes, research and development activities and/or the expansion of our business through internal growth or acquisitions. See "USE OF PROCEEDS" beginning on page 13 of this prospectus.

The selling security holders may sell these securities from time to time at the prevailing market price or in negotiated transactions or in any other manner specified under "PLAN OF DISTRIBUTION" in this prospectus. The selling security holders will bear all discounts, concessions, commissions and similar expenses, if any, attributable to the sale of shares of common stock. We will bear all other costs, expenses and fees in connection with the registration of shares of common stock. For more information, see "PLAN OF DISTRIBUTION" beginning on page 14 of this prospectus.

Our common stock is quoted on the OTCQB under the symbol "PVCT". Our principal offices are located at 7327 Oak Ridge Highway, Suite A, Knoxville, Tennessee 37931, and our phone number is (866) 594-5999.

This prospectus may only be used where it is legal to offer and sell the shares covered by this prospectus. We have not taken any action to register or obtain permission for this offering or the distribution of this prospectus in any country other than the United States.

**Investing in our common stock is highly speculative and involves a high degree of risk. You should purchase these securities only if you can afford a complete loss of your investment. You should carefully consider the risks and uncertainties described under the heading Risk Factors beginning on page 4 of this prospectus before making a decision to purchase our common stock.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is April 16, 2013.

**Table of Contents**

**TABLE OF CONTENTS**

<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	4
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	12
<u>USE OF PROCEEDS</u>	13
<u>SELLING SECURITY HOLDERS</u>	13
<u>PLAN OF DISTRIBUTION</u>	14
<u>MARKET PRICE OF OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS</u>	16
<u>SELECTED FINANCIAL DATA</u>	17
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	18
<u>BUSINESS</u>	25
<u>MANAGEMENT</u>	42
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	53
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	54
<u>DESCRIPTION OF CAPITAL STOCK</u>	55
<u>LEGAL MATTERS</u>	60
<u>EXPERTS</u>	60
<u>SEC POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES</u>	60
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	60
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1

## Table of Contents

### PROSPECTUS SUMMARY

*This summary highlights information set forth in greater detail elsewhere in this prospectus. It may not contain all the information that may be important to you. You should read this entire prospectus carefully, including the sections entitled Risk Factors beginning on page 4, the financial statements and the notes to the financial statements. Unless otherwise indicated or unless the context otherwise requires, all references in this prospectus to Provectus, Provectus Pharmaceuticals, we, us, or similar references mean Provectus Pharmaceuticals, Inc. and our subsidiaries.*

#### **Our Business**

Provectus Pharmaceuticals, Inc., together with its six wholly owned subsidiaries and one majority owned subsidiary managed on a consolidated basis, is a development-stage pharmaceutical company that is primarily engaged in developing ethical pharmaceuticals for oncology and dermatology indications. Our goal is to develop alternative treatments that are safer, more effective, less invasive and more economical than conventional therapies. We develop and intend to license or market and sell our two prescription drug candidates, PV-10 and PH-10. We also hold patents and other intellectual property which we believe may be used in over-the-counter products, which we refer to as OTC products, and various other non-core technologies. We have transferred all our intellectual property related to OTC products and non-core technologies to our subsidiaries and have designated such subsidiaries as non-core to our primary business of developing our oncology and dermatology prescription drug candidates.

#### Prescription Drugs

We focus on developing our prescription drug candidates PV-10 and PH-10. We are developing PV-10 for treatment of several life threatening cancers including metastatic melanoma, liver cancer, and breast cancer. We are developing PH-10 to provide minimally invasive treatment of chronic severe skin afflictions such as psoriasis and atopic dermatitis, a type of eczema. We believe that our prescription drug candidates will be safer and more specific than currently existing products. All of our prescription drug candidates are in either the pre-clinical or clinical trial stage.

#### *Oncology (PV-10)*

We believe our prescription drug candidate PV-10 may afford competitive advantage compared to currently available options for the treatment of certain types of cancer. We are developing PV-10, a sterile injectible form of rose bengal disodium (Rose Bengal), for direct injection into tumors. It is an immuno-chemoablative agent that when injected intralesionally is tantamount to an in situ vaccination following acute and durable necrosis of diseased tissue. Because PV-10 is retained in diseased or damaged tissue but quickly dissipates from healthy tissue, we believe we can develop therapies that confine treatment to cancerous tissue and reduce collateral impact on healthy tissue. We have conducted Phase 1 and Phase 2 studies of PV-10 for the treatment of metastatic melanoma, and Phase 1 studies of PV-10 for the treatment of liver and breast cancers.

#### *Dermatology (PH-10)*

Our prescription drug candidate PH-10 is an aqueous hydrogel formulation of Rose Bengal for topical administration to the skin. It is a novel nonsteroidal anti-inflammatory agent that interacts with ambient and other light sources. We are developing PH-10 for the treatment of cutaneous skin disorders, specifically psoriasis and atopic dermatitis, and we believe that PH-10 may be successful in treating other skin diseases. We believe that PH-10 offers a superior treatment for psoriasis and atopic dermatitis because it selectively treats diseased tissue with negligible potential for side effects in healthy tissue.

## **Table of Contents**

### **Over-the-Counter Pharmaceuticals**

We have designated our subsidiary that holds our OTC products, GloveAid and Pure-ific, Pure-Stick, Pure N Clear as non-core to our business. The potential further development and licensure of our OTC products would likely be facilitated by selling a majority stake of the underlying assets of the non-core subsidiary holding the OTC products. This transaction would likely be accomplished through a non-core spin-out process, which would enable the non-core subsidiary to become a separate publicly held company. The new public entity could then raise funds without diluting the ownership of the then current shareholders of the Company.

### **Risks Related to Our Business**

We are subject to a number of risks of which you should be aware before you decide to buy our common stock. These risks are discussed more fully in the Risk Factors section of this prospectus beginning on page 4 and should be read in their entirety. In general, we face risks associated with the following:

the fact that we are a development stage company with no prescription drug products approved for commercial sale and have incurred substantial losses;

the sufficiency of our capital resources to fund our current and planned operations;

our ability to obtain U.S. or international regulatory approvals required to commercialize our products;

delays in the commencement and completion of clinical trials due to unforeseen safety issues, determination of dosing issues, lack of effectiveness during clinical trials, slower than expected rates of patient recruitment, inability to monitor patients adequately during or after treatment, and inability or unwillingness of medical investigators to follow our clinical protocols;

physician and patient acceptance of our prescription drug candidates;

our ability to establish or maintain relationships with third party collaborators or to develop in-house sales and distribution capabilities; and

securing and maintaining proprietary patent protection for our products and technologies we develop or license.

### **Corporate Information**

We were incorporated in Nevada in 2002. Our principal offices are located at 7327 Oak Ridge Highway, Suite A, Knoxville, Tennessee 37931, and our phone number is (866) 594-5999. Our website is located at [www.pvct.com](http://www.pvct.com). We do not incorporate the information on our website into this prospectus, and you should not consider such information part of this prospectus.

### **Summary of the Offering**

The shares offered for resale by this prospectus include the following:

3,400,001 shares of common stock issuable upon conversion of the Series A 8% Convertible Preferred Stock sold in our February 22, 2013 offering;

Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

4,250,000 shares of common stock issuable upon exercise of the warrants sold in our February 22, 2013 offering which may be exercised at a price of \$1.00 per share; and

an estimated 803,940 shares of common stock issuable in lieu of the cash payment of dividends on the Series A 8% Convertible Preferred Stock sold in our February 22, 2013 offering payable through February 22, 2016.

**Table of Contents**

**Use of Proceeds**

The selling security holders will receive all of the proceeds from the sale of any of our common stock offered in this prospectus and issued upon a cashless exercise of outstanding warrants. We will not receive any of the proceeds from any sale of the shares of common stock by selling security holders. However, we will receive the proceeds from the exercise of warrants by the selling security holders, if any, to the extent that the warrants are exercised on a cash basis; to the extent we receive such proceeds, they will be used for general corporate and working capital purposes, research and development activities and/or the expansion of our business through internal growth or acquisitions.

**Table of Contents**

**RISK FACTORS**

*Any investment in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below and all information contained in this prospectus, before you decide whether to purchase our common stock. If any of the following risks or uncertainties actually occurs, our business, financial condition, results of operations and prospects would likely suffer, possibly materially. In addition, the trading price of our common stock could decline due to any of these risks or uncertainties, and you may lose part or all of your investment.*

**Risks Related to Our Business**

***We are a development stage company, have no prescription drug products approved for commercial sale, have incurred substantial losses, and expect to incur substantial losses and negative operating cash flow for the foreseeable future.***

Our company is a development stage company that has no prescription drug products approved for commercial sale. We have never generated any substantial revenues and may never achieve substantial revenues or profitability. As of December 31, 2012, we have incurred net losses of \$118 million in the aggregate since inception in January 2002. We expect to incur substantial losses and negative operating cash flow for the foreseeable future. We may never achieve or maintain profitability, even if we succeed in developing and commercializing one or more of our prescription drug candidates, OTC products, or non-core technologies. We also expect to continue to incur significant operating expenditures and anticipate that our operating and capital expenses may increase substantially in the foreseeable future as we:

continue to develop and seek regulatory approval for our prescription drug candidates PV-10 and PH-10;

seek licensure of PV-10, PH-10, our OTC products, and our other non-core technologies;

further develop our non-core technologies;

implement additional internal systems and infrastructure; and

hire additional personnel.

We also expect to experience negative operating cash flow for the foreseeable future as we fund our operating losses and any future capital expenditures. As a result, we will need to generate significant revenues in order to achieve and maintain profitability. We may not be able to generate these revenues or achieve profitability in the future. Our failure to achieve or maintain profitability could negatively impact the value of our common stock.

All of our existing prescription drug candidates are in early stages of development. It may be several years, if ever, until we have a prescription drug product available for commercial resale. If we do not successfully develop and license or commercialize our prescription drug candidates, or sell or license our OTC products or non-core technologies, we will not achieve revenues or profitability in the foreseeable future, if at all. If we are unable to generate revenues or achieve profitability, we may be unable to continue our operations.

***We may need additional capital to conduct our operations and commercialize and/or further develop our prescription drug candidates in 2014 and beyond, and our ability to obtain the necessary funding is uncertain.***

We estimate that our existing capital resources will be sufficient to fund our current and planned operations until 2014. However, we may need additional capital in 2014 and beyond as we continue to develop and seek commercialization of our prescription drug candidates. We intend to proceed as rapidly as possible with licensure of PH-10 on the basis of our expanding Phase 2 atopic dermatitis and psoriasis results, which were significantly developed in 2012. We potentially may license PV-10 depending on the timing for the optimal deal structure for our stockholders. We intend to also proceed as rapidly as possible with the sale or licensure of our OTC products and other non-core technologies. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to both the



## **Table of Contents**

licensure of PH-10 and the sale or licensure of our OTC products and non-core technologies, we cannot assure you that we will be able to achieve, or maintain, a level of profitability sufficient to meet our operating expenses.

We have based our estimate of capital needs on assumptions that may prove to be wrong, and we cannot assure you that estimates and assumptions will remain unchanged. For example, we are currently assuming that we will continue to operate without any significant staff or other resources expansion. We intend to acquire additional funding through public or private equity or debt financings or other financing sources that may be available. Additional financing may not be available on acceptable terms, or at all. As discussed in more detail below, additional equity financing could result in significant dilution to stockholders. Further, in the event that additional funds are obtained through licensing or other arrangements, these arrangements may require us to relinquish rights to some of our products, product candidates, and technologies that we would otherwise seek to develop and commercialize ourselves. If sufficient capital is not available, we may be required to delay, reduce the scope of, or eliminate one or more of our programs, any of which could have a material adverse effect on our business and may impair the value of our patents and other intangible assets.

***Our prescription drug candidates are at an intermediary stage of development and may never obtain U.S. or international regulatory approvals required for us to commercialize our prescription drug candidates.***

We will need approval of the United States Food and Drug Administration, which we refer to as the FDA, to commercialize our prescription drug candidates in the U.S. and approvals from the FDA equivalent regulatory authorities in foreign jurisdictions to commercialize our prescription drug candidates in those jurisdictions.

We are continuing to pursue clinical development of our most advanced prescription drug candidates, PV-10 and PH-10, for use as treatments for specific conditions. The continued and further development of these prescription drug candidates will require significant additional research, formulation and manufacture development, and pre-clinical and extensive clinical testing prior to their regulatory approval and commercialization. Pre-clinical and clinical studies of our prescription drug candidates may not demonstrate the safety and efficacy necessary to obtain regulatory approvals. Pharmaceutical and biotechnology companies have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in earlier trials. Pharmaceutical drug and medical device products that appear to be promising at early stages of development may not reach the market or be marketed successfully for a number of reasons, including the following:

a product may be found to be ineffective or have harmful side effects during subsequent pre-clinical testing or clinical trials,

a product may fail to receive necessary regulatory clearance,

a product may be too difficult to manufacture on a large scale,

a product may be too expensive to manufacture or market,

a product may not achieve broad market acceptance,

others may hold proprietary rights that will prevent a product from being marketed, and

others may market equivalent or superior products.

Satisfaction of the FDA's regulatory requirements typically takes many years, depends upon the type, complexity and novelty of the product candidate and requires substantial resources for research, development and testing. We cannot predict whether our research and clinical approaches will result in drugs that the FDA considers safe for humans and effective for indicated uses. The FDA has substantial discretion in the drug approval process and may require us to conduct additional nonclinical and clinical testing or to perform post-marketing studies. The approval process may also be delayed by changes in government regulation, future legislation or administrative action or changes in FDA policy

that occur prior to or during our regulatory review. Delays in obtaining regulatory approvals may:

delay commercialization of, and our ability to derive product revenues from, our product candidates;

## Table of Contents

impose costly procedures on us; and

diminish any competitive advantages that we may otherwise enjoy.

We do not expect any prescription drug and other product candidates that we are developing to be commercially available without a partner. Our research and product development efforts may not be successfully completed and may not result in any successfully commercialized products. Further, after commercial introduction of a new product, discovery of problems through adverse event reporting could result in restrictions on the product, including withdrawal from the market and, in certain cases, civil or criminal penalties.

Even if we comply with all FDA requests, we cannot be sure that we will ever obtain regulatory clearance for any of our prescription drug or other product candidates. Failure to obtain FDA approval of any of our product candidates will severely undermine our business by reducing our number of salable products and, therefore, corresponding product revenues.

In foreign jurisdictions, we must receive approval from the appropriate regulatory authorities before we can commercialize our drugs. Foreign regulatory approval processes generally include all of the risks associated with the FDA approval procedures described above.

### ***Clinical trials are very expensive, time consuming and difficult to design and implement.***

Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time consuming. We estimate that current or future clinical trials of our prescription drug candidates will take additional years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including:

unforeseen safety issues;

determination of dosing issues;

lack of effectiveness during clinical trials;

slower than expected rates of patient recruitment;

inability to monitor patients adequately during or after treatment; and

inability or unwillingness of medical investigators to follow our clinical protocols.

In addition, we or the FDA may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in our submissions or the conduct of these trials.

### ***The results of our clinical trials may not support our claims concerning our prescription drug candidates.***

Even if our clinical trials are completed as planned, we cannot be certain that their results will support our claims concerning our prescription drug candidates. Success in nonclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and nonclinical testing. The clinical trial process may fail to demonstrate that our product candidates are safe for humans or effective for indicated uses. This failure would cause us to abandon a product candidate and may delay development of other product candidates. Any delay in, or termination of, our clinical trials will delay our ability to commercialize our product candidates and generate product revenues. In addition, we anticipate that our clinical trials will involve only a small patient population. Accordingly, the results of such trials may not be indicative of future results over a larger patient population.



## **Table of Contents**

***Physicians and patients may not accept and use our prescription drug candidates.***

Even if the FDA approves our prescription drug candidates, physicians and patients may not accept and use them. Acceptance and use of our prescription drug products will depend upon a number of factors including:

perceptions by members of the health care community, including physicians, about the safety and effectiveness of our prescription drug products;

cost-effectiveness of our prescription drug products relative to competing products;

availability of reimbursement for our prescription drug products from government or other healthcare payers; and

effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any.

Because we expect sales or licensure of our prescription drug candidates, if approved, to generate substantially all of our revenues for the foreseeable future, the failure of any of these drugs to find market acceptance would harm our business and could require us to seek additional financing.

***We have no sales, marketing or distribution capabilities for our prescription drug candidates or our OTC products and non-core technologies.***

We currently have no sales, marketing or distribution capabilities. We do not anticipate having the resources in the foreseeable future to allocate to the sales and marketing of our prescription drug candidates or our OTC products and non-core technologies. Our future success depends, in part, on our ability to enter into and maintain such collaborative relationships, the collaborator's strategic interest in the products under development and such collaborator's ability to successfully market and sell any such products. We intend to proceed as rapidly as possible with licensure of PH-10 on the basis of our Phase 2 atopic dermatitis and psoriasis results, which are in process of being further developed. We have determined that the most efficient use of our capital in further developing our OTC products is to license the products. There can be no assurance that we will be able to establish or maintain relationships with third party collaborators or develop in-house sales and distribution capabilities. To the extent that we depend on third parties for marketing and distribution, any revenues we receive will depend upon the efforts of such third parties, and there can be no assurance that such efforts will be successful. In addition, there can also be no assurance that we will be able to market and sell our product in the United States or overseas.

***We cannot be sure that our OTC products or non-core technologies will be licensed or sold in the marketplace.***

In order for our OTC products to become commercially successful and our non-core technologies to be further developed, we must license or sell those products and technologies. We have been discussing this strategy with interested groups, though we cannot be sure that we will be successful in licensing or selling such products or technologies.

***Competition in the prescription pharmaceutical and biotechnology industries is intense, and we may be unable to succeed if our competitors have more funding or better marketing.***

The pharmaceutical and biotechnology industries are intensely competitive. Other pharmaceutical and biotechnology companies and research organizations currently engage in or have in the past engaged in research efforts related to treatment of dermatological conditions or cancers of the skin, liver and breast, which could lead to the development of products or therapies that could compete directly with the prescription drug and other product candidates, and OTC products that we are seeking to develop and market.

Many companies are also developing alternative therapies to treat cancer and dermatological conditions and, in this regard, are our competitors. Many of the pharmaceutical companies developing and marketing these competing products have significantly greater financial resources and expertise than we do in:

research and development;

manufacturing;

**Table of Contents**

preclinical and clinical testing;

obtaining regulatory approvals; and

marketing.

Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies, and other public and private research organizations may also conduct research, seek patent protection, and establish collaborative arrangements for research, clinical development, and marketing of products similar to ours. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs.

In addition to the above factors, we expect to face competition in the following areas:

product efficacy and safety;

the timing and scope of regulatory consents;

availability of resources;

reimbursement coverage;

price; and

patent position, including potentially dominant patent positions of others.

Since our prescription candidates PV-10 and PH-10 have not yet been approved by the FDA or introduced to the marketplace, we cannot estimate what competition these products might face when they are finally introduced, if at all. We cannot assure you that these products will not face significant competition for other prescription drugs and generic equivalents.

***If we are unable to secure or enforce patent rights, trademarks, trade secrets or other intellectual property our business could be harmed.***

We may not be successful in securing or maintaining proprietary patent protection for our products and technologies we develop or license. In addition, our competitors may develop products similar to ours using methods and technologies that are beyond the scope of our intellectual property protection, which could reduce our anticipated sales. While some of our products have proprietary patent protection, a challenge to these patents can subject us to expensive litigation. Litigation concerning patents, other forms of intellectual property, and proprietary technology is becoming more widespread and can be protracted and expensive and can distract management and other personnel from performing their duties.

We also rely upon trade secrets, unpatented proprietary know-how, and continuing technological innovation to develop a competitive position. We cannot assure you that others will not independently develop substantially equivalent proprietary technology and techniques or otherwise gain access to our trade secrets and technology, or that we can adequately protect our trade secrets and technology.

If we are unable to secure or enforce patent rights, trademarks, trade secrets, or other intellectual property, our business, financial condition, results of operations and cash flows could be materially adversely affected. If we infringe on the intellectual property of others, our business could be harmed.

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

We could be sued for infringing patents or other intellectual property that purportedly cover products and/or methods of using such products held by persons other than us. Litigation arising from an alleged infringement could result in removal from the market, or a substantial delay in, or prevention of, the introduction of our products, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

**Table of Contents**

*If we do not update and enhance our technologies, they will become obsolete.*

The pharmaceutical market is characterized by rapid technological change, and our future success will depend on our ability to conduct successful research in our fields of expertise, to discover new technologies as a result of that research, to develop products based on our technologies, and to commercialize those products. While we believe that our current technology is adequate for our present needs, if we fail to stay at the forefront of technological development, we will be unable to compete effectively. Our competitors are using substantial resources to develop new pharmaceutical technologies and to commercialize products based on those technologies. Accordingly, our technologies may be rendered obsolete by advances in existing technologies or the development of different technologies by one or more of our current or future competitors.

*If we lose any of our key personnel, we may be unable to successfully execute our business plan.*

Our business is presently managed by four key employees:

H. Craig Dees, Ph.D., our Chief Executive Officer;

Timothy C. Scott, Ph.D., our President;

Eric A. Wachter, Ph.D. our Chief Technology Officer; and

Peter R. Culpepper, CPA, MBA, our Chief Financial Officer and Chief Operating Officer.

In addition to their responsibilities for management of our overall business strategy, Drs. Dees, Scott and Wachter are our chief researchers in the fields in which we are developing and planning to develop our prescription drug and other product candidates, and our OTC products. The loss of any of these key employees could have a material adverse effect on our operations, and our ability to execute our business plan might be negatively impacted. Any of these key employees may leave their employment with us if they choose to do so, and we cannot assure you that we would be able to hire similarly qualified employees if any of our key employees should choose to leave.

*Because we have only four employees in total, our management may be unable to successfully manage our business.*

In order to successfully execute our business plan, our management must succeed in all of the following critical areas:

Researching diseases and possible therapies in the areas of dermatology and skin care, oncology, and biotechnology;

Developing our prescription drug and other product candidates, and OTC products based on our research;

Marketing and selling developed products;

Obtaining additional capital to finance research, development, production, and marketing of our products; and

Managing our business as it grows.

As discussed above, we currently have only four employees, all of whom are full-time employees. The greatest burden of succeeding in the above areas, therefore, falls on Drs. Dees, Scott, Wachter, and Mr. Culpepper. Focusing on any one of these areas may divert their attention from

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

our other areas of concern and could affect our ability to manage other aspects of our business. We cannot assure you that our management will be able to succeed in all of these areas or, even if we do so succeed, that our business will be successful as a result. We anticipate adding an additional regulatory affairs officer on a consulting basis within several months. While we have not historically had difficulty in attracting employees, our small size and limited operating history may make it difficult for us to attract and retain employees in the future, which could further divert management's attention from the operation of our business.

## **Table of Contents**

### **Risks Related to Our Shares of Common Stock**

*The market price of our common stock has been highly volatile due to several factors that will continue to affect the price of our common stock.*

Our common stock has traded as low as \$0.52 per share and as high as \$1.23 per share during the period beginning on January 1, 2011 and ending on March 31, 2013. We believe that our common stock is subject to wide price fluctuations because of several factors, including:

absence of meaningful earnings and ongoing need for external financing;

a relatively thin trading market for our common stock, which causes trades of small blocks of stock to have a significant impact on our stock price;

general volatility of the stock market and the market prices of other publicly-traded companies; and

investor sentiment regarding equity markets generally, including public perception of corporate ethics and governance and the accuracy and transparency of financial reporting.

Financings that may be available to us under current market conditions frequently involve sales at prices below the prices at which our common stock trades on the OTC Bulletin Board, as well as the issuance of warrants or convertible equity or debt that require exercise or conversion prices that are calculated in the future at a discount to the then market price of our common stock. The current economic downturn has made the financings available to development-stage companies like us more dilutive in nature than they would otherwise be.

Any agreement to sell, or convert debt or equity securities into, our common stock at a future date and at a price based on the then current market price will provide an incentive to the investor or third parties to sell our common stock short to decrease the price and increase the number of shares they may receive in a future purchase, whether directly from us or in the market.

*Our common stock price is below \$5.00 per share and is treated as a penny stock, which places restrictions on broker-dealers recommending the stock for purchase.*

Our common stock is defined as penny stock under the Exchange Act and its rules. The SEC has adopted regulations that define penny stock to include common stock that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules include the following requirements:

broker-dealers must deliver, prior to the transaction, a disclosure schedule prepared by the SEC relating to the penny stock market;

broker-dealers must disclose the commissions payable to the broker-dealer and its registered representative;

broker-dealers must disclose current quotations for the securities; and

a broker-dealer must furnish its customers with monthly statements disclosing recent price information for all penny stocks held in the customer's account and information on the limited market in penny stocks.

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

Additional sales practice requirements are imposed on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. If our common stock remains subject to these penny stock rules these disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. As a result, fewer broker-dealers may be willing to make a market in our stock, which could affect a shareholder's ability to sell their shares.

**Table of Contents**

*Future sales by our stockholders may adversely affect our stock price and our ability to raise funds in new stock offerings.*

Sales of our common stock in the public market following any prospective offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable. The current economic downturn has made the financings available to development-stage companies like us more dilutive in nature than they would otherwise be.

*We currently intend to retain all of our future earnings rather than pay a cash dividend.*

We have never declared or paid cash dividends on our common stock. We currently intend to retain all of our future earnings, if any, for use in our business and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words may, will, could, should, expect, anticipate, intend, estimate, believe, plan, assume or other similar expressions, or negatives of those expressions, although not all forward-looking statements contain these identifying words. All statements contained in this prospectus regarding our business strategy, future operations, projected financial position, potential strategic transactions, proposed distribution channels, projected sales growth, proposed new products, estimated future revenues, cash flows and profitability, projected costs, potential sources of additional capital, future prospects, future economic conditions, the future of our industry and results that might be obtained by pursuing management's current plans and objectives are forward-looking statements.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to certain risks, uncertainties and assumptions that are difficult to predict. Our forward-looking statements are based on the information currently available to us and speak only as of the date of this prospectus. Over time, our actual results, performance or achievements may differ from those expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our security holders. Except as required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

The following are some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements:

our need for, and the availability of, substantial capital in the future to fund our operations and planned clinical trials;

the conditions in the capital markets and the biopharmaceutical industry that may make raising capital or entering into strategic arrangements difficult and expensive;

the timing of our product development and evaluation;

the timing and magnitude of expenditures we may incur in connection with our ongoing research and development activities;

the results of our preclinical and clinical trials, including regulatory approvals;

the success, timing and financial consequences of our formation of new business relationships and alliances; and

the timing and volume of sales of products for which we obtain marketing approval.

In addition, we have identified other important factors that could cause future events to differ from our current expectations and described such factors in this prospectus under the caption Risk Factors, which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this prospectus.

**Table of Contents**

**USE OF PROCEEDS**

The selling security holders will receive all of the proceeds from the sale of any of our common stock offered in this prospectus and issued upon a cashless exercise of outstanding warrants. We will not receive any of the proceeds from any sale of the shares by selling security holders. If the warrants that were issued to the selling security holders to purchase an aggregate of 4,250,000 shares of common stock at an exercise price of \$1.00 per share are exercised by payment of cash, we will receive proceeds of \$4,250,000 from the selling security holders. In such event, we intend to use the cash proceeds received for:

general corporate purposes, additions to working capital and capital expenditures;

research and development activities; and/or

the expansion of our business through internal growth or acquisitions.

**SELLING SECURITY HOLDERS**

When we refer to selling security holders in this prospectus, we mean those persons listed in the table below, and the pledgees, donees, permitted transferees, assignees, successors, and others who later come to hold any of the selling security holders' interests in shares of our common stock other than through a public sale.

The following table sets forth as of the date of this prospectus the name of each selling stockholder for whom we have registered shares of common stock for resale to the public and the number of shares of common stock that each selling stockholder may offer pursuant to this prospectus. The information set forth below is based on information known to us. The common stock being offered by the selling security holders consists of (i) 3,400,001 shares of common stock issuable upon conversion of the Series A 8% Convertible Preferred Stock sold in our February 22, 2013 offering, (ii) 4,250,000 shares of common stock issuable upon exercise of the warrants sold in our February 22, 2013 offering, which may be exercised at a price of \$1.00 per share, and (iii) an estimated 803,940 shares of common stock issuable in lieu of the cash payment of dividends on the Series A 8% Convertible Preferred Stock sold in our February 22, 2013 offering payable through February 22, 2016.

Based on information known to us or provided to us by each selling stockholder and as of the date the information was known to us or was provided to us, assuming that the selling security holders sell all of their shares of our common stock beneficially owned by them that have been registered by us and do not acquire any additional shares during the offering, each selling stockholder will not own any shares other than those appearing in the column entitled Beneficial Ownership Post Offering. We cannot advise you as to whether the selling security holders will in fact sell any or all of such shares of common stock. In addition, the selling security holders may have sold, transferred or otherwise disposed of, or may sell, transfer or otherwise dispose of, at any time and from time to time, the shares of our common stock in transactions exempt from the registration requirements of the Securities Act after the date on which they provided the information set forth in the table below.

Beneficial ownership is determined in accordance with SEC rules and includes voting or investment power with respect to the securities. However, certain warrants are subject to limitations upon exercise, if any. The most significant of these limitations is that the selling stockholder may not exercise its warrants if the exercise would cause such holder's beneficial ownership of our common stock (excluding shares underlying any of their unconverted to debentures or unexercised warrants) to exceed 4.99% of the outstanding shares of common stock. Therefore, although they are included in the table below, the number of shares of common stock for some listed persons may include shares that may not be purchased during a given 60-day period used for purpose of determining beneficial ownership.

**Table of Contents**

Except for relationships noted in the selling stockholder table, none of the selling security holders has, or within the past three years has had, any position, office or material relationship with us or any of our predecessors or affiliates.

<b>Name of Investor</b>	<b>Beneficial Ownership (#)<sup>(1)</sup></b>	<b>Number of Shares being Registered (#)<sup>(2)</sup></b>	<b>Beneficial Ownership Post Offering (#)<sup>(3)</sup></b>	<b>Beneficially Owned Post Offering (%)<sup>(4)</sup></b>
Alpha Capital Anstalt	333,333	6,630,553	333,333	*
Brio Capital Master Fund Ltd.	100,000	1,657,633	100,000	*
Assameka Capital Inc.	85,255	165,756	82,255	*

(\*) Less than 1%.

- (1) Includes all shares of common stock beneficially owned by the selling security holders as of April 1, 2013, including shares of common stock the selling security holder has the right to acquire within 60 days upon conversion of 8% convertible preferred stock and exercise of warrants.
- (2) The numbers in the table reflect (A) the actual number of shares of common stock issued or issuable to the selling stockholder (i) upon the conversion of the Series A 8% Convertible Preferred Stock issued on February 22, 2013 and (ii) upon exercise of warrants to purchase common stock issued on February 22, 2013 in exchange for cash, and (B) an estimate of the number of shares of common stock issuable to the selling stockholder in lieu of the cash payment of dividends on the Series A 8% Convertible Preferred Stock through February 22, 2016, calculated using the volume weighted average price of our common stock for the 15 trading days prior to April 1, 2013.
- (3) Assumes that all shares of Series A 8% Convertible Preferred Stock are converted into common stock, a cash exercise of all warrants issued in the February 22, 2013 offering, and that all such shares of common stock, together with shares of common stock issuable as dividends on the Series A 8% Convertible Preferred Stock registered for resale pursuant to this offering, have been sold.
- (4) Based on 124,550,960 shares of common stock issued and outstanding as of April 1, 2013.

#### **PLAN OF DISTRIBUTION**

Each selling security holder (the selling security holders) of the securities and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their securities covered hereby on the principal trading market or any other stock exchange, market or trading facility on which the securities are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling security holder may use any one or more of the following methods when selling securities:

ordinary brokerage transactions and transactions in which the broker dealer solicits purchasers;

block trades in which the broker dealer will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;

Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

purchases by a broker dealer as principal and resale by the broker dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

settlement of short sales;

in transactions through broker dealers that agree with the Selling security holders to sell a specified number of such securities at a stipulated price per security;

**Table of Contents**

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;

a combination of any such methods of sale; or

any other method permitted pursuant to applicable law.

The selling security holders may also sell securities under Rule 144 under the Securities Act of 1933, as amended (the Securities Act ), if available, rather than under this prospectus.

Broker dealers engaged by the selling security holders may arrange for other brokers dealers to participate in sales. Broker dealers may receive commissions or discounts from the selling security holders (or, if any broker dealer acts as agent for the purchaser of securities, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440.

In connection with the sale of the securities or interests therein, the selling security holders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the securities in the course of hedging the positions they assume. The selling security holders may also sell securities short and deliver these securities to close out their short positions, or loan or pledge the securities to broker-dealers that in turn may sell these securities. The selling security holders may also enter into option or other transactions with broker-dealers or other financial institutions or create one or more derivative securities which require the delivery to such broker-dealer or other financial institution of securities offered by this prospectus, which securities such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling security holders and any broker-dealers or agents that are involved in selling the securities may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the securities purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling security holder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the securities. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

We are required to pay certain fees and expenses incurred by us incident to the registration of the securities. We have agreed to indemnify the selling security holders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because the selling security holders may be deemed to be underwriters within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. The selling security holders have advised us that there is no underwriter or coordinating broker acting in connection with the proposed sale of the resale securities by the selling security holders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the securities may be resold by the selling security holders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144, without the requirement for the Company to be in compliance with the current public information under Rule 144 under the Securities Act or any other rule of similar effect or (ii) all of the securities have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale securities will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale securities covered hereby may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

**Table of Contents**

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale securities may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling security holders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of securities of the common stock by the selling security holders or any other person. We will make copies of this prospectus available to the selling security holders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

**MARKET PRICE OF OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS****Market Information and Holders**

During 2012, quotations for our common stock were reported on the OTC Bulletin Board under the symbol PVCT. In January 2013, our common stock ceased to be traded on the OTC Bulletin Board and is now trading on the OTCQB Marketplace operated by OTC Markets Group. Our trading symbol remains PVCT. The following table sets forth the range of high and low sale prices of our common stock for the periods indicated since January 1, 2011:

	High	Low
<b>2012</b>		
First Quarter (January 1 to March 31)	\$ 0.98	\$ 0.83
Second Quarter (April 1 to June 30)	\$ 0.93	\$ 0.80
Third Quarter (July 1 to September 30)	\$ 0.85	\$ 0.63
Fourth Quarter (October 1 to December 31)	\$ 0.67	\$ 0.52
<b>2011</b>		
First Quarter (January 1 to March 31)	\$ 1.14	\$ 0.78
Second Quarter (April 1 to June 30)	\$ 1.23	\$ 0.96
Third Quarter (July 1 to September 30)	\$ 1.08	\$ 0.79
Fourth Quarter (October 1 to December 31)	\$ 0.95	\$ 0.67

The closing price for our common stock on April 2, 2013 was \$0.73. High and low sale price information was obtained from data provided by Yahoo! Inc.

As of March 5, 2013, we had 1,448 shareholders of record of our common stock.

**Dividend Policy**

We have never declared or paid any cash dividends on our common stock. We currently plan to retain future earnings, if any, to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. We may incur indebtedness in the future which may prohibit or effectively restrict the payment of dividends, although we have no current plans to do so. Any future determination to pay cash dividends will be at the discretion of our board of directors.

**Table of Contents****SELECTED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data and has been derived from our audited consolidated financial statements. Consolidated balance sheets as of December 31, 2012 and 2011, as well as consolidated statements of operations for the years ended December 31, 2012, 2011, and 2010, and the reports thereon are included elsewhere in this prospectus. The information below should be read in conjunction with our audited consolidated financial statements (and notes thereon) and in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

	2012	Years ended December 31,			2008
		2011	2010	2009	
	(all amounts in thousands except per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Revenues					
OTC product revenue	\$	\$	\$	\$	\$
Medical device revenue					
Total revenues					
Operating expenses					
Research and development	5,006	8,808	8,417	4,909	4,426
General and administrative	8,661	11,962	11,605	6,746	5,247
Amortization	671	671	671	671	671
Total operating loss	(14,338)	(21,441)	(20,693)	(12,326)	(10,344)
Other income, net	1,769	2,006	2,141	4	74
Net loss	(12,569)	(19,435)	(18,552)	(12,322)	(10,270)
Dividends on preferred stock	(183)	(247)	(10,408)		
Net loss applicable to common stockholders	\$ (12,752)	\$ (19,682)	\$ (28,960)	\$ (12,322)	\$ (10,270)
Basic and diluted loss per common share	\$ (0.11)	\$ (0.19)	\$ (0.37)	\$ (0.21)	\$ (0.20)
Weighted average number of common shares outstanding basic and diluted	112,987	105,725	78,818	59,797	51,320
	2012	As of December 31,			2008
		2011	2010	2009	
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and marketable securities	\$ 1,222	\$ 7,705	\$ 8,087	\$ 3,238	\$ 2,796
Patents, net	4,926	5,598	6,268	6,939	7,610
Other assets	56	47	48	57	112
Total assets	6,204	13,350	14,403	10,234	10,518
Current liabilities	511	263	1,350	827	462
Warrant liability	1,300	3,067	2,353		
Preferred stock	2	4	5		
Common stock	118	110	91	67	53
Additional paid-in capital	122,626	115,690	96,953	77,137	65,478
Accumulated deficit	(118,353)	(105,784)	(86,350)	(67,797)	(55,475)
Total stockholders' equity	4,393	10,020	10,699	9,407	10,056

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

*The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this prospectus. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.*

**Critical Accounting Policies**

*Long-Lived Assets*

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

*Patent Costs*

Internal patent costs are expensed in the period incurred. Patents purchased are capitalized and amortized over their remaining lives, which range from 4-9 years. Annual amortization of the patents is expected to approximate \$671,000 for each of the next four years and \$659,000 in 2017.

*Stock-Based Compensation*

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

Warrants to non-employees are generally vested and nonforfeitable upon the date of the grant. Accordingly fair value is determined on the grant date.

*Research and Development*

Research and development costs are charged to expense when incurred. An allocation of payroll expenses to research and development is made based on a percentage estimate of time spent. The research and development costs include the following: payroll, consulting and contract labor, lab supplies and pharmaceutical preparations, legal, insurance, rent and utilities, and depreciation.

*Derivative Instruments*

The warrants issued in conjunction with convertible preferred stock in March and April 2010 private placements include a reset provision if the Company issues additional warrants, in certain circumstances as defined in the agreement, below the exercise price of \$1.00. Effective January 1, 2009, the reset provision of these warrants preclude equity accounting treatment under ASC 815. Accordingly the Company is required to record the warrants as liabilities at their fair value upon issuance and remeasure the fair value at each period end with the

## **Table of Contents**

change in fair value recorded in the statement of operations. When the warrants are exercised or cancelled, they are reclassified to equity. The Company uses the Monte-Carlo Simulation model to estimate the fair value of the warrants. Significant assumptions used at December 31, 2012 include a weighted average term of 2.2 years, a 5% probability that the warrant exercise price would be reset, a volatility range between 58.9% and 63.4% and a risk free interest rate range between 0.25% and 0.36%. Significant assumptions used at December 31, 2011 include a weighted average term of 3.2 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.69% and a risk free interest rate of 0.595%.

Additionally, the Series A and Series C Warrants issued in conjunction with the January 2011 registered direct public offering include a reset provision if the Company issues additional warrants, in certain circumstances as defined in the agreement, below the exercise price of \$1.12. At December 31, 2012, the warrant exercise price was reset to \$0.675. Significant assumptions used at December 31, 2012 include a weighted average term of 3.0 years, a 5% probability that the warrant exercise price would be further reset, a volatility range between 58.9% and 63.4% and a risk free interest rate range between 0.25% and 0.36%. Significant assumptions used at December 31, 2011 include a weighted average term of 4.0 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.69% and a risk free interest rate of 0.83%.

### *Fair Value of Financial Instruments*

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, and accounts payable approximate their fair value because of the short-term nature of these items. Cash equivalents are measured on a recurring basis within the fair value hierarchy using Level 1 inputs.

The fair value of derivative instruments is determined by management with the assistance of an independent third party valuation specialist. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters.

### **Contractual Obligations Leases**

We lease office and laboratory space in Knoxville, Tennessee, on a month-to-month basis.

### **Capital Structure**

Our ability to continue as a going concern is reasonably assured due to our financing completed during 2012 and thus far in 2013. Given our current rate of expenditures and our ability to curtail or defer certain controllable expenditures, we do not need to raise additional capital to further develop PV-10 on our own to treat metastatic melanoma, HCC, pancreatic cancer and other indications because we plan to license PH-10 for psoriasis and other related indications described as inflammatory dermatoses, strategically monetize PV-10, and also complete the spin-out of Pure-ific Corporation and the other non-core subsidiaries. Additionally, our existing funds are sufficient to meet minimal necessary expenses until 2014.

Our cash and cash equivalents were \$1,221,701 at December 31, 2012, compared with \$7,705,773 at December 31, 2011. The decrease of approximately \$6.5 million was due primarily to a substantial reduction of sales of common stock and warrants as well as no exercises of warrants and stock options offset partially by approximately \$5.9 million less cash that was used in operating activities. Additionally thus far in 2013, the Company received approximately \$5.2 million in cash due to private placements of its equity at a substantial premium to the fair market value of its common stock at the time of the sale.

By managing variable cash expenses due to minimal fixed costs, we believe our cash and cash equivalents on hand at December 31, 2012, together with cash proceeds received thus far in 2013, will be sufficient to meet our current and planned operating needs until 2014 without consideration being given to additional cash inflows that might occur from the exercise of existing warrants or future sales of equity securities.

## **Table of Contents**

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 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, and continuing with the majority stake asset sale and licensure of our OTC products as well as other non-core assets. 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.

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.

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 two more consultants in the next 12 months. Our current plans also include minimal purchases of new property, plant and equipment, and increased research and development for additional clinical trials.

### **Plan of Operation**

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, respectively. 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, imaging, 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 beyond.

### **Comparison of the Years Ended December 31, 2012 and 2011**

#### *Revenues*

We had no revenue during the years ended 2012 and 2011.

#### *Research and development*

Research and development costs totaling \$5,005,459 for 2012 included payroll of \$2,536,818, consulting and contract labor of \$2,008,270, lab supplies and pharmaceutical preparations of \$47,808, legal of \$231,430, insurance of \$97,728, rent and utilities of \$77,238, and depreciation expense of \$6,167. Research and

**Table of Contents**

development costs totaling \$8,807,896 for 2011 included payroll of \$6,182,147, consulting and contract labor of \$2,238,765, lab supplies and pharmaceutical preparations of \$57,467, legal of \$161,068, insurance of \$92,859, rent and utilities of \$68,234, and depreciation expense of \$7,356.

The decrease in payroll in 2012 over 2011 is primarily the result of the termination of bonuses and no employee stock-based compensation expense from stock options. The reduction in payroll represents virtually all of the decrease in research and development expenses in 2012 versus 2011.

The table below summarizes our projects, the actual costs for each period shown, and the total costs incurred to date.

Projects	Actual Cost for 2012	Actual Cost for 2011	Total Costs Incurred To Date
Melanoma	\$ -0-	\$ -0-	\$ 3,018,000
Breast/Other	\$ -0-	\$ -0-	\$ 675,000
Liver	\$ -0-	\$ -0-	\$ 616,000
Psoriasis/Atopic Dermatitis	\$ -0-	\$ -0-	\$ 1,678,000
Payroll	\$ 2,537,000	\$ 6,182,000	
Indirect costs	\$ 2,469,000	\$ 2,626,000	
<b>Totals</b>	<b>\$ 5,006,000</b>	<b>\$ 8,808,000</b>	

*General and administrative*

General and administrative expenses decreased by \$3,300,808 for 2012 to \$8,661,040 from \$11,961,848 in 2011. The decrease is primarily due to the result of the termination of bonuses and no employee stock-based compensation expense from stock options.

*Investment income*

Investment income is immaterial for all periods presented.

*Gain on change in fair value of warrant liability*

Gain on change in fair value of warrant liability decreased by \$236,720 in 2012 to \$1,767,918 from \$2,004,638 in 2011. This activity results from accounting for the warrant liability described in Footnotes 4(f), 4(i) and 10 to the financial statements included elsewhere in this prospectus.

*Cash Flow*

Our cash and cash equivalents were \$1,221,701 at December 31, 2012, compared with \$7,705,773 at December 31, 2011. The decrease of approximately \$6.5 million was due primarily to a substantial reduction of sales of common stock and warrants as well as no exercises of warrants and stock options offset partially by approximately \$5.9 million less cash that was used in operating activities. At our current cash expenditure rate, our cash and cash equivalents will be sufficient to meet our current and planned needs until 2014 without additional cash inflows from the exercise of existing warrants, stock options, or sales of equity securities. We have enough cash on hand to fund operations until 2014 with the cash on hand at December 31, 2012 and with the additional cash inflows thus far in 2013.

**Comparison of the Years Ended December 31, 2011 and 2010***Revenues*

We had no revenue during the years ended 2011 and 2010.



**Table of Contents***Research and development*

Research and development costs totaling \$8,807,896 for 2011 included payroll of \$6,182,147, consulting and contract labor of \$2,238,765, lab supplies and pharmaceutical preparations of \$57,467, legal of \$161,068, insurance of \$92,859, rent and utilities of \$68,234, and depreciation expense of \$7,356. Research and development costs totaling \$8,417,303 for 2010 included payroll of \$6,618,532, consulting and contract labor of \$1,095,793, lab supplies and pharmaceutical preparations of \$235,153, legal of \$300,964, insurance of \$90,314, rent and utilities of \$67,692, and depreciation expense of \$8,855.

The decrease in payroll in 2011 over 2010 is primarily due to decreased stock option expense and decreased pension expense. The increase in consulting and contract labor in 2011 versus 2010 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 the Psoriasis Phase 2c study. Furthermore, there was a receipt of a grant in 2010 for approximately \$244,000 under the Qualifying Therapeutic Discovery Project Program.

The table below summarizes our projects, the actual costs for each period shown, and the total costs incurred to date.

Projects	Actual Cost for 2011	Actual Cost for 2010	Total Costs Incurred To Date
Melanoma	\$ -0-	\$ -0-	\$ 3,018,000
Breast/Other	\$ -0-	\$ -0-	\$ 675,000
Liver	\$ -0-	\$ 110,000	\$ 616,000
Psoriasis/Atopic Dermatitis	\$ -0-	\$ -0-	\$ 1,678,000
Payroll	\$ 6,182,000	\$ 6,619,000	
Indirect costs	\$ 2,626,000	\$ 1,688,000	
<b>Totals</b>	<b>\$ 8,808,000</b>	<b>\$ 8,417,000</b>	

*General and administrative*

General and administrative expenses increased by \$357,322 for 2011 to \$11,961,848 from \$11,604,526 in 2010. The increase is primarily due to increased investor relations expense of approximately \$850,000 due to the expanded programs to improve investor awareness and visibility of the Company's clinical progress as well as related travel expenses, offset by decreased pension and stock option expenses of approximately \$500,000.

*Investment income*

Investment income is immaterial for all periods presented.

*Gain on change in fair value of warrant liability*

Gain on change in fair value of warrant liability decreased by \$135,007 in 2011 to \$2,004,638 from \$2,139,645 in 2010. This activity results from accounting for the warrant liability described in Footnotes 4(f), 4(i) and 10 to the financial statements included elsewhere in this prospectus.

*Cash Flow*

Our cash and cash equivalents were \$7,705,773 at December 31, 2011, compared with \$8,086,200 at December 31, 2010.

*Capital Resources*

As noted above, our present cash and cash equivalents are currently sufficient to meet our short-term operating needs. Excess cash will be used to finance any additional phases in clinical development of our pharmaceutical



**Table of Contents**

products that we may decide to undertake ourselves versus with a partner. We anticipate that any required funds for our operating and development needs in 2014 and beyond may come from a partnership agreement or from the proceeds of public or private sales of equity or debt securities or the exercise of existing warrants and stock options outstanding. While we believe that we have a reasonable basis for our expectation that we will be able to raise additional funds if necessary, 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.

**Comparison of the Years Ended December 31, 2010 and 2009***Revenues*

We had no revenue during the years ended 2010 and 2009.

*Research and development*

Research and development costs totaling \$8,417,303 for 2010 included payroll of \$6,618,532, consulting and contract labor of \$1,095,793, lab supplies and pharmaceutical preparations of \$235,153, legal of \$300,964, insurance of \$90,314, rent and utilities of \$67,692, and depreciation expense of \$8,855. Research and development costs totaling \$4,909,414 for 2009 included payroll of \$2,860,116, consulting and contract labor of \$1,367,422, lab supplies and pharmaceutical preparations of \$281,833, legal of \$209,709, insurance of \$125,295, rent and utilities of \$55,685, and depreciation expense of \$9,354.

The increase in payroll in 2010 over 2009 is primarily due to increased bonuses of approximately \$2,000,000 and increased stock option expense of approximately \$1,800,000, both of which increased due to the significant progress made in the clinical development program for both our oncology and dermatology drug product candidates. The decrease in consulting and contract labor in 2010 versus 2009 is primarily due to receipt of a grant for approximately \$244,000 under the Qualifying Therapeutic Discovery Project Program.

The table below summarizes our projects, the actual costs for each period shown, and the total costs incurred to date.

<b>Projects</b>	<b>Actual Cost for 2010</b>	<b>Actual Cost for 2009</b>	<b>Total Costs Incurred To Date</b>
Melanoma	\$ -0-	\$ 593,000	\$ 3,018,000
Breast/Other	\$ -0-	\$ -0-	\$ 675,000
Liver	\$ 110,000	\$ 6,000	\$ 616,000
Psoriasis/Atopic Dermatitis	\$ -0-	\$ 178,000	\$ 1,678,000
Payroll	\$ 6,619,000	\$ 2,860,000	
Indirect costs	\$ 1,688,000	\$ 1,272,000	
<b>Totals</b>	<b>\$ 8,417,000</b>	<b>\$ 4,909,000</b>	

*General and administrative*

General and administrative expenses increased by \$4,858,929 for 2010 to \$11,604,526 from \$6,745,597 in 2009. The increase is primarily due to increased bonuses and 401K expenses of approximately \$2,100,000 and increased stock option expense of approximately \$2,000,000, both of which increased due to the significant progress made in the clinical development program for both our oncology and dermatology drug product candidates, as well as increased investor relations expense of approximately \$700,000 which increased due to the expanded programs to improve investor awareness and visibility of the Company's clinical progress.

*Investment income*

Investment income was immaterial to all periods presented.

## **Table of Contents**

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

Gain on change in fair value of warrant liability increased by \$2,139,645 in 2010 to \$2,139,645 from \$0 in 2009. This change resulted from accounting for warrant liability described in Footnote 4(f) to the financial statements.

### *Cash Flow*

Our cash and cash equivalents were \$8,086,200 at December 31, 2010, compared with \$3,237,178 at December 31, 2009. The increase of approximately \$4,849,000 was due primarily to cash of \$18,580,350 provided from sales of equity securities and the exercises of warrants and stock options during the year ended December 31, 2010, which exceeded cash used in operating activities.

### *Capital Resources*

As noted above, our present cash and cash equivalents are currently sufficient to meet our short-term operating needs. Excess cash will be used to finance any additional phases in clinical development of our pharmaceutical products that we may decide to undertake ourselves versus with a partner. We anticipate that any required funds for our operating and development needs in 2013 and beyond will come from the proceeds of public or private sales of equity or debt securities or the exercise of existing warrants and stock options outstanding. 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.

### **Recent Accounting Pronouncements**

None.

### **Quantitative and Qualitative Disclosures About Market Risk**

We had no holdings of financial or commodity instruments as of December 31, 2012, 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 the consolidated financial statements included elsewhere in this prospectus.

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.

**Table of Contents****BUSINESS****General**

Provectus, a Nevada corporation formed in 2002, together with its six wholly owned subsidiaries and one majority owned subsidiary managed on a consolidated basis, referred to herein as we, us, and our, is a development-stage pharmaceutical company that is primarily engaged in developing ethical pharmaceuticals for oncology and dermatology indications. Our goal is to develop alternative treatments that are safer, more effective, less invasive and more economical than conventional therapies. We develop and intend to license or market and sell our two prescription drug candidates, PV-10 and PH-10. We also hold patents and other intellectual property which we believe may be used in over-the-counter products, which we refer to as OTC products, and various other non-core technologies. We have transferred all our intellectual property related to OTC products and non-core technologies to our subsidiaries and have designated such subsidiaries as non-core to our primary business of developing our oncology and dermatology prescription drug candidates.

**Prescription Drugs**

We focus on developing our prescription drug candidates PV-10 and PH-10. We are developing PV-10 for treatment of several life threatening cancers including metastatic melanoma, liver cancer, and breast cancer. We are developing PH-10 to provide minimally invasive treatment of chronic severe skin afflictions such as psoriasis and atopic dermatitis, a type of eczema. We believe that our prescription drug candidates will be safer and more specific than currently existing products. All of our prescription drug candidates are in either the pre-clinical or clinical trial stage.

The table below sets forth our two prescription drug candidates and our progress in developing those candidates for the indications shown:

<b>PV-10</b>	Special Protocol Assessment preparation 2012 for Phase 3 pivotal study
<b>Melanoma</b>	Finalized Phase 2 data October 2012
	End-of-Phase 2 FDA meeting April 2010, March 2011, and October 2011
	Phase 2 study completed May 2010
	Phase 2 treatments completed September 2009
	Phase 2 recruitment completed May 2009
	Phase 2 study initiated September 2007
	Orphan drug status January 2007
<b>PH-10</b>	Toxicity study research and development for advanced studies 2012
<b>Psoriasis</b>	Phase 2c randomized study final data collection February 2012
	Phase 2c randomized study initiated December 2010 and completed August 2011
	Phase 2 study completed April 2010
	Phase 2 recruitment completed October 2009
	Replacement Phase 2 initiated July 2009 due to dose regimen change
	Phase 2 study initiated November 2007

<b>PH-10</b>	Phase 2 study completed September 2009
<b>Atopic Dermatitis</b>	Phase 2 recruitment completed June 2009
	Phase 2 study initiated June 2008
<b>PV-10</b>	Phase 1 study completed July 2008
<b>Breast Cancer</b>	Phase 1 initial cohort treatment completed April 2006
	Phase 1 study initiated October 2005
<b>PV-10</b>	Phase 1 protocol expansion September 2012
<b>Liver Metastasis</b>	Orphan drug status April 2011
	Phase 1 patient accrual and treatment completed January 2011
	Phase 1 study initiated October 2009

---

**Table of Contents**

**PV-10** H. Lee Moffitt Cancer Center and Research Institute initiates Phase 1 feasibility study to detect immune cell infiltration into melanomas treated by PV-10 in January 2013

**Mechanism of Action**

In addition to clinical trials, patients enrolled in the compassionate use program for PV-10 are also receiving PV-10 treatments.

*Oncology (PV-10)*

We believe our prescription drug candidate PV-10 may afford competitive advantage compared to currently available options for the treatment of certain types of cancer. We are developing PV-10, a sterile injectible form of rose bengal disodium (Rose Bengal), for direct injection into tumors. It is an immuno-chemoablative agent that when injected intralesionally is tantamount to an *in situ* vaccination following acute and durable necrosis of diseased tissue. Because PV-10 is retained in diseased or damaged tissue but quickly dissipates from healthy tissue, we believe we can develop therapies that confine treatment to cancerous tissue and reduce collateral impact on healthy tissue. We have conducted Phase 1 and Phase 2 studies of PV-10 for the treatment of metastatic melanoma, and Phase 1 studies of PV-10 for the treatment of liver and breast cancers, each of which are described in more detail below.

**Metastatic Melanoma**

According to The Skin Cancer Foundation, an estimated 76,250 new cases of invasive melanoma were diagnosed in the U.S. in 2012, with nearly 9,180 resulting in death. According to the Melanoma International Foundation, approximately one million new cases of skin cancer are diagnosed each year, outnumbering the total number of other cancers combined. And according to the Global Industry Analysts, Inc., the world market for melanoma therapeutics is projected to reach \$1.1 billion by 2015.

We completed a Phase 1 study of PV-10 to assess the safety and tolerability of injection of PV-10 in the treatment of metastatic melanoma in 2007. In the study, twenty patients received injections of PV-10. The study's primary outcome measure was to determine the product's safety. The secondary outcome measure was to determine an objective response rate (ORR) of target lesions and untreated non-target lesions. A total of 114 tumors were injected and 39 bystander tumors were observed in the study. Subjects were followed for four to 27 weeks. Study treatments were well tolerated and elicited minimal side effects, the most common being mild to moderate pain at the injection site. Using the RECIST (Response Evaluation Criteria in Solid Tumors) approach, after injection with a single dose of PV-10, the following results were obtained: 20% of subjects achieved complete response (CR) of their injected tumors, 20% achieved partial response (PR), 35% achieved stable disease (SD) and 25% achieved progressive disease (PD), corresponding to an objective response (CR+PR) in 40% of subjects and local disease control (CR+PR+SD) in 75% of subjects. Among those subjects achieving an objective response of their treated tumors, 25% achieved an objective response of their untreated bystander tumors, and 100% exhibited disease control in their bystander tumors. In contrast, for those subjects failing to achieve an objective response of their treated tumors, only 8% achieved an objective response of their bystander tumors, and 92% exhibited progressive disease in their bystander tumors. These differences in response of bystander lesions as a function of response of target lesions were statistically significant and support the occurrence of a bystander effect in subjects whose target lesions have been responsive to PV-10 chemoablation.

We completed a Phase 2 study of PV-10 for intralesional injection of PV-10 in the treatment of metastatic melanoma in May 2010. The primary outcome measure was ORR of PV-10 treated lesions for a 52 week period. The secondary outcome measures were (i) ORR of untreated bystander lesions; (ii) progression free survival (PFS) of treated lesions, (iii) duration of objective response of treated lesions, (iv) survival, and (v) assessment of systemic and locoregional adverse events during a 52-week period.

We have had both our second and third meetings with the U.S. Food and Drug Administration (FDA) in 2011 to discuss the design of a pivotal Phase 3 randomized controlled trial suitable for Special Protocol Assessment

## **Table of Contents**

(SPA). During the first end of Phase 2 meeting with FDA in April 2010, we received guidance for the design of this trial. We have received subsequent guidance from the FDA to submit the Phase 3 protocol since no further meetings are required. We finalized Phase 2 data in October 2012 and have continued with SPA preparation in 2012 for Phase 3 pivotal study.

We also met with the Australian Therapeutic Goods Administration (TGA) to review regulatory approval of PV-10 in Australia. TGA agreed to the same primary endpoint of progression free survival as was proposed to FDA during our April 2010 meeting. Use of interim data from the first half of Phase 3 study subjects, in conjunction with safety data collected in earlier studies of PV-10 for melanoma, was discussed to allow early evaluation for marketing approval for metastatic melanoma, and TGA agreed that these data should be sufficient for this review if the analysis confirmed efficacy.

Phase 2 data on visceral metastases were presented at the annual meeting of the American Society of Clinical Oncology (ASCO) in June 2010 and the 2nd European Post-Chicago Melanoma Meeting 2012 on June 22, 2012 by Dr. Sanjiv Agarwala, Chief of Medical Oncology and Hematology at St. Luke's Hospital and Health Network in Bethlehem, PA and Principal Investigator for our Phase 2 trial site at St. Luke's. Positive improvement that was observed in these remote, untreated lesions, including metastases to the lungs, liver and brain, illustrated a potential systemic effect in visceral organs to which melanoma has spread. Key conclusions included a majority of subjects exhibited a robust response in their injected lesions and response appeared to be unrelated to neither disease state nor to prior treatment history; locoregional treatment with PV-10 may elicit systemic benefit in untested visceral lesions and the overall safety and efficacy profile of PV-10 compares favorably with available and emerging options for metastatic melanoma patients. These findings are very encouraging to us as we continue on our regulatory approval path.

Dr. Agarwala later presented full Phase 2 Study data from the entire study population of 80 subjects at the Melanoma 2010 Congress in Sydney, Australia in November 2010 and final Phase 2 Study data at the ESMO (European Society for Medical Oncology) 2012 Congress in Vienna, Austria on October 1, 2012. The bystander effect, which appears to result from an immunologic response stimulated by PV-10 chemoablation, was noted by Dr. Agarwala, and was closely correlated with successful ablation of injected lesions. The results were comparable to our Phase 1 results although the Phase 2 results were better numerically than Phase 1 due to the ability we had to retreat up to three times in Phase 2. Importantly, the initial full study results for all 80 subjects enrolled in the Phase 2 study were statistically equivalent to those presented at ASCO despite the more advanced state of the second group of subjects.

Ongoing immunologic mechanism of action studies at the H. Lee Moffitt Cancer Center & Research Institute have been conducted in 2011, 2012 and thus far in 2013 to characterize the systemic benefit of PV-10. A feasibility study to detect immune cell infiltration into melanomas treated by PV-10 was commenced in January 2013. Initial data was presented at the 2012 Society of Surgical Oncology Annual Meeting, confirms that PV-10 immuno-chemoablation of melanoma lesions leads to a systemic response and the induction of systemic anti-tumor immunity. We are assessing whether emerging results from these ongoing studies can be used to support accelerated approval in the U.S. Additionally, data on PV-10 will be presented in a poster presentation at the American Association for Cancer Research 2013 Annual Meeting in Washington, DC. The PV-10 combination therapy poster, based upon an abstract entitled "Combination of PV-10 immuno-chemoablation and systemic anti-CTLA-4 antibody therapy in murine models of melanoma," authored by Eric Wachter, Savannah Blair, Jamie Singer and Craig Dees, will be presented on April 10, 2013.

We also reported ongoing progress with our Compassionate Use Program for PV-10 for non-visceral cancers. With more than 75 patients enrolled in seven centers across the U.S. and Australia, the protocol enables subjects to undergo more frequent and extensive treatments of PV-10 over a longer period of time than was allowed under the protocol used for the Phase 2 trials. Its dosage is expected to serve as the blueprint for the planned Phase 3 study for metastatic melanoma.

We are continuing to assess whether we should conduct the Phase 3 study ourselves, partner with a larger company to co-develop PV-10 in Phase 3, and potential paths to accelerated approval in the U.S. and abroad.

## Table of Contents

### Liver Cancer

According to Global Cancer Facts & Figures, 2<sup>nd</sup> Edition, liver cancer is the fifth leading cause of deaths related to cancer in the world in men and seventh in women. Approximately 750,000 people are newly diagnosed annually with primary liver cancer, also known as Hepatocellular carcinoma (HCC), with China alone accounting for about 55% of the cases diagnosed each year. The world market for liver cancer drugs is projected to exceed \$2.0 billion by 2015 and does not include the full impact of the China market potential.

Early detection is difficult and as a result, most cases reach an advanced metastatic stage and are unresectable. If the cancer cannot be completely removed, the disease is usually deadly within three to six months. Malignant lesions in the liver arising from HCC or metastases from a wide range of cancers represent an ongoing treatment challenge for oncologists. HCC is one of the most common malignancies worldwide, and its incidence is rapidly increasing in the United States. The liver is a common site of metastases from solid tumors, particularly those arising in the gastrointestinal tract. Other tumors, such as lung and breast cancer and melanoma, also readily spread to the liver.

In 2009, we began a Phase 1 study of PV-10 to assess the safety, tolerability and pharmacokinetics of single intralesional injections of PV-10 with subjects with either recurrent hepatocellular carcinoma or cancer metastatic to the liver. In January 2011, we completed patient accrual of all subjects in the Phase 1 study. The primary outcome measure was safety, including systemic and locoregional adverse events. The secondary outcome measures were (i) lesion distribution and retention of PV-10 following injection, (ii) ORR of target and measurable bystander lesions (if present) by modified RECIST, (iii) changes in markers of hepatic function, including ALP, ALT, AST, total bilirubin and GGT, and (iv) pharmacokinetics of PV-10 in the bloodstream following intralesional injection.

Final results for PV-10 as a treatment for liver cancer are very encouraging as they show the treatment was generally well-tolerated, with substantial evidence of efficacy. We believe PV-10's ability to selectively target and destroy cancer cells without harming surrounding healthy tissue make it a potentially attractive therapy for cancers of the liver, which can be very serious and difficult to treat if they cannot be fully removed through surgery. Based upon the initial results of our PV-10 Phase 1 trial for liver cancer, and the growing confidence we have in PV-10 as a viable treatment for non-resectable liver cancer, we are currently designing a Phase 2 study with the potential for accelerated approval.

In April 2011, we received orphan drug designation by the FDA for Rose Bengal, the active ingredient in PV-10, for the treatment of HCC, the most common form of primary liver cancer.

In September 2012, we commenced an expansion of the Phase 1 study. Drug-drug metabolic interaction nonclinical studies of PV-10 and sorafenib provided the data to support additional work within the regulatory framework for this important indication. We plan to commence a potentially pivotal study in 2013.

### Breast Cancer

In 2005, we began a Phase 1 study of PV-10 to assess the safety and tolerability of injections of PV-10 into recurrent breast carcinoma. We completed the Phase 1 study in 2008. The primary outcome measure was systemic and locoregional adverse experience. The secondary outcome measures were (i) histopathologic response of PV-10 injected lesions and (ii) wound healing of PV-10 injected lesions.

We are very pleased with the results of this Phase 1 clinical trial, a classic ascending dose study. Its goals were to determine the safety of the treatment and the appropriate dosage. We have also wanted to show that PV-10 has multi-indication potential. We continued to demonstrate this objective in 2011 and 2012, and expect to do so in 2013. We are now in a position for a Phase 2 study in recurrent breast carcinoma with our lead oncology drug product candidate PV-10.

---

## Table of Contents

### Other Indications

The compassionate use program for PV-10 is only available for cancer indications that do not involve treatment of visceral organs and are not subject to enrollment in ongoing clinical trials. These indications include certain breast cancers, basal cell carcinoma, squamous cell carcinoma, certain head and neck cancers and melanoma. Compassionate use programs provide patients with access to experimental therapeutics prior to FDA approval.

The protocol for the compassionate use program enables subjects to undergo more frequent and extensive treatments of PV-10 over a longer period of time than was allowed under the protocol used for the Phase 2 trial of PV-10. Based on the success of the compassionate use program, its dose regimen is expected to serve as the blueprint for a potential Phase 3 study for metastatic melanoma. The majority of patients enrolled in the program have been treated for melanoma, with other patients for other indications such as recurrent squamous cell carcinoma and scalp sarcoma.

Additionally, we are considering a clinical study of PV-10 for pancreatic cancer as well as other solid tumor indications.

### *Dermatology (PH-10)*

Our prescription drug candidate PH-10 is an aqueous hydrogel formulation of Rose Bengal for topical administration to the skin. It is a novel nonsteroidal anti-inflammatory agent that interacts with ambient and other light sources. We are developing PH-10 for the treatment of cutaneous skin disorders, specifically psoriasis and atopic dermatitis, and we believe that PH-10 may be successful in treating other skin diseases. We believe that PH-10 offers a superior treatment for psoriasis and atopic dermatitis because it selectively treats diseased tissue with negligible potential for side effects in healthy tissue.

We have been actively discussing licensing transactions with a number of potential out licensing partners for PH-10. We believe that our Phase 2c trial of PH-10 for psoriasis will further solidify the commercial viability of PH-10 in these discussions. In August 2011, we completed follow-up of all Phase 2c patients and communicated data of the study to both prospective partners as well as the public market in early 2012.

### Psoriasis

Psoriasis is a common chronic disorder of the skin characterized by dry scaling patches, called plaques, for which current treatments are few and those that are available have potentially serious side effects. There is no known cure for the disease at this time. According to the National Institutes of Health, as many as 7.5 million Americans, or approximately 2.2 percent of the U.S. population, have psoriasis. The National Psoriasis Foundation reports that approximately 125 million people worldwide, 2 to 3 percent of the total population, have psoriasis. It also reports that total direct and indirect health care costs of psoriasis for patients exceed \$11 billion annually.

According to the National Psoriasis Foundation, the majority of psoriasis sufferers, those with mild to moderate cases, are treated with topical steroids that can have unpleasant side effects. None of the other treatments for moderate cases of psoriasis have proven completely effective. The 25-30% of psoriasis patients who suffer from more severe cases generally are treated with more intensive drug therapies or PUVA, a light-based therapy that combines the drug Psoralen with exposure to ultraviolet A light. While PUVA is one of the more effective treatments, it increases a patient's risk of skin cancer.

Our Phase 1 study for PH-10 was initiated in April 2001 to evaluate the safety of three different doses of PH-10 in separate patient segment groups. Subjects in the study each received a single dose of PH-10 followed by administration of green light on psoriatic plaques. Subjects were examined post-treatment, with a final follow-up examination at 90 days.

Our Phase 2 study of PH-10 for treatment of psoriasis was initiated in 2009 and completed in April 2010. There were 30 subjects treated in the completed Phase 2 study, and an additional six subjects were treated in an earlier

---

## Table of Contents

study that was terminated in favor of an increased dosing frequency. Consistent with the preliminary data that we announced in December 2009, 70% of the 30 subjects enrolled in the Phase 2 clinical trial of PH-10 for psoriasis demonstrated improvement in their Psoriasis Severity Index (PSI) scores at the end of four weeks of daily treatment with PH-10. In addition, 86% of subjects reported no or only mild pruritus (itching) by week four of the trial, and no significant safety issues were noted. At the four week interval substantial improvement was observed across all standard disease assessment scores.

During 2010, we initiated a Phase 2c clinical trial of PH-10 for psoriasis. This multicenter, randomized controlled Phase 2c study enrolled 99 subjects at four different sites, which began in December 2010. The subjects were randomized sequentially by center to one of four treatment cohorts, and assessed efficacy and safety of topical PH-10 applied once daily to areas of mild to moderate plaque psoriasis. The primary efficacy endpoint was treatment success, a static endpoint assessed at day 29 after initial PH-10 treatment and defined as 0 or 1 on all Psoriasis Severity Index (PSI) components and 0 or 1 on the Plaque Response scale. The primary safety endpoint was incidence of adverse experiences, including pain and dermatologic/skin toxicity (incidence, severity, frequency, duration and causality). The secondary outcome measures were (i) Psoriasis Severity Index (PSI) score changes at each visit from day 1 pre-treatment, (ii) Plaque Response score changes at each visit from day 1 pre-treatment, and (iii) Pruritus Self-Assessment score changes at each visit from day 1 pre-treatment.

The Phase 2c trial was conducted at four sites in the U.S. including the Mount Sinai School of Medicine in New York City, Wake Research Associates in Raleigh, NC, Dermatology Specialists in Oceanside, CA and International Dermatology Research in Miami, FL. With over 90 subjects, this trial is the largest dermatological trial that we have conducted to date.

The results of this study helped define the parameters necessary for the design of a pivotal Phase 3 trial, and it was an important milestone on the regulatory pathway leading towards commercialization. In addition, we've held discussions with a number of potential out licensing partners, and we believe this Phase 2c trial has further solidified the commercial viability of PH-10 in these discussions. We have also continued important toxicity study research and development in 2012 to prepare for a successful Phase 3 study and to support a successful New Drug Approval filing.

## Atopic Dermatitis

Atopic Dermatitis, the most severe and common type of eczema, is a long-term skin disease that causes dry and itchy skin, rashes on the face, inside the elbows, behind the knees, and on the hands and feet. Scratching of the afflicted skin can cause redness, swelling, cracking, weeping clear fluid, crusting, thick skin, and scaling. According to the National Eczema Association, physicians estimate that 65% of eczema patients are diagnosed in the first year of life and 90% of patients experience it before age five. Often the symptoms fade during childhood, though most will have atopic dermatitis for life. The National Eczema Association estimates that atopic dermatitis affects over 30 million Americans.

In 2008, we initiated a Phase 2 study of PH-10 for the treatment of atopic dermatitis. This Phase 2 study assessed whether topical PH-10 applied once daily to mild, moderate or severe atopic dermatitis may ameliorate inflammation of the skin when activated by ambient light. The subjects applied PH-10 daily for 28 days to skin areas affected by atopic dermatitis. The subjects were assessed weekly during the treatment period and for four weeks following the treatment period. The primary outcome measures were (i) treatment success, defined as a score of 0 to 1 at day 28, the end of the study treatment period, by the Investigator's Global Assessment (IGA) scoring system for atopic dermatitis status, and (ii) adverse experience, including pain and dermatologic/skin toxicity (incidence, severity, frequency, duration and causality) during the eight weeks following treatment.

Data from the subjects indicated that a substantial majority of subjects had improvement in the Eczema Area Severity Index (EASI) during four weeks of treatment. The treatments were generally well tolerated with no significant safety issues identified. At the four week interval substantial improvement was observed across all standard disease assessment scores.

## **Table of Contents**

### **Other Indications**

We have investigated the use of PH-10 for treatment of actinic keratosis (also called solar keratosis or senile keratosis), which is the most common pre-cancerous skin lesion among fair-skinned people and is estimated to occur in over 50% of elderly fair-skinned persons living in sunny climates. We have previously conducted a Phase I clinical trial of PH-10 for actinic keratosis to examine the safety profile of a single treatment using topical PH-10 with green light photoactivation. No significant safety concerns were identified in the study. We have decided to prioritize further clinical development of PH-10 for treatment of psoriasis and atopic dermatitis rather than actinic keratosis at this time since the market is much larger for psoriasis and atopic dermatitis.

We have also conducted pre-clinical studies of PH-10 for use in treating severe acne vulgaris. Moderate to severe forms of the disease have proven responsive to several photodynamic regimens, and we anticipate that PH-10 can be used as an advanced treatment for this disease. Our pre-clinical studies show that the active ingredient in PH-10 readily kills bacteria associated with acne. This finding, coupled with our clinical experience in psoriasis, atopic dermatitis, and actinic keratosis, suggests that therapy with PH-10 will exhibit no significant side effects and will afford improved performance relative to other therapeutic alternatives. If correct, this would be a major advance over currently available products for severe acne.

The active ingredient in PH-10 is photoactive in that it reacts to light of certain wavelengths thereby potentially increasing its therapeutic effects. We believe that photodynamic treatment regimens can deliver a higher therapeutic effect at lower dosages of active ingredient, thus minimizing potential side effects including damage to nearby healthy tissues. PH-10 is especially responsive to green light, which is strongly absorbed by the skin and thus only penetrates the body to a depth of about three to five millimeters. For this reason, in the past we have investigated PH-10 combined with green-light activation, for topical use in surface applications where serious damage could result if medicinal effects were to occur in deeper tissues.

### **Over-the-Counter Pharmaceuticals**

We have designated our subsidiary that holds our OTC products, GloveAid and Pure-ific, Pure-Stick, Pure N Clear as non-core. The potential further development and licensure of our OTC products would likely be facilitated by selling a majority stake of the underlying assets of the non-core subsidiary holding the OTC products. This transaction would likely be accomplished through a non-core spin-out process, which would enable the non-core subsidiary to become a separate publicly held company. The new public entity could then raise funds without diluting the ownership of the then current shareholders of the Company.

#### *GloveAid*

Personnel in many occupations and industries now use disposable gloves daily in the performance of their jobs, including airport security personnel, food handling and preparation personnel, health care workers such as hospital and blood bank personnel, laboratory researchers, police, fire and emergency response personnel, postal and package delivery handlers and sorters, and sanitation workers.

Accompanying the increased use of disposable gloves is a mounting incidence of chronic skin irritation. To address this market, we have developed GloveAid, a hand cream with both antiperspirant and antibacterial properties, to increase the comfort of users' hands during and after the wearing of disposable gloves. During 2003, we ran a pilot scale run at the manufacturer of GloveAid.

#### *Pure-ific*

Our Pure-ific line of products includes two quick-drying sprays, Pure-ific and Pure-ific Kids, that immediately kill up to 99.9% of germs on skin and prevent regrowth for six hours. We have determined the effectiveness of Pure-ific based on our internal testing and testing performed by Paratus Laboratories H.B., an independent

---

## **Table of Contents**

research lab. Pure-ific products help prevent the spread of germs and thus complement our other OTC products designed to treat irritated skin or skin conditions such as acne, eczema, dandruff and fungal infections. Our Pure-ific sprays have been designed with convenience in mind and are targeted towards mothers, travelers, and anyone concerned about the spread of sickness-causing germs. During 2003 and 2004, we identified and engaged sales and brokerage forces for Pure-ific. We emphasized getting sales in independent pharmacies and mass (chain stores) markets. The supply chain for Pure-ific was established with the ability to support large-scale sales and a starting inventory was manufactured and stored in a contract warehouse/fulfillment center. In addition, a website for Pure-ific was developed with the ability for supporting online sales of the antibacterial hand spray. During 2005 and 2006, most of our sales were generated from customers accessing our website for Pure-ific and making purchases online. We discontinued our proof-of-concept program in November 2006 and have, therefore, ceased selling our OTC products. We now intend to license the Pure-ific product, a strategy we have been discussing with interested groups. Additionally, we also intend to sell a majority stake in the underlying assets via a non-core spin-out transaction, as discussed below.

On December 15, 2011, we sold Units to accredited investors which included shares of common stock in Pure-ific and a warrant to purchase 3/4 of a share of the Company's common stock. A total of 666,666 Units were sold for gross proceeds of \$500,000 resulting in the sale of a 33% non-controlling interest in Pure-ific. At the time of the sale and as of December 31, 2011, the carrying value of the net assets in Pure-ific was \$0. The sale also resulted in the issuance of warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$1.25 per share with a five-year term. We intend to use the proceeds, after deducting offering expenses of approximately \$56,500, to spin-off Pure-ific as a new publicly-traded company, a process we have initiated but have not yet completed. Network 1 Financial Securities, Inc., served as placement agent for the offering.

### *Acne*

Our acne products Pure-Stick and Pure N Clear work by decreasing the production of fats, oils and sweat that create an environment conducive to unchecked growth of bacteria. Secondly, the products also act to reduce the number of bacteria already present. Pure-Stick and Pure N Clear represent new formulations of proven, safe ingredients that achieve both steps required to successfully treat acne. Since Pure-Stick and Pure N Clear are applied topically to affected areas there are no safety concerns with healthy skin. The unique combinations have allowed the Company to secure patent protection for these products.

### **Medical Devices**

We have non-core medical device technologies that we believe may address two major markets:

cosmetic treatments, such as reduction of wrinkles and elimination of spider veins and other cosmetic blemishes; and

therapeutic uses, including photoactivation of PH-10, other prescription drugs and non-surgical destruction of certain skin cancers.

We expect to further develop our non-core medical devices through partnerships with, or selling our assets to, third-party device manufacturers or, if appropriate opportunities arise, through acquisition of one or more device manufacturers. Additionally, the Company also intends to sell a majority stake in the underlying assets via a non-core spin-out transaction.

### **Photoactivation**

Our clinical tests of PH-10 for dermatology have in the past utilized a number of commercially available lasers for activation of the drug. This approach has several advantages, including the leveraging of an extensive base of installed devices present throughout the pool of potential physician-adopters for PH-10. Access to such a base could play an integral role in early market capture. However, since the use of such lasers, which were designed for occasional use in other types of dermatological treatment, is potentially too cumbersome and costly for

## **Table of Contents**

routine treatment of the large population of patients with psoriasis, we have begun investigating potential use of other types of photoactivation hardware, such as light booths. The use of such booths is consistent with current care standards in the dermatology field, and may provide a cost-effective means for addressing the needs of patients and physicians alike. We anticipate that such photoactivation hardware would be developed, manufactured, and supported in conjunction with one or more third-party device manufacturers.

### **Laser-Based Treatment of Melanoma**

We have conducted extensive research on ocular melanoma at the Massachusetts Eye and Ear Infirmary (a teaching affiliate of Harvard Medical School) using a new laser treatment that may offer significant advantage over current treatment options. A single quick non-invasive treatment of ocular melanoma tumors in a rabbit model resulted in elimination of over 90% of tumors, and may afford significant advantage over invasive alternatives, such as surgical excision, enucleation, or radiotherapy implantation. Ocular melanoma is rare, with approximately 2,000 new cases annually in the U.S. However, we believe that our extremely successful results could be extrapolated to treatment of primary melanomas of the skin, which have an incidence of over 60,000 new cases annually in the U.S. and a 6% five-year survival rate after metastasis of the tumor. We have performed similar laser treatments on large (averaging approximately 3 millimeters thick) cutaneous melanoma tumors implanted in mice, and have been able to eradicate over 90% of these pigmented skin tumors with a single treatment. Moreover, we have shown that this treatment stimulates an anti-tumor immune response that may lead to improved outcome at both the treatment site and at sites of distant metastasis. From these results, we believe that a device for laser treatment of primary melanomas of the skin and eye is nearly ready for human studies. We anticipate partnering with, or selling our assets to, a medical device manufacturer to bring it to market in reliance on a 510(k) notification. For more information about the 510(k) notification process, see [Federal Regulation of Therapeutic Products](#) below.

### **Research and Development**

We continue to actively develop projects that are product-directed and are attempting to conserve available capital and achieve full capitalization of our company through equity and convertible debt offerings, generation of product revenues, and other means. All ongoing research and development activities are directed toward maximizing shareholder value and advancing our corporate objectives in conjunction with our OTC product licensure, our current product development and maintaining our intellectual property portfolio.

Research and development costs totaling \$5,005,459 for 2012 included payroll of \$2,536,818, consulting and contract labor of \$2,008,270, lab supplies and pharmaceutical preparations of \$47,808, legal of \$231,430, insurance of \$97,728, rent and utilities of \$77,238, and depreciation expense of \$6,167. Research and development costs totaling \$8,807,896 for 2011 included payroll of \$6,182,147, consulting and contract labor of \$2,238,765, lab supplies and pharmaceutical preparations of \$57,467, legal of \$161,068, insurance of \$92,859, rent and utilities of \$68,234, and depreciation expense of \$7,356. Research and development costs totaling \$8,417,303 for 2010 included payroll of \$6,618,532, consulting and contract labor of \$1,095,793, lab supplies and pharmaceutical preparations of \$235,153, legal of \$300,964, insurance of \$90,314, rent and utilities of \$67,692, and depreciation expense of \$8,855.

### **Production**

We have determined that the most efficient use of our capital in further developing our OTC products is to license the products. The Company has been discussing this strategy with interested groups. Additionally, the Company also intends to sell a majority stake in the underlying assets via a non-core spin-out transaction.

### **Sales**

We have not had any significant sales of any of our OTC products, though we commenced limited sales of Pure-ific, our antibacterial hand spray in 2004 through 2006, in a proof-of-concept program. We discontinued our proof-of-concept program in 2006 and have, therefore, ceased selling our OTC products. We will continue to

**Table of Contents**

seek additional markets for our products through existing distributorships that market and distribute medical products, ethical pharmaceuticals, and OTC products for the professional and consumer marketplaces through licensure, partnership and asset sale arrangements, and through potential merger and acquisition candidates.

In addition to developing and selling products ourselves on a limited basis, we are negotiating actively with a number of potential licensees for several of our intellectual properties, including patents and related technologies. To date, we have not yet entered into any licensing agreements; however, we anticipate consummating one or more such licenses in the future.

**Intellectual Property***Patents*

We hold a number of U.S. patents covering the technologies we have developed and are continuing to develop for the production of prescription drugs, non-core technologies and OTC pharmaceuticals. All patents material to an understanding of the Company are included and a cross reference to a discussion that explains the patent technologies and products is identified for each patent in the following table:

<b>U.S. Patent No</b>	<b>Title and Cross Reference</b>	<b>Issue Date</b>	<b>Expiration Date</b>
5,829,448	Method for improved selectivity in activation of molecular agents; see discussion under Medical Devices in Description of Business	November 3, 1998	October 30, 2016
5,832,931	Method for improved selectivity in photo-activation and detection of diagnostic agents; see discussion under Medical Devices in Description of Business	November 10, 1998	October 30, 2016
5,998,597	Method for improved selectivity in activation of molecular agents; see discussion under Medical Devices in Description of Business	December 7, 1999	October 30, 2016
6,042,603	Method for improved selectivity in photo-activation of molecular agents; see discussion under Medical Devices in Description of Business	March 28, 2000	October 30, 2016
6,331,286	Methods for high energy phototherapeutics; see discussion under Oncology in Description of Business	December 18, 2001	December 21, 2018
6,451,597	Method for enhanced protein stabilization and for production of cell lines useful production of such stabilized proteins; see discussion under Material Transfer Agreement in Description of Intellectual Property	September 17, 2002	April 6, 2020
6,468,777	Method for enhanced protein stabilization and for production of cell lines useful production of such stabilized proteins; see discussion under Material Transfer Agreement in Description of Intellectual Property	October 22, 2002	April 6, 2020
6,493,570	Method for improved imaging and photodynamic therapy; see discussion under Oncology in Description of Business	December 10, 2002	December 10, 2019

**Table of Contents**

<b>U.S. Patent No</b>	<b>Title and Cross Reference</b>	<b>Issue Date</b>	<b>Expiration Date</b>
6,495,360	Method for enhanced protein stabilization for production of cell lines useful production of such stabilized proteins; see discussion under Material Transfer Agreement in Description of Intellectual Property	December 17, 2002	April 6, 2020
6,519,076	Methods and apparatus for optical imaging; see discussion under Medical Devices in Description of Business	February 11, 2003	October 30, 2016
6,525,862	Methods and apparatus for optical imaging; see discussion under Medical Devices in Description of Business	February 25, 2003	October 30, 2016
6,541,223	Method for enhanced protein stabilization and for production of cell lines useful production of such stabilized proteins; see discussion under Material Transfer Agreement in Description of Intellectual Property	April 1, 2003	April 6, 2020
6,986,740	Ultrasound contrast using halogenated xanthenes; see discussion under Oncology in Description of Business	January 17, 2006	September 9, 2023
6,991,776	Improved intracorporeal medicaments for high energy phototherapeutic treatment of disease; see discussion under Oncology in Description of Business	January 31, 2006	May 5, 2023
7,036,516	Treatment of pigmented tissues using optical energy; see discussion under Medical Devices in Description of Business	May 2, 2006	January 28, 2020
7,201,914	Combination antiperspirant and antimicrobial compositions; see discussion under Over-the-Counter Pharmaceuticals in Description of Business	April 10, 2007	May 15, 2024
7,338,652	Diagnostic Agents for Positron Emission Imaging; see discussion under Oncology in Description of Business	March 4, 2008	September 25, 2025
7,346,387	Improved Selectivity in Photo-Activation and Detection of Molecular Diagnostic Agents; see discussion under Medical Devices in Description of Business	March 18, 2008	October 30, 2016
7,353,829	Improved Methods and Apparatus For Multi-Photon Photo-Activation of Therapeutic Agents; see discussion under Medical Devices in Description of Business	April 8, 2008	April 23, 2020
7,384,623	A Radiosensitizer Agent comprising Tetrabromoerythrosin; see discussion under Oncology in Description of Business	June 10, 2008	August 25, 2019

**Table of Contents**

U.S. Patent No	Title and Cross Reference	Issue Date	Expiration Date
7,390,668	Intracorporeal photodynamic medicaments for photodynamic treatment containing a halogenated xanthene or derivative; see discussion under Dermatology in Description of Business	June 24, 2008	March 6, 2021
7,402,299	Intracorporeal photodynamic medicaments for photodynamic treatment containing a halogenated xanthene or derivative; see discussion under Dermatology in Description of Business	July 22, 2008	October 2, 2025
7,427,389	Diagnostic Agents for Positron Emission Imaging; see discussion under Oncology in Description of Business	September 23, 2008	July 7, 2026
7,648,695	Improved Medicaments for chemotherapeutic treatment of disease; see discussion under Oncology in Description of Business	January 19, 2010	July 6, 2021
7,864,047	Improved intracorporeal medicaments for photodynamic treatment of disease; see discussion under Dermatology in Description of Business	January 4, 2011	To Be Determined

We continue to pursue patent applications on numerous other developments we believe to be patentable. We consider our issued patents, our pending and patent applications, and any patentable inventions which we may develop to be extremely valuable assets of our business.

*Material Transfer Agreement*

We have entered into a Material Transfer Agreement dated as of July 31, 2003 with Schering-Plough Animal Health Corporation, which we refer to as SPAH, the animal-health subsidiary of Schering-Plough Corporation, a major international pharmaceutical company which is still in effect. Under the Material Transfer Agreement, we will provide SPAH with access to some of our patented technologies to permit SPAH to evaluate those technologies for use in animal-health applications. If SPAH determines that it can commercialize our technologies, then the Material Transfer Agreement obligates us and SPAH to enter into a license agreement providing for us to license those technologies to SPAH in exchange for progress payments upon the achievement of goals.

The Material Transfer Agreement covers four U.S. patents that cover biological material manufacturing technologies (i.e., biotech related). The Material Transfer Agreement continues indefinitely, unless SPAH terminates it by giving us notice or determines that it does not wish to secure from us a license for our technologies. The Material Transfer Agreement can also be terminated by either of us in the event the other party breaches the agreement and does not cure the breach within 30 days of notice from the other party. We cannot assure you that SPAH will determine that it can commercialize our technologies or that the goals required for us to obtain progress payments from SPAH will be achieved.

The Company has received no progress payments in relation to its Material Transfer Agreement with SPAH. Progress payments could potentially total \$50,000 for the first cell line for which SPAH uses our technology and \$25,000 for each use of the same technology thereafter. We do not know how many cell lines SPAH may have and we currently have no indication from SPAH that it intends to use any of our technologies in the foreseeable future.

Additionally, the Company also intends to sell a majority stake in these underlying assets via a non-core spin-out transaction.

## **Table of Contents**

### **Competition**

In general, the pharmaceutical and biotechnology industries are intensely competitive, characterized by rapid advances in products and technology. A number of companies have developed and continue to develop products that address the areas we have targeted. Some of these companies are major pharmaceutical companies and biotechnology companies that are international in scope and very large in size, while others are niche players that may be less familiar but have been successful in one or more areas we are targeting. Existing or future pharmaceutical, device, or other competitors may develop products that accomplish similar functions to our technologies in ways that are less expensive, receive faster regulatory approval, or receive greater market acceptance than our products. Many of our competitors have been in existence for considerably longer than we have, have greater capital resources, broader internal structure for research, development, manufacturing and marketing, and are in many ways further along in their respective product cycles.

While it is possible that eventually we may compete directly with major pharmaceutical companies, we believe it is more likely that we will enter into joint development, marketing, or other licensure arrangements with such competitors. Eventually, we believe that we will be acquired.

We also have a number of market areas in common with traditional skincare cosmetics companies, but in contrast to these companies, our products are based on unique, proprietary formulations and approaches. For example, we are unaware of any products in our targeted OTC skincare markets that are similar to our Pure-ific product. Further, proprietary protection of our products may help limit or prevent market erosion until our patents expire.

### **Federal Regulation of Therapeutic Products**

All of the prescription drugs we currently contemplate developing will require approval by the FDA prior to sales within the United States and by comparable foreign agencies prior to sales outside the United States. The FDA and comparable regulatory agencies impose substantial requirements on the manufacturing and marketing of pharmaceutical products and medical devices. These agencies and other entities extensively regulate, among other things, research and development activities and the testing, manufacturing, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of our proposed products. While we attempt to minimize and avoid significant regulatory bars when formulating our products, some degree of regulation from these regulatory agencies is unavoidable. Some of the things we do to attempt to minimize and avoid significant regulatory bars include the following:

Using chemicals and combinations already allowed by the FDA;

Using drugs that have been previously approved by the FDA and that have a long history of safe use; and

Using chemical compounds with known safety profiles

The regulatory process required by the FDA, through which our drug or device products must pass successfully before they may be marketed in the U.S., generally involves the following:

Preclinical laboratory and animal testing;

Submission of an application that must become effective before clinical trials may begin;

Adequate and well-controlled human clinical trials to establish the safety and efficacy of the product for its intended indication;  
and

FDA approval to market a given product for a given indication after the appropriate application has been filed

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

For pharmaceutical products, preclinical tests include laboratory evaluation of the product, its chemistry, formulation and stability, as well as animal studies to assess the potential safety and efficacy of the product. Where appropriate (for example, for human disease indications for which there exist inadequate animal models),

## **Table of Contents**

we will attempt to obtain preliminary data concerning safety and efficacy of proposed products using carefully designed human pilot studies. We will require sponsored work to be conducted in compliance with pertinent local and international regulatory requirements, including those providing for Institutional Review Board approval, national governing agency approval and patient informed consent, using protocols consistent with ethical principles stated in the Declaration of Helsinki and other internationally recognized standards. We expect any pilot studies to be conducted outside the United States; but if any are conducted in the United States, they will comply with applicable FDA regulations. Data obtained through pilot studies will allow us to make more informed decisions concerning possible expansion into traditional FDA-regulated clinical trials.

If the FDA is satisfied with the results and data from preclinical tests, it will authorize human clinical trials. Human clinical trials typically are conducted in three sequential phases which may overlap. Each of the three phases involves testing and study of specific aspects of the effects of the pharmaceutical on human subjects, including testing for safety, dosage tolerance, side effects, absorption, metabolism, distribution, excretion and clinical efficacy.

Phase 1 clinical trials include the initial introduction of an investigational new drug into humans. These studies are closely monitored and may be conducted in patients, but are usually conducted in healthy volunteer subjects. These studies are designed to determine the metabolic and pharmacologic actions of the drug in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence on effectiveness. While the FDA can cause us to end clinical trials at any phase due to safety concerns, Phase 1 clinical trials are primarily concerned with safety issues. We also attempt to obtain sufficient information about the drug's pharmacokinetics and pharmacological effects during Phase 1 clinical trial to permit the design of well-controlled, scientifically valid, Phase 2 studies.

Phase 1 studies also evaluate drug metabolism, structure-activity relationships, and the mechanism of action in humans. These studies also determine which investigational drugs are used as research tools to explore biological phenomena or disease processes. The total number of subjects included in Phase 1 studies varies with the drug, but is generally in the range of twenty to eighty.

Phase 2 clinical trials include the early controlled clinical studies conducted to obtain some preliminary data on the effectiveness of the drug for a particular indication or indications in patients with the disease or condition. This phase of testing also helps determine the common short-term side effects and risks associated with the drug. Phase 2 studies are typically well-controlled, closely monitored, and conducted in a relatively small number of patients, usually involving several hundred people.

Phase 3 studies are expanded controlled and uncontrolled trials. They are performed after preliminary evidence suggesting effectiveness of the drug has been obtained in Phase 2, and are intended to gather the additional information about effectiveness and safety that is needed to evaluate the overall benefit-risk relationship of the drug. Phase 3 studies also provide an adequate basis for extrapolating the results to the general population and transmitting that information in the physician labeling. Phase 3 studies usually include several hundred to several thousand people.

Applicable medical devices can be cleared for commercial distribution through a notification to the FDA under Section 510(k) of the applicable statute. The 510(k) notification must demonstrate to the FDA that the device is as safe and effective and substantially equivalent to a legally marketed or classified device that is currently in interstate commerce. Such devices may not require detailed testing. Certain high-risk devices that sustain human life, are of substantial importance in preventing impairment of human health, or that present a potential unreasonable risk of illness or injury, are subject to a more comprehensive FDA approval process initiated by filing a premarket approval, also known as a PMA, application (for devices) or accelerated approval (for drugs).

We have established a core clinical development team and have been working with outside FDA consultants to assist us in developing product-specific development and approval strategies, preparing the required submissions,

## **Table of Contents**

guiding us through the regulatory process, and providing input to the design and site selection of human clinical studies. Historically, obtaining FDA approval for photodynamic therapies has been a challenge. Wherever possible, we intend to utilize lasers or other activating systems that have been previously approved by the FDA to mitigate the risk that our therapies will not be approved by the FDA. The FDA has considerable experience with lasers by virtue of having reviewed and acted upon many 510(k) and premarket approval filings submitted to it for various photodynamic and non-photodynamic therapy laser applications, including a large number of cosmetic laser treatment systems used by dermatologists.

The testing and approval process requires substantial time, effort, and financial resources, and we may not obtain FDA approval on a timely basis, if at all. Success in preclinical or early-stage clinical trials does not assure success in later-stage clinical trials. The FDA or the research institution sponsoring the trials may suspend clinical trials or may not permit trials to advance from one phase to another at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Once issued, the FDA may withdraw a product approval if we do not comply with pertinent regulatory requirements and standards or if problems occur after the product reaches the market. If the FDA grants approval of a product, the approval may impose limitations, including limits on the indicated uses for which we may market a product. In addition, the FDA may require additional testing and surveillance programs to monitor the safety and/or effectiveness of approved products that have been commercialized, and the agency has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs. Further, later discovery of previously unknown problems with a product may result in restrictions on the product, including its withdrawal from the market.

Marketing our products abroad will require similar regulatory approvals by equivalent national authorities and is subject to similar risks. To expedite development, we may pursue some or all of our initial clinical testing and approval activities outside the United States, and in particular in those nations where our products may have substantial medical and commercial relevance. In some such cases, any resulting products may be brought to the U.S. after substantial offshore experience is gained. Accordingly, we intend to pursue any such development in a manner consistent with U.S. standards so that the resultant development data is maximally applicable for potential FDA approval.

OTC products are subject to regulation by the FDA and similar regulatory agencies but the regulations relating to these products are much less stringent than those relating to prescription drugs and medical devices. The types of OTC products developed and previously sold by us only require that we follow cosmetic rules relating to labeling and the claims that we make about our product. The process for obtaining approval of prescription drugs with the FDA does not apply to the OTC products, which we have sold. The FDA can, however, require us to stop selling our product if we fail to comply with the rules applicable to our OTC products.

## **Employees**

We currently employ four persons, all of whom are full-time employees. We currently engage four full-time consultants, including a lab technician, a contract research associate, an analytical chemist, and an information technology consultant.

## **Equity Financing During 2012**

During the three months ended March 31, 2012, the Company issued 175,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$160,000. During the three months ended March 31, 2012, the Company issued warrants to purchase an aggregate of 1,003,000 shares of common stock to consultants in exchange for services at an exercise price of \$1.12 per share with a three year term. Consulting costs charged to operations for the warrants were \$475,668.

During the three months ended June 30, 2012, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$64,500. During the three months ended June 30, 2012, the Company issued warrants to purchase an aggregate of 454,500 shares of

**Table of Contents**

common stock to consultants in exchange for services, consisting of warrants to purchase 300,000 shares at an exercise price of \$1.12 per share with a two year term, 54,500 shares at an exercise price of \$1.12 per share with a three year term, and 100,000 shares at an exercise price of \$1.25 per share with a four year term. Consulting costs charged to operations were \$183,908. During the three months ended June 30, 2012 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$2,077,796. The Company accepted subscriptions, in the aggregate, for 1,855,176 shares of common stock, and five year warrants to purchase 1,855,176 shares of common stock. Investors received five year warrants to purchase up to 100% 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. 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 issued five year warrants to purchase 371,035 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, 2012, the Company issued 225,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$184,750. During the three months ended September 30, 2012, the Company issued warrants to purchase an aggregate of 1,732,135 shares of common stock to consultants in exchange for services, consisting of warrants to purchase 288,501 shares at an exercise price of \$1.12 per share with a three year term, 250,000 shares at an exercise price of \$1.12 per share with a five year term, 160,000 shares at an exercise price of \$1.15 per share with a three year term, 683,633 shares at an exercise price of \$1.25 per share with a three year term, 80,000 shares at an exercise price of \$1.45 per share with a three year term and 270,001 shares at an exercise price of \$1.50 per share with a three year term. Consulting costs charged to operations were \$721,753.

During the three months ended December 31, 2012, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$47,250. During the three months ended December 31, 2012, the Company issued warrants to purchase an aggregate of 452,500 shares of common stock to consultants in exchange for services, consisting of warrants to purchase 252,500 shares at an exercise price of \$1.12 per share with a three year term, and 200,000 shares at an exercise price of \$1.12 per share with a five year term. Consulting costs charged to operations were \$130,697. During the three months ended December 31, 2012 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$2,379,365. The Company accepted subscriptions, in the aggregate, for 3,172,486 shares of common stock, and five year warrants to purchase 3,172,486 shares of common stock. Investors received five year fully vested warrants to purchase up to 100% 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 \$279,317 and issued five year fully vested warrants to purchase 317,249 shares of common stock with an exercise price of \$1.00 to Network 1 Financial Securities, Inc., which represents 10% of the total number of shares of common stock sold to investors solicited by Network 1 Financial Securities, Inc. During the three months ended December 31, 2012 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$710,000. The Company accepted subscriptions, in the aggregate, for 946,666 shares of common stock, and five year warrants to purchase 946,666 shares of common stock. Investors received five year fully vested warrants to purchase up to 100% 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. Maxim Group LLC served as placement agent for the offering. In connection with the offering, the Company paid \$97,300 and issued five year fully vested warrants to purchase 94,667 shares of common stock with an exercise price of \$1.00 to Maxim Group LLC, which represents 10% of the total number of shares of common stock sold to investors solicited by Maxim Group LLC.

## **Table of Contents**

The issuances of the securities were exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) and Rule 506 promulgated under Regulation D thereunder as transactions not involving a public offering.

## **Properties**

We currently lease approximately 6,000 square feet of space outside of Knoxville, Tennessee for our corporate office and operations. Our monthly rental charge for these offices is approximately \$4,500 per month, and the lease is on a month-to-month basis. We believe that these offices generally are adequate for our needs currently and in the immediate future.

## **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.

## **Available Information**

Our website is located at [www.pvct.com](http://www.pvct.com). We make available free of charge through this website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Reference to our website does not constitute incorporation by reference of the information contained on the site and should not be considered part of this document.

All filings made by us with the SEC may be copied or read at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC as we do. The website is <http://www.sec.gov>.

**Table of Contents****MANAGEMENT****Executive Officers and Directors**

<b>Name</b>	<b>Age</b>	<b>Position Held with Provectus</b>
H. Craig Dees, Ph.D.	61	Chief Executive Officer and Director
Timothy C. Scott, Ph.D.	54	President and Director
Eric A. Wachter, Ph.D.	50	Chief Technology Officer
Peter R. Culpepper	53	Chief Financial Officer and Chief Operating Officer
Kelly M. McMasters, M.D., Ph.D.	52	Director
Alfred E. Smith IV	61	Director
Jan E. Koe	62	Director

There are no family relationships among our directors and executive officers. All directors are elected to hold office until the next annual meeting of stockholders following election and until their successors are duly elected and qualified. Executive officers are appointed by the Board of Directors and serve at the discretion of the Board.

H. Craig Dees, Ph.D., 61, has served as our Chief Executive Officer and as a member of our board of directors since we acquired Provectus Pharmaceuticals, Inc., a privately held Tennessee corporation ( PPI ), on April 23, 2002. Before joining us, from 1997 to 2002 he served as senior member of the management team of Photogen Technologies, Inc., including serving as a member of the board of directors of Photogen from 1997 to 2000. Prior to joining Photogen, Dr. Dees served as a Group Leader at the Oak Ridge National Laboratory and as a senior member of the management teams of LipoGen Inc., a medical diagnostic company which used genetic engineering technologies to manufacture and distribute diagnostic assay kits for auto-immune diseases, and TechAmerica Group Inc., now a part of Boehringer Ingelheim Vetmedica, Inc., the U.S. animal health subsidiary of Boehringer Ingelheim GmbH, an international chemical and pharmaceutical company headquartered in Germany. He earned a Ph.D. in Molecular Virology from the University of Wisconsin Madison in 1984.

Timothy C. Scott, Ph.D., 54, has served as our President and as a member of our board of directors since we acquired PPI on April 23, 2002. Prior to joining us, Dr. Scott was a senior member of the Photogen management team from 1997 to 2002, including serving as Photogen's Chief Operating Officer from 1999 to 2002, as a director of Photogen from 1997 to 2000, and as interim CEO for a period in 2000. Before joining Photogen, he served as senior management of Genase LLC, a developer of enzymes for fabric treatment and held senior research and management positions at Oak Ridge National Laboratory. Dr. Scott earned a Ph.D. in Chemical Engineering from the University of Wisconsin Madison in 1985.

Eric A. Wachter, Ph.D., 50, currently serves as our Chief Technology Officer since May 14, 2012 and prior to that served as Executive Vice President Pharmaceuticals and as a member of our board of directors since we acquired PPI on April 23, 2002 until May 14, 2012. Prior to joining us, from 1997 to 2002 he was a senior member of the management team of Photogen, including serving as Secretary and a director of Photogen since 1997 and as Vice President and Secretary and a director of Photogen since 1999. Prior to joining Photogen, Dr. Wachter served as a senior research staff member with Oak Ridge National Laboratory. He earned a Ph.D. in Chemistry from the University of Wisconsin Madison in 1988.

Peter R. Culpepper, 53, was appointed to serve as our Chief Financial Officer in February 2004 and is also our Chief Operating Officer. Previously, Mr. Culpepper served as Chief Financial Officer for Felix Culpepper International, Inc. from 2001 to 2004; was a Registered Representative with AXA Advisors, LLC from 2002 to 2003; has served as Chief Accounting Officer and Corporate Controller for Neptec, Inc. from 2000 to 2001; has served in various Senior Director positions with Metromedia Affiliated Companies from 1998 to 2000; has served in various Senior Director and other financial positions with Paging Network, Inc. from 1993 to 1998; and has served in a variety of financial roles in public accounting and industry from 1982 to 1993. He earned a



---

**Table of Contents**

Masters in Business Administration in Finance from the University of Maryland College Park in 1992. He earned an AAS in Accounting from the Northern Virginia Community College Annandale, Virginia in 1985. He earned a B.A. in Philosophy from the College of William and Mary Williamsburg, Virginia in 1982. He is a licensed Certified Public Accountant in both Tennessee and Maryland.

Kelly M. McMasters M.D., Ph.D., 52, has served as a member of our board of directors since June 9, 2008. Additionally, Dr. McMasters serves as chairman of our scientific advisory board. Dr. McMasters received his undergraduate training at Colgate University prior to completing the MD/PhD program at the University of Medicine and Dentistry of New Jersey, Robert Wood Johnson Medical School and Rutgers University. He then completed the residency program in General Surgery at the University of Louisville, and a fellowship in Surgical Oncology at M.D. Anderson Cancer Center in Houston. He is currently the Sam and Lolita Weakley Professor of Surgical Oncology at the University of Louisville in Kentucky, a position he has held since 1996. Since 2005, he has chaired the Department of Surgery at the University of Louisville and also has been Chief of Surgery at University of Louisville Hospital. Since 2000, he has also been Director of the Multidisciplinary Melanoma Clinic of the James Graham Brown Cancer Center at the University of Louisville. His is an active member of the surgery staff at the University of Louisville Hospital, Norton Hospital and Jewish Hospital in Louisville. He is on the editorial boards of the Annals of Surgical Oncology, Cancer Therapy and the Journal of Clinical Oncology as well as an ad hoc reviewer for 9 other publications. He holds several honors, chief among them is Physician of the Year awarded by the Kentucky Chapter of the American Cancer Society. He is the author and principal investigator (PI) of the Sunbelt Melanoma Trial, a multi-institutional study involving 3500 patients from 79 institutions across North America and one of the largest prospective melanoma studies ever performed. He has been a PI, Co-PI or local PI in over thirty clinical trials ranging from Phase 1 to Phase 3. For the past 12 years he has also directed a basic and translational science laboratory studying adenovirus-mediated cancer gene therapy funded by the American Cancer Society and the National Institutes of Health (NIH).

Alfred E. Smith IV, 61, has served as a member of our board of directors since July 12, 2011. Mr. Smith is CEO of AE Smith Associates, a firm he founded in 2009. In December 2006, Mr. Smith retired from his position as Managing Director of Bear Wagner Specialists LLC, a specialist and member firm of the New York Stock Exchange, after 35 successful years on Wall Street. Mr. Smith also sits on the Boards of The Tony Blair Faith Foundation, Mutual of America, and Genco Shipping and Trading. He is a Senior Advisor for K2 Intelligence and Kroll Bond Rating Agency. Smith also served as Chairman of the Board of Saint Vincent Catholic Medical Centers in New York.

After attending Iona Prep and Villanova, Smith began his Wall Street career as an independent floor broker on the New York Stock Exchange. In 1975, he relocated to Chicago to join Mitchell-Hutchins, where he served as Vice President until 1979 when he returned to New York and was named Partner of CMJ Partners. In 1997, he joined Bear Wagner as Managing Director.

Mr. Smith is the great-grandson of the legendary Al Smith, Governor of New York, and serves as the Director, Secretary, and Dinner Chairman for the Alfred E. Smith Memorial Foundation, as well as Master of Ceremonies at the annual Alfred E. Smith Foundation Dinner for the past 25 years.

Alfred's work on behalf of charities in New York and Connecticut is extensive. In addition to his work with the Alfred E. Smith Memorial Foundation he serves as Chairman of the Irish Chamber of Commerce of the USA, Director of the Center for Hope, former Trustee of Calvary Hospital and served on the board of St. Vincent's Hospital in Manhattan since 1986. Al is the Chairman of Hackers for Hope, an organization he founded in 1988 to raise money for cancer research and treatment. Since their first tournament in 1988, Hackers for Hope has donated a total of over \$12,000,000 to Memorial Sloan Kettering Cancer Center, Saint Vincent Catholic Medical Centers Comprehensive Cancer Center, and other organizations committed to finding a cure for and treating cancer.

Jan E. Koe, 62, has served as a member of our board of directors since May 14, 2012. Mr. Koe has a 30-year track record of success in consulting, asset management, real estate and public company governance, and has represented major insurance firms, national retailers and Fortune 500 companies. He is President of GoStar,

## **Table of Contents**

which is the manager of Real Solutions Opportunity Fund 2005-I and Real Solutions Fund Management LLC and Real Solutions Investment LLC. He is also Principal of Method K Partners, Inc., a commercial real estate firm, which he founded in 1988. He has served on the Board of Directors of ONE Bio, Corp. where he was Chair of the Compensation Committee and a member of the Financial Audit Committee. He holds a degree in Business Administration and Psychology from Luther College.

Each of our directors brings a strong and unique set of experience, qualifications, attributes and skills in a variety of areas. Set forth below are the specific experience, qualifications, attributes and skills of our directors that led to the conclusion that each director should serve as a member of our Board of Directors.

H. Craig Dees is has extensive experience researching, developing, and testing potential pharmaceutical products, including our products. He holds a Ph.D. in Molecular Virology, which we believe provides us with specialized knowledge in that field.

Timothy C. Scott also has extensive experience researching, developing, and testing potential pharmaceutical products, including our products. He holds a Ph.D. in Chemical Engineering, which we believe provides us with specialized knowledge in that field.

Kelly M. McMasters, M.D., Ph.D., has clinical expertise in treating skin cancer, including melanoma, and surgical oncology. He has served as principal investigator, co-principal investigator or local investigator in over 30 clinical trials, including serving as principal investigator in a multi-institutional study involving 3,500 patients. We believe Dr. McMasters' expertise in treating skin cancer and melanoma and experience with clinical trials provide our Board of Directors valuable insight into the testing of our pharmaceutical products.

Alfred E. Smith, IV is currently a Senior Advisor for the Marwood Group, a healthcare advisory and financial services firm, is Senior Advisor for Next Health, is Senior Advisor for K2 Global Consulting, N.A., LLC, and serves on the Boards for the Tony Blair Faith Foundation and Mutual of America Capital Management Corporation. He is active with various organizations to bring greater visibility and awareness to the fight against cancer.

Jan Koe brings significant chief executive experience to our Board of Directors from his position as President of GoStar. In addition, Mr. Koe also has board committee experience stemming from his service as chairman of the compensation committee and a member of the audit committee of ONE Bio Corp.

## **Director Independence**

Our Board of Directors consists of five members, H. Craig Dees, Timothy C. Scott, Kelly M. McMasters, Alfred E. Smith, IV and Jan Koe. Dr. Dees, who is our Chief Executive Officer, serves as chairman of our Board of Directors. Three members of our Board of Directors, Dr. McMasters, Mr. Smith and Mr. Koe, are considered independent under the independence standards of the Nasdaq Stock Market.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

Until July 2, 2012, our entire Board of Directors served as our compensation committee. Effective July 2, 2012, our Board of Directors reconstituted our compensation committee and appointed Jan E. Koe, Alfred E. Smith IV and Dr. Kelly M. McMasters, Ph.D to the compensation committee. The primary objectives of our compensation committee with respect to executive compensation are to attract, retain, and motivate the best possible executive talent. Our focus is to tie short and long-term cash and equity incentives to achievement of measurable corporate and individual performance objectives, and to align our executive officers' incentives with stockholder value creation. To achieve these objectives, our compensation committee has maintained, and continues to develop, compensation plans that tie a substantial portion of executives' overall compensation to our scientific, medical and clinical milestones. Our compensation committee has reviewed these compensation

---

**Table of Contents**

practices and now also takes into consideration commercial and operational performance in addition to our scientific, medical and clinical milestones in determining the amount and types of compensation awarded to our executive officers.

Our compensation committee has a pay-for-performance compensation philosophy, which is intended to bring base salaries and total executive compensation in line to ensure the competitiveness of the compensation packages we provide to our named executive officers. In 2012, we undertook a comprehensive review of our executive compensation practices with respect to compensation of our executive officers, other than base salaries, which remained the same. We undertook this review because we had completed certain scientific, medical and clinical milestones, which was the basis for executive compensation (other than base salaries) until April 30, 2012. As a result of this review and feedback we received from our stockholders with respect to our executive compensation practices, we decided to eliminate the payment of cash bonuses as part of our compensation package for executive officers after April 30, 2012. Thus, we awarded bonuses to our named executive officers in January 2012 and April 2012 in the aggregate amount of \$600,000 to each named executive officer based on completion of certain scientific, medical and clinical milestones, but we did not pay any bonuses after April 30, 2012. Any cash bonuses that the compensation committee awards in the future will be made with the consideration of commercial and operational performance milestones, achievement of specific scientific, medical and clinical milestones, as well as peer company compensation data.

We work within the framework of this pay-for-performance philosophy to determine each component of an executive officer's initial compensation package based on numerous factors, including:

the individual's particular background and circumstances, including training and prior relevant work experience;

the individual's role with us and the compensation paid to similar persons in the companies represented in the compensation data that we review;

the demand for individuals with the individual's specific expertise and experience at the time of hire;

performance goals and other expectations for the position;

comparison to other executive officers within our company having similar levels of expertise and experience; and

uniqueness of industry skills.

Our compensation committee has also maintained a quarterly and annual performance management program, under which quarterly and annual performance goals are determined and set forth in writing at the beginning of each calendar year for the company as a whole, and each individual employee. The compensation package components and structure were proposed by management and approved by the Board of Directors at the outset of this program's formation. These corporate goals specify the achievement of specific scientific, medical and clinical milestones. The Chief Executive Officer proposes individual performance goals which are closely tied to the annual corporate goals. Annual goals focus on contributions which facilitate the achievement of specific corporate goals and are recognized during each quarter of the calendar year as appropriate. The Chief Executive Officer approves the goals proposed by our other executive officers. Any annual salary increases, quarterly and annual bonuses, and any annual stock option awards granted to our employees are tied to the achievement of the corporate goals, and each individual's contribution to the achievement of specific corporate goals.

Notwithstanding the above, prior to July 2, 2012, all compensation decisions for employees, including our Chief Executive Officer, were made in the sole discretion of the Chief Executive Officer as authorized by our Board of Directors. Effective July 2, 2012, our compensation committee makes all compensation decisions for our executive officers.

---

## **Table of Contents**

### *Compensation Components*

The components of our compensation package are as follows:

#### *Base Salary & Employment Agreements*

On July 1, 2012, we entered into executive employment agreements with each of H. Craig Dees, Ph.D., Peter R. Culpepper, Timothy C. Scott, Ph.D., and Eric A. Wachter, Ph.D., to serve as our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, President, and Chief Technology Officer, respectively. Each agreement provides that such named executive officer will be employed for a one-year term with automatic one-year renewals unless previously terminated pursuant to the terms of the agreement or either party gives notice that the term will not be extended. Each named executive officer's initial base salary is \$500,000 per year and is subject to adjustment by our Board of Directors. Named executive officers are also entitled to participate in any incentive compensation plan or bonus plan adopted by us without diminution of any compensation or payment under the agreement. Named executive officers are entitled to reimbursement for all reasonable out-of-pocket expenses incurred during their performance of services under the agreements. Our named executive officers will be entitled to the payments upon termination of their employment, with or without a change of control, as described under the heading "Potential Payments upon Termination or Change in Control" below. Prior to July 1, 2012, each of our named executive officers was a party to an executive employment agreement with substantially similar terms as the agreements entered into on July 1, 2012.

We pay salaries to provide fixed compensation for the daily responsibilities of our named executive officers.

#### *Bonus Awards*

Our Board of Directors previously adopted a longevity bonus policy to recognize service on our behalf when we reach significant milestones and to award quarterly and annual bonuses at the discretion of our Chief Executive Officer. In 2011, 2010 and for a portion of 2012, we awarded bonuses for services rendered culminating with continued clinical trial development progress, especially due to the progression of the oncology and dermatology drug product candidates and other development in the clinic, which we refer to as the achievement of specific scientific, medical and clinical milestones.

Specifically, in 2011, the Company achieved the following significant milestones in connection with its clinical trial development:

#### PV-10 (Melanoma):

End-of-Phase 2 FDA meetings in March 2011 and October 2011

#### PH-10 (Psoriasis):

Phase 2c randomized study initiated December 2010 and completed August 2011

#### PV-10 (Liver Metastasis):

Orphan drug status April 2011

Phase 1 patient accrual and treatment completed January 2011

As a result of the Company's achieving these milestones, the Company awarded bonuses in the amount of \$1,600,000 to each of its named executive officers in 2011 and \$600,000 to each of its named executive officers in 2012 under the bonus policy that was terminated effective April 30, 2012.



## **Table of Contents**

This bonus policy was reviewed in 2012 to ensure any bonuses and stock option grants are made with the consideration of commercial and operational performance milestones as well as peer company compensation data. Our compensation committee terminated this bonus policy effective April 30, 2012 as a result of several considerations, including but not limited to feedback we received from our ongoing communications with our stockholders about our executive compensation practices.

### *Defined Benefit Plan and 401(k) Profit Sharing Plan and Other Benefits*

Until September 2010, our four employees, including our named executive officers, participated in the Provectus Pharmaceuticals, Inc. Cash Balance Defined Benefit Plan and Trust (the Plan), which was established in 2007. In September 2010, we terminated the Plan for our employees. We transferred approximately \$1,353,000 in assets from the Plan to our 401(k) Profit Sharing Plan, which was formed in the quarter ended September 30, 2010. Contributions to the 401(k) Profit Sharing Plan by us are discretionary. Contributions made by us in 2010 totaled approximately \$497,000 and include the amounts originally contributed to the Plan in 2010. Contributions by us in 2011 totaled approximately \$130,000. Contributions by us in 2012 totaled approximately \$132,000. We maintain broad-based benefits that are provided to all employees, including health insurance, life and disability insurance, dental insurance, and a vacation policy that requires a minimum amount of vacation time used but provides for cash compensation in lieu of vacation taken if appropriate.

### *Long-Term Incentives*

We believe that long-term performance is achieved through an ownership culture that encourages long-term participation by our executive officers in equity-based awards. Our Amended and Restated 2002 Stock Plan, or our 2002 Stock Plan, allowed the grant to employees of stock options, restricted stock, and other equity-based awards. The 2002 Stock Plan expired by its terms on April 22, 2012. At the 2012 annual meeting of stockholders, our stockholders approved the 2012 Stock Plan, which replaces the 2002 Stock Plan. The 2012 Stock Plan allows the grant to employees of stock options, restricted stock, and other equity-based awards.

Periodic annual grants of options to all of our employees are approved by our Board of Directors, the timing of which is not coordinated with the public release of nonpublic material information.

Our practice is to make periodic annual stock option awards as part of our overall performance management program. Our Board of Directors believes that stock options provide management with a strong link to long-term corporate performance and the creation of stockholder value. We intend that the periodic annual aggregate cumulative total of these awards will not exceed 10% of our fully diluted outstanding common and preferred shares. As is the case when the amounts of base salary and equity awards are determined, a review of all components of the executive officer's compensation is conducted when determining annual option awards to ensure that an executive officer's total compensation conforms to our overall philosophy and objectives. A pool of options is reserved for members of our Board of Directors to receive their annual grant and the pool of options is only increased for employees when approved by our stockholders.

### *Potential Payments upon Termination or Change in Control*

Each of the employment agreements with our named executive officers generally provides that if the named executive officer's employment is terminated prior to a change in control (as defined in the agreement) (1) due to expiration or non-extension of the term by us; or (2) by us for any reason other than for cause (as defined in the agreement), then such named executive officer shall be entitled to receive payments under the agreement as if the agreement were still in effect through the end of the period in effect as of the date of such termination. If the named executive officer's employment (1) is terminated by us at any time for cause, (2) is terminated by the named executive officer prior to, and not coincident with, a change in control or (3) is terminated by the named executive officer's death, disability or retirement prior to a change in control, the named executive officer (or his estate, as the case may be) shall be entitled to receive payments under the agreement through the last date of the month of such termination, a pro-rata portion of any incentive or bonus payment

**Table of Contents**

earned prior to such termination, any benefits to which he is entitled under the terms and conditions of the pertinent plans in effect at termination and any reasonable expenses incurred during the performance of services under the agreement.

Under each of the employment agreements with our named executive officers, in the event that coincident with or following a change in control, the named executive officer's employment is terminated or the agreement is not extended (1) by action of the named executive officer including his death, disability or retirement or (2) by action of us not for cause, the named executive officer (or his estate, as the case may be) shall be entitled to receive payments under the agreement through the last day of the month of such termination, a pro-rata portion of any incentive or bonus payment earned prior to such termination, any benefits to which he is entitled under the terms and conditions of the pertinent plans in effect at termination and any reasonable expenses incurred during the performance of services under the agreement. In addition, we shall pay to the named executive officer (or his estate, as the case may be), within 30 days following the date of termination or on the effective date of the change in control (whichever occurs later), a lump sum payment in cash in an amount equal to 2.90 times the base salary paid in the preceding calendar year, or scheduled to be paid to such named executive officer during the year of such termination, whichever is greater, plus an additional amount sufficient to pay United States income tax on the lump sum amount paid.

The following table shows the base salary compensation the named executive officers would have received under their employment agreements had a change in control occurred as of December 31, 2012 and had the named executive officers been terminated or their employment agreements not been extended.

Name	Amount
H. Craig Dees, Ph.D.	\$ 1,450,000
Timothy C. Scott, Ph.D.	1,450,000
Eric A. Wachter, Ph.D.	1,450,000
Peter R. Culpepper	1,450,000

Under the terms of our 2012 Stock Plan, prior to the occurrence of a change in control (as defined in the 2012 Stock Plan), and unless otherwise determined by our Board of Directors, any stock options outstanding on the date such change in control is determined to have occurred that are not yet exercisable and vested on such date shall become fully exercisable and vested. In addition, unless otherwise determined by our Board of Directors, prior to the occurrence of the change in control, all stock options that are vested and exercisable will be terminated in exchange for a cash payment equal to the change in control price reduced by the exercise price of such stock options. As of December 31, 2012, none of our named executive officers had outstanding unvested stock options.

*Consideration and Effect of the Results of the Most Recent Stockholder Advisory Vote on Executive Compensation in Determining Compensation Policies and Decisions*

In 2012, our compensation committee reviewed our compensation policies to ensure any bonuses and stock option grants are made with the consideration of commercial and operational performance milestones as well as peer company compensation data, in addition to the achievement of specific scientific, medical and clinical milestones. In determining executive compensation for 2012, our Board of Directors considered our stockholders' approval of our executive compensation at our June 28, 2012 Annual Meeting of Stockholders as well as feedback we have received from ongoing communications with our stockholders. As a result, our Board of Directors determined to continue to apply most of the same compensation principles as it had in the past in determining executive compensation but determined to terminate our bonus policy effective April 30, 2012. We will continue to consider stockholder feedback in the future with respect to both our stockholder advisory votes on executive compensation and informal feedback we receive from our stockholders.

**Table of Contents***Compensation-Related Risk Assessment*

SEC regulations require that we assess our compensation policies and practices and determine whether those policies and practices are reasonably likely to result in a material adverse effect upon Provectus. Based upon a review by our Board of Directors and management of our compensation policies and practices, we have determined that our current compensation policies and practices are not reasonably likely to result in a material adverse effect on Provectus. In reaching this conclusion, we considered the multiple performance metrics in the annual incentive plan, combination of short-term and longer-term incentives, using periodic shareholder approved equity grants, stock ownership guidelines for executive officers, clawback of compensation in event of restatement of financial statements in cases of fraud, and a further review of our compensation policies in the future to maximize shareholder value.

*Conclusion*

Our compensation policies are designed to retain and motivate our employees; namely, our executive officers, and to ultimately reward them for outstanding individual and corporate performance.

**Summary Compensation Table**

The table below shows the compensation for services in all capacities we paid during the years ended December 31, 2012, 2011 and 2010 to our Chief Executive Officer, Chief Financial Officer (2012 and 2011 only) and our two other executive officers (whom we refer to as named executive officers):

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Option Awards<sup>(1)</sup></b>	<b>All Other Compensation<sup>(2)</sup></b>	<b>Total</b>
H. Craig Dees	2012	\$ 500,000	\$ 600,000	\$ 36,163	\$ 90,692	\$ 1,226,855
CEO	2011	500,000	1,600,000	821,022	90,192	3,011,214
	2010	500,000	1,600,000	927,205	181,942	3,209,147
Peter R. Culpepper	2012	\$ 500,000	\$ 600,000	\$ --	\$ 90,692	\$ 1,190,692
CFO, CAO and COO	2011	500,000	1,600,000	777,546	90,192	2,967,738
Timothy C. Scott	2012	\$ 500,000	\$ 600,000	\$ 36,163	\$ 90,692	\$ 1,226,855
President	2011	500,000	1,600,000	821,022	90,192	3,011,214
	2010	500,000	1,600,000	927,205	181,942	3,209,147
Eric A. Wachter	2012	\$ 500,000	\$ 600,000	\$ --	\$ 90,692	\$ 1,190,692
Chief Technology Officer	2011	500,000	1,600,000	821,022	90,192	3,011,214
	2010	500,000	1,600,000	927,205	181,942	3,209,147

(1)

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

The amounts in the Option Awards column represent grant date fair values computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, *Stock Compensation* (FASB ASC Topic 718). The assumptions used in determining the values of option awards are provided in Note 5 to the Consolidated Financial Statements contained in our Form 10-K for the fiscal year ended December 31, 2012. Drs. Dees and Scott are also members of our Board of Directors. Dr. Wachter served as a member of our Board of Directors until May 14, 2012. The fair value reflected in the Option Awards column for 2010 includes compensation for service in 2010 as a director of 50,000 stock options granted at an exercise price of \$1.16 on June 18, 2010 and for service as an executive officer of 1,000,000 stock options granted at an exercise price of \$1.00 on July 22, 2010. The fair value reflected in the Option Awards column for 2011 includes, for Drs. Dees, Scott and Wachter, compensation for service in 2011 as a director of 50,000 stock options granted at an exercise price of \$1.04 on July 6, 2011 and for service as an executive officer of 1,000,000 stock options granted at an exercise price of \$0.93 on September 6, 2011, and for Mr. Culpepper for service as an executive officer of 1,000,000 stock options granted at an exercise price of \$0.93 on September 6, 2011. The fair value

**Table of Contents**

reflected in the Option Awards column for 2012 includes, for Drs. Dees and Scott, compensation for service in 2012 as a director of 50,000 stock options granted at an exercise price of \$0.84 on June 28, 2012. All the options vested immediately on the date of grant and expire ten years from the date of grant. For purposes of estimating the fair value of each stock option on the date of grant, we utilized the Black-Scholes option-pricing model which totaled \$36,163 in 2012, \$43,476 in 2011 and \$50,830 in 2010 for the 50,000 options and \$777,546 in 2011 and \$876,375 in 2010 for the 1,000,000 options.

(2) Amounts in this column for 2012 are comprised of the following: unused vacation that was paid out in cash (\$57,692 for each named executive officer); and company contributions to our 401(k) plan (\$33,000 for each named executive officer).

**Grants of Plan-Based Awards**

The following Grants of Plan-Based Awards table provides additional information regarding the plan-based equity awards granted to the named executive officers during 2012.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards  (\$/Sh)	Grant Date  Fair  Value of Stock And Option Awards  (\$)
H. Craig Dees	6/28/2012	50,000	\$0.84	\$0.72
Peter R. Culpepper	--	--	--	--
Timothy C. Scott	6/28/2012	50,000	\$0.84	\$0.72
Eric A. Wachter	--	--	--	--

**Table of Contents****Outstanding Equity Awards at 2012 Fiscal Year-End**

The following table shows the number of equity awards outstanding as of December 31, 2012 for our named executive officers. All the options were exercisable as of December 31, 2012.

Name	Number of Shares of Common Stock Underlying Unexercised Options Exercisable	Option Awards	
		Option Exercise Price	Option Expiration Date
H. Craig Dees	18,750	\$ 0.32	5/29/2013
	25,000	\$ 0.60	5/29/2013
	300,000	\$ 1.10	2/26/2014
	25,000	\$ 0.95	5/27/2014
	300,000	\$ 0.64	1/7/2015
	300,000	\$ 0.75	5/25/2015
	25,000	\$ 0.62	5/19/2015
	200,000	\$ 0.94	12/9/2015
	50,000	\$ 1.02	6/23/2016
	1,000,000	\$ 1.02	6/23/2016
	50,000	\$ 1.50	6/21/2017
	50,000	\$ 1.00	6/27/2018
	50,000	\$ 1.04	6/19/2019
	50,000	\$ 1.16	6/18/2020
	1,000,000	\$ 1.00	7/22/2020
	50,000	\$ 1.04	7/6/2021
1,000,000	\$ 0.93	9/6/2021	
50,000	\$ 0.84	6/28/2022	
Peter R. Culpepper	189,624	\$ 1.10	2/26/2014
	100,000	\$ 1.25	6/28/2014
	33,334	\$ 0.75	5/25/2015
	175,000	\$ 0.94	12/9/2015
	1,000,000	\$ 1.02	6/23/2016
	1,000,000	\$ 1.00	7/22/2020
	1,000,000	\$ 0.93	9/6/2021
Timothy C. Scott	300,000	\$ 1.10	2/26/2014
	25,000	\$ 0.95	5/27/2014
	300,000	\$ 0.64	1/7/2015
	300,000	\$ 0.75	5/25/2015
	25,000	\$ 0.62	5/19/2015
	200,000	\$ 0.94	12/9/2015
	50,000	\$ 1.02	6/23/2016
	1,000,000	\$ 1.02	6/23/2016
	50,000	\$ 1.50	6/21/2017
	50,000	\$ 1.00	6/27/2018
	50,000	\$ 1.04	6/19/2019
	50,000	\$ 1.16	6/18/2020
	1,000,000	\$ 1.00	7/22/2020
	50,000	\$ 1.04	7/6/2021
	1,000,000	\$ 0.93	9/6/2021

Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

	50,000	\$	0.84	6/28/2022
Eric A. Wachter	25,000	\$	0.95	5/27/2014
	14,248	\$	0.75	5/25/2015
	985,000	\$	1.02	6/23/2016
	50,000	\$	1.50	6/21/2017
	50,000	\$	1.04	6/19/2019
	50,000	\$	1.16	6/18/2020
	50,000	\$	1.04	7/6/2021
	600,000	\$	0.93	9/6/2021

**Table of Contents****Option Exercises and Stock Vested**

No stock options were exercised in 2012.

**Equity Compensation Plan Information**

The following table summarizes share and exercise price information about our equity compensation plans as of December 31, 2012:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans <sup>(1)</sup>
Equity compensation plans approved by security holders	15,140,956	\$ 0.97	19,750,000
Equity compensation plans not approved by security holders			
Total	15,140,956	\$ 0.97	19,750,000

(1) This amount represents shares of common stock available for issuance under the 2012 Stock Plan as of December 31, 2012. Awards available for grant under the 2012 Stock Plan include stock options, stock appreciation rights, restricted stock, long-term performance awards and other forms of equity awards.

**Director Compensation**

Two of our five directors, Drs. Dees and Scott, are also full-time employees. As discussed above under the heading COMPENSATION DISCUSSION AND ANALYSIS, they are compensated for their service in those roles. Other than the options received for service as directors, as described below, they are not separately compensated for their service as directors.

Neither Kelly McMasters, Alfred E. Smith, IV nor Jan Koe received cash compensation for his service as a member of our Board of Directors, although each is reimbursed for expenses incurred in fulfilling his duties as a director, including attending meetings.

On the date of each annual meeting of stockholders, each member of our Board of Directors receives options exercisable for shares of common stock. In 2012, each of our directors received 50,000 options.

**Director Compensation Table for 2012**

Name <sup>(1)</sup>	Fees Earned or Paid in Cash	Warrant and Option Awards <sup>(2)</sup>	All Other Compensation <sup>(3)</sup>	Total
Jan Koe	\$	\$ 85,896 <sup>(4)</sup>	\$ 75,000	\$ 160,896
Kelly McMasters	\$	\$ 36,163	\$ 54,000	\$ 90,163
Alfred E. Smith, IV	\$	\$ 36,163	\$ 75,000	\$ 111,163

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

- (1) Our other two directors are also full-time employees whose compensation is discussed above under the heading COMPENSATION DISCUSSION AND ANALYSIS and SUMMARY COMPENSATION TABLE.
- (2) A total of 50,000 stock options were granted to Mr. Koe on May 14, 2012, when he became a director, at an exercise price of \$0.93, which was the fair market price on the date of issuance. The options were

---

**Table of Contents**

approved and vested on June 28, 2012, and expire on May 14, 2022. A total of 50,000 stock options were granted to both Dr. McMasters and Mr. Smith at an exercise price of \$0.84 for each director, which was the fair market price on the date of issuance. The options vested immediately on the date of grant, June 28, 2012, for each director and expire on June 28, 2022 for each director. The amounts in the Warrant and Option Awards column represent grant date fair values computed in accordance with FASB ASC Topic 718. The assumptions used in determining the values of option awards are provided in Note 5 to the Consolidated Financial Statements contained in our Form 10-K for the fiscal year ended December 31, 2012. For purposes of estimating the fair value of each stock option on the date of grant, we utilized the Black-Scholes option-pricing model.

As of December 31, 2012, Dr. McMasters had a total of 250,000 stock options outstanding, Mr. Smith had a total of 100,000 stock options outstanding, and Mr. Koe had a total of 50,000 stock options outstanding.

- (3) Amounts in this column represent payments made for consulting services provided by the directors as follows: \$54,000 to Dr. McMasters for consulting services performed in 2012 in connection with scientific and technical issues in clinical development and overseeing our compassionate use program and \$75,000 to each of Mr. Smith and Mr. Koe for consulting services performed in 2012 with respect to investor relations.
- (4) We granted Mr. Koe a warrant to purchase 100,000 shares of our common stock at an exercise price of \$1.25, which is exercisable immediately and which expires on April 15, 2016, to replace a warrant Mr. Koe held for 100,000 shares of our common stock that had expired.

**Compensation Committee Interlocks and Insider Participation**

Our entire Board of Directors acted as our compensation committee until July 2, 2012. Three members of our Board of Directors during part or all of 2012 were officers of Provectus: Drs. Dees, Scott and Wachter (Dr. Wachter resigned from our Board of Directors effective May 14, 2012). None of our executive officers has served on the board of directors or on the compensation committee of any other entity any of whose executive officers served on our Board.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Policies and Procedures for Related Person Transactions**

We adopted a related person transactions policy, pursuant to which our executive officers, directors and principal stockholders, including their immediate family members, are not permitted to enter into a related person transaction with us without the consent of our audit committee. Any request for us to enter into a transaction with an executive officer, director, principal stockholder or any of such persons' immediate family members, other than transactions available to all employees generally or involving less than \$10,000 when aggregated with similar transactions, must be presented to our audit committee for review, consideration and approval, unless the transaction involves an employment or other compensatory arrangement approved by the compensation committee. All of our directors, executive officers and employees are required to report to our audit committee any such related person transaction. In approving or rejecting the proposed agreement, our audit committee will take into account, among other factors it deems appropriate, whether the proposed related person transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the person's interest in the transaction and, if applicable, the impact on a director's independence. After consideration of these and other factors, the audit committee may approve or reject the transaction. Consistent with the policy, if we should discover related person transactions that have not been approved, the audit committee will be notified and will determine the appropriate action, including ratification, rescission or amendment of the transaction.

**Table of Contents****Related Party Transactions**

We had no transactions during 2012 that would be required to be disclosed under Item 404(a) of Regulation S-K, and no such transactions are currently proposed for 2013.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Directors, Executive Officers, and Other Stockholders**

The following table provides information about the beneficial ownership of common stock as of April 1, 2013, by each of our directors, each of our executive officers named in the Summary Compensation Table of this prospectus and all of our directors and executive officers as a group. With the exception of Dr. Wachter, we do not believe any person beneficially owns more than 5% of our outstanding common stock.

Name and Address <sup>(1)</sup>	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percentage of Class <sup>(3)</sup>
<b>Directors and Executive Officers:</b>		
H. Craig Dees	5,997,859 <sup>(4)</sup>	4.7%
Peter R. Culpepper	4,708,332 <sup>(5)</sup>	3.7%
Timothy C. Scott	5,955,966 <sup>(6)</sup>	4.6%
Eric A. Wachter	7,889,017 <sup>(7)</sup>	6.2%
Alfred E. Smith IV	100,000 <sup>(8)</sup>	*
Kelly M. McMasters	250,000 <sup>(9)</sup>	*
Jan Koe	886,300 <sup>(10)</sup>	*
All directors and executive officers as a group (7 persons)	25,787,474 <sup>(11)</sup>	18.4%

\* Less than 1% of the outstanding shares of common stock.

(1) If no address is given, the named individual is an officer or director of Provectus Pharmaceuticals, Inc., whose business address is 7327 Oak Ridge Highway, Knoxville, TN 37931.

(2) Shares of common stock that a person has the right to acquire within 60 days of April 1, 2013 are deemed outstanding for computing the percentage ownership of the person having the right to acquire such shares, but are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated by a note, each stockholder listed in the table has sole voting and investment power as to the shares owned by that person.

(3) As of April 1, 2013, there were 124,550,960 shares of common stock issued and outstanding.

(4) Dr. Dees' beneficial ownership includes 4,543,750 shares of common stock subject to options which are exercisable within 60 days.

(5) Mr. Culpepper's beneficial ownership includes 3,497,958 shares of common stock subject to options which are exercisable within 60 days and 266,666 shares of common stock issuable upon the exercise of warrants.

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

- (6) Dr. Scott's beneficial ownership includes 55,996 shares of common stock held by Scott Family Investment Limited Partnership, a limited partnership established for the benefit of Dr. Scott's family, and 4,500,000 shares of common stock subject to options which are exercisable within 60 days.
- (7) Dr. Wachter's beneficial ownership includes 4,867 shares of common stock held by the Eric A. Wachter 1998 Charitable Remainder Unitrust, 1,824,248 shares of common stock subject to options which are exercisable within 60 days and 666,666 shares of common stock issuable upon the exercise of warrants.
- (8) Mr. Smith's beneficial ownership includes 100,000 shares of common stock subject to options which are exercisable within 60 days.

---

**Table of Contents**

- (9) Dr. McMasters beneficial ownership includes 250,000 shares of common stock subject to options which are exercisable within 60 days.
- (10) Mr. Koe's beneficial ownership includes 50,000 shares of common stock subject to options which are exercisable within 60 days, 150,000 shares of common stock held by Vekoe Partners LLC and 200,000 shares of common stock issuable upon the exercise of warrants.
- (11) Includes 15,899,288 shares of common stock subject to options and warrants which are exercisable within 60 days.

**DESCRIPTION OF CAPITAL STOCK**

The following description of our capital stock, restated articles of incorporation, and bylaws are only summaries, and we encourage you to review complete copies of these documents. You can obtain copies of these documents by following the directions outlined in [Where You Can Find More Information](#) beginning on page 60 of this prospectus.

**Governing Law and Organization Documents**

Stockholders' rights and related matters are governed by the laws of the State of Nevada, our restated articles of incorporation, as amended, which we refer to as our articles of incorporation, and our bylaws. Our articles of incorporation may not be amended without the affirmative vote of at least a majority of the shares entitled to vote generally in the election of directors, voting as a single voting group. Our bylaws may be amended by either the affirmative vote of 75% of all shares outstanding and entitled to vote generally in the election of directors or by an affirmative vote of a majority of our directors then holding office.

**Common Stock**

Under our restated articles of incorporation, as amended, we are authorized to issue up to 200,000,000 shares of common stock, par value \$.001 per share. As of April 1, 2013, 124,550,960 shares of common stock were issued and outstanding.

*Dividends, Voting Rights and Liquidation*

Except as required by law or by our articles of incorporation, holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Subject to preferences that may be applicable to any then outstanding preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available therefor. The holders of shares of common stock do not have cumulative voting rights for the election of directors and, accordingly, the holders of more than 50% of the shares of common stock, 8% convertible preferred stock, and Series A 8% convertible preferred stock, voting together as a single class, are able to elect all directors. Our articles of incorporation do not grant preemptive rights to holders of common stock. The common stock may not be redeemed except upon our consent and the consent of the stockholders, and the common stock is not subject to liability for further calls or to assessments by the Company.

In the event of our liquidation, dissolution or winding up, holders of our common stock and our preferred stock are entitled to share ratably on an as-converted basis in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding preferred stock. Holders of issued and outstanding 8% convertible preferred stock are entitled to a liquidation preference, whereby they are entitled to receive out of our assets cash in an amount equal to the original issue price of the 8% convertible preferred stock, subject to adjustment, plus all accrued and unpaid dividends on shares of the 8% convertible preferred stock before any payment or distribution it made on the common stock. Holders of issued and outstanding Series A 8% convertible preferred stock are entitled to a liquidation preference, whereby they are entitled to receive out of our assets cash in an amount equal to the original issue price of the Series A 8% convertible preferred stock, subject to adjustment, plus all accrued and unpaid dividends on shares of the Series A 8% convertible preferred stock.

## **Table of Contents**

before any payment or distribution it made on the common stock. The Series A 8% convertible preferred stock ranks on parity with the 8% convertible preferred stock as to distributions of assets upon liquidation, dissolution or winding up of the Company. Holders of common stock have no right to convert their common stock into any other securities. A significant portion of our common stock is held in either nominee name or street-name brokerage accounts, and all outstanding shares of common stock are fully paid and non-assessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of issued and outstanding 8% convertible preferred stock and by the rights of the holders of issued and outstanding Series A 8% convertible preferred stock, in addition to any other rights of the holders of shares of any series of preferred stock which our board of directors may designate and that we may issue in one or more offerings in the future. This summary does not purport to be complete and is qualified in its entirety by reference to our articles of incorporation and to Nevada law.

### *Warrants and Options*

As of April 1, 2013, we have reserved for issuance 43,501,155 shares of common stock for issuance upon the exercise of outstanding warrants to purchase common stock and 15,140,956 shares of common stock for issuance upon the exercise of stock options granted pursuant to our equity incentive plans. The warrants and options have a weighted average exercise price of approximately \$1.05 and \$0.97 per share, respectively.

### *Preferred Stock*

As of April 1, 2013, we have reserved for issuance 5,878,186 shares of common stock for issuance upon the conversion of outstanding shares of 8% convertible preferred stock and Series A 8% convertible preferred stock. See DESCRIPTION OF CAPITAL STOCK Preferred Stock beginning on page 56 of this prospectus.

### *Transfer Agent and Registrar*

We have retained Broadridge Corporate Issuer Solutions, Inc., 44 West Lancaster Avenue, Ardmore, PA 19003, as the transfer agent for our common stock. Broadridge's telephone number is (610) 649-7300.

### *Quotation*

Our common stock is quoted on the OTCQB under the symbol PVCT.

## **Preferred Stock**

Under our articles of incorporation, we are authorized to issue up to 25,000,000 shares of preferred stock, par value \$.001 per share, from time to time in one or more series, in any manner permitted by law, as determined from time to time by our board of directors, and stated in the resolution or resolutions providing for the issuance of such shares adopted by our board of directors. Without limiting the generality of the foregoing, shares in such series shall have voting powers, full or limited, or no voting powers, and shall have such designations, preferences and relative, participating, optional, or other special rights, and qualifications, limitations, or restrictions thereof, permitted by law, as shall be stated in the resolution or resolutions providing for the issuance of such shares adopted by our board of directors. The number of shares of any such series so set forth in the resolution or resolutions may be increased (but not above the total number of authorized shares of preferred stock) or decreased (but not below the number of shares thereof then outstanding) by further resolution or resolutions adopted by the board of directors.

### *8% Convertible Preferred Stock*

Our board of directors has authorized for issuance up to 13,333,333 shares of 8% convertible preferred stock having the rights, privileges, preferences and restrictions set forth in the certificate of designation filed with the Nevada Secretary of State on March 5, 2010. As of April 1, 2013, 1,885,185 shares of 8% convertible preferred stock were issued and outstanding.

---

**Table of Contents**

The following is a summary of the rights, privileges, preferences and restrictions set forth in the certificate of designation for the 8% convertible preferred stock.

**Dividends.** Dividends on the 8% convertible preferred stock accrue at an annual rate of 8% of the original issue price, which is \$0.75 per share, subject to adjustment, and is payable on a quarterly basis. We may elect to satisfy our obligation to pay quarterly dividends either in cash or by distribution of common stock. For the foreseeable future, we anticipate paying the dividends by distribution of common stock. The number of shares of common stock payable in satisfaction of dividend obligations will be equal to the quotient of amount of the cash dividend per share of 8% convertible preferred stock divided by the market price determined as of the dividend payment date. The market price for calculation of shares of common stock issuable in satisfaction of dividends will be the volume-weighted average price of common stock for the 15 trading days immediately preceding such date.

**Conversion.** Shares of 8% convertible preferred stock shall be convertible at the option of their holder into shares of common stock. At our option, but only after such time that the volume-weighted average price of our common stock exceeds \$2.25 and the average daily trading volume exceeds 150,000 shares for 30 consecutive trading days, we may convert all or a portion of the outstanding 8% convertible preferred stock into shares of common stock. Each share of 8% convertible preferred stock will be convertible into one share of common stock, subject to adjustment. The number of shares of common stock issuable on conversion will be adjusted for, among other things, stock splits, dividends, distributions, recapitalizations and other similar transactions. Our right to convert the outstanding 8% convertible preferred stock into shares of common stock is suspended for the first six months following the original issuance of the 8% convertible preferred stock and during any time in the succeeding six months in which we have failed to satisfy the current information requirements contained in Rule 144(c)(1) of the Securities Act.

**Liquidation Preference.** Upon our voluntary or involuntary liquidation, winding-up or dissolution, the holders of the 8% convertible preferred stock will be entitled to receive out of our assets cash in an amount equal to the original purchase price, subject to adjustment, plus all accrued and unpaid dividends on our common stock or other capital stock ranking junior to the 8% convertible preferred stock. If our assets are insufficient to pay full preferential amount, then the holders of the 8% convertible preferred stock will share in the distribution pro rata. Holders of the 8% convertible preferred stock will be entitled to exercise their right to convert the 8% convertible preferred stock into common stock prior to the distribution upon liquidation. A merger or other corporate reorganization in which our stockholders receive cash or securities of another corporation or entity (except in connection with a consolidation or merger in which the holders of our voting stock immediately before the consolidation or merger will in the aggregate own more than 50% of the voting shares of the continuing or surviving corporation after the consolidation or merger) or any transaction in which all or substantially all of our assets are sold will be treated as a liquidation for purposes of the liquidation preference. We refer to such an event as a deemed liquidation event.

**Voting Rights.** On all matters for which the holders of common stock are entitled to vote, the 8% convertible preferred stock will entitle its holders to vote together with the holders of common stock, and not as a separate class, on an as-converted basis, except as otherwise required by Nevada law. So long as at least 25% of the originally-issued shares of 8% convertible preferred stock are outstanding, we may not, without the consent or affirmative vote of the holders of at least a majority of the then outstanding 8% convertible preferred stock, take action that (i) creates any new class or series of equity securities or any other security convertible into equity securities ranking senior to the 8% convertible preferred stock with respect to redemption, voting, dividends, or liquidation rights, (ii) amend, alter, or repeal any provision of our articles of incorporation or bylaws in a manner that is adverse to the relative rights, preferences, qualifications, limitations or restrictions of the 8% convertible preferred stock, (iii) declare or pay a dividend or distribution on any of our outstanding securities prior to payment of the dividends on the 8% convertible preferred stock; or (iv) approve a deemed liquidation event.

**Redemption.** At our option, but only after such time that the volume-weighted average price of common stock exceeds \$2.25 and the average daily trading volume exceeds 150,000 shares for 30 consecutive trading

**Table of Contents**

days, we may redeem all or a portion of the outstanding 8% convertible preferred stock at the original issue price, plus all accrued and unpaid dividends on shares of the 8% convertible preferred stock. Prior to the date of redemption, each holder of 8% convertible preferred stock being redeemed may elect to convert its 8% convertible preferred stock, in whole or in part, to common stock as described above. Our right to redeem the outstanding 8% convertible preferred stock will be suspended for the first six months following the original issuance of the 8% convertible preferred stock and during any time in the succeeding six months in which we have failed to satisfy the current information requirements contained in Rule 144(c)(1) of the Securities Act.

**Anti-Dilution.** Shares of 8% convertible preferred stock are entitled to anti-dilution protection for a period of five years after the first issuance of 8% convertible preferred stock. If we issue or are deemed to have issued additional shares of common stock without consideration or for a consideration per share less than the applicable conversion price, which is initially \$0.75 per share, then the conversion price of the 8% convertible preferred stock will be reduced, concurrently with such issue, to the consideration per share received by us for such issue or deemed issue of the additional shares of common stock.

**Ownership Limitation.** The right of holders of 8% convertible preferred stock to convert the 8% convertible preferred stock into common stock is subject to a 4.99% limitation. A holder of 8% convertible preferred stock may increase the ownership limitation percentage to 9.99% effective the 61st day after providing notice of such increase us in writing. Holders of 8% convertible preferred stock shall not have the right to convert 8% convertible preferred stock if such conversion or exercise would result in such holder (together with such holder's affiliates) beneficially owning more than the ownership limitation percentage immediately after giving effect to such conversion or exercise.

*Series A 8% Convertible Preferred Stock*

Our board of directors has authorized for issuance up to 5,000,000 shares of Series A 8% convertible preferred stock having the rights, privileges, preferences and restrictions set forth in the certificate of designation filed with the Nevada Secretary of State on February 21, 2013. As of April 1, 2013, 3,400,001 shares of Series A 8% convertible preferred stock were issued and outstanding. Pursuant to their registration rights agreement, the current holders of the Series A 8% convertible preferred stock do not currently have piggyback registration rights pertaining to the common stock underlying these holders' shares of Series A 8% convertible preferred stock or warrants issued to such holders, and such shares of common stock are not being included in this registration statement.

The following is a summary of the rights, privileges, preferences and restrictions set forth in the certificate of designation for the Series A 8% convertible preferred stock.

**Dividends.** Dividends on the Series A 8% convertible preferred stock accrue at an annual rate of 8% of the original issue price, which is \$0.75 per share, subject to adjustment, and is payable on a quarterly basis. We must pay cash dividends on the Series A 8% convertible preferred stock in certain circumstances but may elect to satisfy our obligation to pay quarterly dividends either in cash or by distribution of common stock if we satisfy certain conditions set forth in the certificate of designation for the Series A 8% convertible preferred stock. For the foreseeable future, we anticipate paying the dividends by distribution of common stock to the extent permitted under the certificate of designation for the Series A 8% Convertible Preferred Stock. The number of shares of common stock payable in satisfaction of dividend obligations will be equal to the quotient of amount of the cash dividend per share of Series A 8% convertible preferred stock divided by the market price determined as of the dividend payment date. The market price for calculation of shares of common stock issuable in satisfaction of dividends will be the volume-weighted average price of common stock for the 15 trading days immediately preceding such date.

**Conversion.** Shares of 8% convertible preferred stock shall be convertible at the option of their holder into shares of common stock, subject to certain rescission rights, liquidated damages, and other compensation for our failure to deliver the shares of common stock. At our option, but only within one trading day after any such time that the volume-weighted average price of our common stock exceeds \$2.25 and the average daily trading volume exceeds 150,000 shares for 30 consecutive trading days, we may convert all or a portion of the outstanding Series A 8%

---

**Table of Contents**

convertible preferred stock into shares of common stock. Each share of Series A 8% convertible preferred stock will be convertible into one share of common stock, subject to adjustment. The number of shares of common stock issuable on conversion will be adjusted for, among other things, stock splits, dividends, distributions, recapitalizations and other similar transactions. Our right to convert the outstanding Series A 8% convertible preferred stock into shares of common stock is suspended if certain conditions have not been met during the applicable threshold period, as set forth in the certificate of designation for the Series A 8% convertible preferred stock.

**Liquidation Preference.** Upon our voluntary or involuntary liquidation, winding-up or dissolution, the holders of the Series A 8% convertible preferred stock will be entitled to receive out of our assets cash in an amount equal to the original purchase price, subject to adjustment, plus all accrued and unpaid dividends on our common stock or other capital stock ranking junior to the Series A 8% convertible preferred stock. If our assets are insufficient to pay full preferential amount, then the holders of the Series A 8% convertible preferred stock will share in the distribution pro rata. Holders of the Series A 8% convertible preferred stock will be entitled to exercise their right to convert the Series A 8% convertible preferred stock into common stock prior to the distribution upon liquidation. A merger or other corporate reorganization in which our stockholders receive cash or securities of another corporation or entity (except in connection with a consolidation or merger in which the holders of our voting stock immediately before the consolidation or merger will in the aggregate own more than 50% of the voting shares of the continuing or surviving corporation after the consolidation or merger) or any transaction in which all or substantially all of our assets are sold will be treated as a liquidation for purposes of the liquidation preference. We refer to such an event as a deemed liquidation event.

**Voting Rights.** On all matters for which the holders of common stock are entitled to vote, the Series A 8% convertible preferred stock will entitle its holders to vote together with the holders of common stock, and not as a separate class, on an as-converted basis (subject to the ownership limitation described below), except as otherwise required by Nevada law. So long as at least 25% of the originally-issued shares of Series A 8% convertible preferred stock are outstanding, we may not, without the consent or affirmative vote of the holders of at least a majority of the then outstanding Series A 8% convertible preferred stock, take action that (i) creates any new class or series of equity securities or any other security convertible into equity securities ranking senior or pari passu to the Series A 8% convertible preferred stock with respect to redemption, voting, dividends, or liquidation rights, (ii) amend, alter, or repeal any provision of our articles of incorporation or bylaws in a manner that is adverse to the relative rights, preferences, qualifications, limitations or restrictions of the Series A 8% convertible preferred stock, (iii) declare or pay a dividend or distribution on any of our outstanding securities prior to payment of the dividends on the Series A 8% convertible preferred stock; (iv) other than permitted indebtedness, enter into, create, incur, assume, guarantee or suffer to exist any indebtedness for borrowed money of any kind, including but not limited to, a guarantee, on or with respect to any of our property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom; (v) other than permitted liens, enter into, create, incur, assume or suffer to exist any liens of any kind, on or with respect to any of our property or assets now owned or hereafter acquired or any interest therein or any income or profits therefrom; (vi) repay, repurchase or offer to repay, repurchase or otherwise acquire more than a de minimis number of shares of our common stock, common stock equivalents or junior stock, other than as to (x) the conversion shares or warrant shares as permitted or required pursuant to the transaction documents related to the issuance of the Series A 8% convertible preferred stock and (y) repurchases of common stock or convertible securities of our departing officers and directors, provided that such repurchases shall not exceed an aggregate of \$100,000 for all officers and directors; or (vii) approve a deemed liquidation event.

**Anti-Dilution.** Shares of Series A 8% convertible preferred stock are entitled to anti-dilution protection after the first issuance of Series A 8% convertible preferred stock. If we issue or are deemed to have issued additional shares of common stock without consideration or for a consideration per share less than the applicable conversion price, which is initially \$0.75 per share, then the conversion price of the Series A 8% convertible preferred stock will be reduced, concurrently with such issue, to the consideration per share received by us for such issue or deemed issue of the additional shares of common stock.

## **Table of Contents**

**Subsequent Rights Offerings.** If at any time we grant, issue or sell any common stock equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of common stock, then the holder of will be entitled to acquire, upon the terms applicable to such grant, issue or sale, the aggregate purchase rights on an as-converted basis (provided, however, to the extent that the holder's right to participate in any such purchase right would result in the holder exceeding the ownership limitation percentage described below, then the holder cannot participate in such purchase right to such extent and such purchase right to such extent shall be held in abeyance for the holder until such time, if ever, as its right thereto would not result in the holder exceeding the ownership limitation percentage).

**Ownership Limitation.** The right of holders of Series A 8% convertible preferred stock to convert the Series A 8% convertible preferred stock into common stock is subject to a 4.99% limitation. A holder of Series A 8% convertible preferred stock may increase the ownership limitation percentage to 9.99% effective the 61st day after providing notice of such increase to us in writing. Holders of Series A 8% convertible preferred stock shall not have the right to convert Series A 8% convertible preferred stock if such conversion or exercise would result in such holder (together with such holder's affiliates) beneficially owning more than the ownership limitation percentage immediately after giving effect to such conversion or exercise.

## **LEGAL MATTERS**

Certain legal matters in connection with the securities have been passed upon by Baker, Donelson, Bearman, Caldwell & Berkowitz, PC.

## **EXPERTS**

The consolidated financial statements as of December 31, 2012 and 2011, for each of the three years ended December 31, 2012, and for the period from January 17, 2002 (inception) to December 31, 2012, included in this prospectus have been so included in reliance on the report of BDO USA, LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## **SEC POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES**

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## **WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy the reports, proxy statements and other information that we file at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549 at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our filings are also available free of charge at the SEC's website at <http://www.sec.gov>.

This prospectus is part of the Registration Statement that we filed with the SEC under the Securities Act of 1933, as amended, or the Securities Act. This prospectus does not contain all of the information set forth in the Registration Statement. For more information about us and our securities, you should read the Registration Statement and its exhibits and schedules. Copies of the Registration Statement, including its exhibits, may be inspected without charge at the offices of the SEC or obtained at prescribed rates from the Public Reference Room of the SEC at 100 F Street N.E., Washington, D.C. 20549. Copies of the Registration Statement may be obtained without charge at the SEC's website.

**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS**

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	F-3
<u>Consolidated Statements of Operations for the years December 31, 2012, 2011 and 2010, and cumulative amounts from January 17, 2002 (Inception) through December 31, 2012</u>	F-4
<u>Consolidated Statements of Stockholders' Equity for years ended December 31, 2012, 2011 and 2010, and cumulative amounts from January 17, 2002 (Inception) through December 31, 2012</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010, and cumulative amounts from January 17, 2002 (Inception) through December 31, 2012</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Provectus Pharmaceuticals, Inc.

Knoxville, Tennessee

We have audited the accompanying consolidated balance sheets of Provectus Pharmaceuticals, Inc., a development stage company, as of December 31, 2012 and 2011 and the related consolidated statements of operations, stockholders' equity, and cash flows for the period from January 17, 2002 (inception) to December 31, 2012 and for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Provectus Pharmaceuticals, Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for the period from January 17, 2002 (inception) to December 31, 2012 and for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Provectus Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Chicago, Illinois

March 14, 2013

**Table of Contents**

## PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,221,701	\$ 7,705,773
Equipment and furnishings, less accumulated depreciation of \$422,965 and \$416,798, respectively	29,829	20,111
Patents, net of amortization of \$6,789,497 and \$6,118,377, respectively	4,925,948	5,597,068
Other assets	27,000	27,000
	\$ 6,204,478	\$ 13,349,952
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable - trade	\$ 243,435	\$ 101,102
Accrued consulting expense	61,283	71,000
Other accrued expenses	206,706	90,622
<b>Total Current Liabilities</b>	<b>511,424</b>	<b>262,724</b>
<b>Long-Term Liability</b>		
Warrant liability	1,299,570	3,067,488
<b>Total Liabilities</b>	<b>1,810,994</b>	<b>3,330,212</b>
<b>Stockholders' Equity</b>		
Preferred stock; par value \$.001 per share; 25,000,000 shares authorized; 2,478,185 and 3,531,665 shares issued and outstanding, respectively; liquidation preference \$0.75 per share (in aggregate \$1,896,117 and \$2,702,134, respectively)	2,478	3,531
Common stock; par value \$.001 per share; 200,000,000 shares authorized; 118,427,925 and 110,596,798 shares issued and outstanding, respectively	118,428	110,597
Paid-in capital	122,625,654	115,690,334
Deficit accumulated during the development stage	(118,353,076)	(105,784,722)
<b>Total Stockholders' Equity</b>	<b>4,393,484</b>	<b>10,019,740</b>
	\$ 6,204,478	\$ 13,349,952

See accompanying notes to consolidated financial statements.

**Table of Contents**

## PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Cumulative Amounts from January 17, 2002 (Inception) Through December 31, 2012
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	5,005,459	8,807,896	8,417,303	43,098,853
General and administrative	8,661,040	11,961,848	11,604,526	66,185,889
Amortization	671,120	671,120	671,120	6,789,497
Total operating loss	(14,337,619)	(21,440,864)	(20,692,949)	(116,049,698)
Gain on sale of fixed assets				55,075
Loss on extinguishment of debt				(825,867)
Investment income	1,347	1,527	1,202	653,217
Gain on change in fair value of warrant liability	1,767,918	2,004,638	2,139,645	5,912,201
Net interest expense				(8,098,004)
Net loss	\$ (12,568,354)	\$ (19,434,699)	\$ (18,552,102)	\$ (118,353,076)
Dividends on preferred stock	(183,187)	(247,008)	(10,407,867)	(10,838,062)
Net loss applicable to common shareholders	\$ (12,751,541)	\$ (19,681,707)	\$ (28,959,969)	\$ (129,191,138)
Basic and diluted loss per common share	\$ (0.11)	\$ (0.19)	\$ (0.37)	
Weighted average number of common shares outstanding basic and diluted	112,986,636	105,724,605	78,817,965	

See accompanying notes to consolidated financial statements.

**Table of Contents**

## PROTECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	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	
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	

Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

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)

F-5

**Table of Contents**

	Preferred Stock	Common Stock				
	Number of Shares	Number of Shares	Par Value	Paid in capital	Accumulated Deficit	Total
<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)
<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)

**Table of Contents**

	Preferred Stock		Common Stock		Paid in capital	Accumulated Deficit	Total
	Number of Shares	Par Value	Number of Shares	Par Value			
<b>Balance, at December 31, 2008</b>		\$	53,017,076	\$ 53,017	\$ 65,478,126	\$ (55,475,607)	\$ 10,055,536
Issuance of stock for services			796,012	796	694,204		695,000
Issuance of warrants for services					1,064,210		1,064,210
Exercise of warrants and stock options			3,480,485	3,480	2,520,973		2,524,453
Employee compensation from stock options					870,937		870,937
Issuance of stock and warrants pursuant to Regulation D			10,116,653	10,117	6,508,571		6,518,688
Net loss for the year ended 2009						(12,322,314)	(12,322,314)
<b>Balance, at December 31, 2009</b>		\$	67,410,226	\$ 67,410	\$ 77,137,021	\$ (67,797,921)	\$ 9,406,510
Issuance of stock for services			776,250	776	855,837		856,613
Issuance of warrants for services					1,141,593		1,141,593
Exercise of warrants and stock options			3,491,014	3,491	3,100,189		3,103,680
Issuance of common stock pursuant to Regulation S			559,000	559	418,691		419,250
Issuance of common stock and warrants pursuant to Regulation D			11,168,067	11,169	6,335,820		6,346,989
Issuance of preferred stock and warrants pursuant to Regulation D	13,283,324	13,283			4,204,107		4,217,390
Preferred stock conversions into common stock	(7,893,326)	(7,893)	7,893,326	7,893			
Employee compensation from stock options					3,759,650		3,759,650
Net loss for the year ended 2010						(18,552,102)	(18,552,102)
<b>Balance, at December 31, 2010</b>	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)
<b>Balance, at December 31, 2011</b>	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)
<b>Balance, at December 31, 2012</b>	2,478,185	\$ 2,478	118,427,925	\$ 118,428	\$ 122,625,654	\$ (118,353,076)	\$ 4,393,484

See accompanying notes to consolidated financial statements.

F-7

**Table of Contents**

## PROVECTUS PHARMACEUTICALS, INC.

(A Development-Stage Company)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended	Year Ended	Year Ended	Cumulative
	December 31,	December 31,	December 31,	Amounts from
	2012	2011	2010	January 17, 2002
				(Inception) through
				December 31,
	2012	2011	2010	2012
<b>Cash Flows From Operating Activities</b>				
Net loss	\$ (12,568,354)	\$ (19,434,699)	\$ (18,552,102)	\$ (118,353,076)
Adjustments to reconcile net loss to net cash used in operating activities				
Depreciation	6,167	7,356	8,855	445,966
Amortization of patents	671,120	671,120	671,120	6,789,497
Amortization of original issue discount				3,845,721
Amortization of commitment fee				310,866
Amortization of prepaid consultant expense				1,295,226
Amortization of deferred loan costs				2,261,584
Accretion of United States Treasury Bills				(373,295)
Loss on extinguishment of debt				825,867
Loss on exercise of warrants				236,146
Beneficial conversion of convertible interest				55,976
Convertible interest				389,950
Compensation through issuance of stock options	183,028	3,368,950	3,759,650	14,397,729
Compensation through issuance of stock				932,000
Issuance of stock for services	456,500	332,750	856,613	9,053,511
Issuance of warrants for services	1,512,026	945,116	1,141,593	6,196,569
Issuance of warrants for contractual obligations				985,010
Gain on sale of equipment				(55,075)
Gain on change in fair value of warrant liability	(1,767,918)	(2,004,638)	(2,139,645)	(5,912,201)
(Increase) decrease in assets				
Increase (decrease) in liabilities				
Accounts payable	142,333	(317,375)	198,226	239,790
Accrued expenses	106,367	(769,640)	324,362	417,619
Net cash used in operating activities	(11,258,731)	(17,201,060)	(13,731,328)	(76,014,620)
<b>Cash Flows From Investing Activities</b>				
Proceeds from sale of fixed assets				180,075
Capital expenditures	(15,885)	(6,147)		(89,920)
Proceeds from investments				37,010,481
Purchases of investments				(36,637,186)
Net cash provided by (used in) investing activities	(15,885)	(6,147)		463,450
<b>Cash Flows From Financing Activities</b>				
Net proceeds from loans from stockholder				174,000
Proceeds from convertible debt				6,706,795
Net proceeds from sales of preferred stock and warrants			8,908,131	8,908,131
Net proceeds from sales of common stock and warrants	4,790,544	9,759,969	6,766,239	42,814,521

## Edgar Filing: PROVECTUS PHARMACEUTICALS INC - Form 424B3

Proceeds from exercises of warrants and stock options		6,623,311	2,905,980	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		443,500
Net cash provided by financing activities	4,790,544	16,826,780	18,580,350	76,772,871
Net change in cash and cash equivalents	\$ (6,484,072)	\$ (380,427)	\$ 4,849,022	\$ 1,221,701
Cash and cash equivalents, at beginning of period	\$ 7,705,773	\$ 8,086,200	\$ 3,237,178	\$
Cash and cash equivalents, at end of period	\$ 1,221,701	\$ 7,705,773	\$ 8,086,200	\$ 1,221,701

### Supplemental Disclosure of Noncash Investing and Financing Activities

	<b>Year Ended</b>	<b>Year Ended</b>	<b>Year Ended</b>
	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Reclassification of warrant liability to equity due to exercise of warrants	\$	\$ 485,467	\$ 197,700

See accompanying notes to consolidated financial statements.

**Table of Contents**

**PROVECTUS PHARMACEUTICALS, INC.**

**(A Development-Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Significant Accounting Policies**

**Nature of Operations**

Provectus Pharmaceuticals, Inc. (together with its subsidiaries, the Company) is a development-stage biopharmaceutical company that is focusing on developing minimally invasive products for the treatment of psoriasis and other topical diseases, and certain forms of cancer including melanoma, breast cancer, and cancers of the liver. The Company intends to license and sell a majority stake of its non-core assets via a spin-out transaction. The Company also intends to license and sell a majority stake of the underlying assets of its over-the-counter pharmaceuticals via a spin-out transaction. To date the Company has no material revenues.

**Principles of Consolidation**

Intercompany balances and transactions have been eliminated in consolidation.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Cash Concentrations**

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. All of our non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits.

**Deferred Loan Costs and Debt Discounts**

Costs related to the issuance of the convertible debt are recorded as deferred loan costs and amortized over the term of the loan using the effective interest method. Additionally, the Company recorded debt discounts related to warrants and beneficial conversion features issued in connection with the debt. Debt discounts are amortized over the term of the loan using the effective interest method. All deferred loan costs and debt discounts were fully amortized as of December 31, 2007.

**Equipment and Furnishings**

Equipment and furnishings acquired through the merger with Valley Pharmaceuticals, Inc. (Note 2) have been stated at carry-over basis because the majority shareholders of Provectus also owned all of the shares of Valley. Other equipment and furnishings are stated at cost. Depreciation of equipment is provided for using the straight-line method over the estimated useful lives of the assets. Computers and laboratory equipment are being depreciated over five years; furniture and fixtures are being depreciated over seven years.



## Table of Contents

### Long-Lived Assets

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

### Patent Costs

Internal patent costs are expensed in the period incurred. Patents purchased are capitalized and amortized over the remaining life of the patent.

Patents at December 31, 2012 were acquired as a result of the merger with Valley Pharmaceuticals, Inc. ( Valley ) (Note 2). The majority shareholders of Provectus also owned all of the shares of Valley and therefore the assets acquired from Valley were recorded at their carry-over basis. The patents are being amortized over the remaining lives of the patents, which range from 4-9 years. Annual amortization of the patents is expected to approximate \$671,000 for each of the next four years and \$659,000 in 2017.

### Revenue Recognition

Prior to 2007, the Company recognized revenue when product was shipped. The Company has not had any such revenue since then.

### Research and Development

Research and development costs are charged to expense when incurred. An allocation of payroll expenses to research and development is made based on a percentage estimate of time spent. The research and development costs include the following: payroll, consulting and contract labor, lab supplies and pharmaceutical preparations, legal, insurance, rent and utilities, and depreciation.

### Income Taxes

The Company accounts for income taxes under the liability method in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 740 Income Taxes . Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established if it is more likely than not that all, or some portion, of deferred income tax assets will not be realized. The Company has recorded a full valuation allowance to reduce its net deferred income tax assets to zero. In the event the Company were to determine that it would be able to realize some or all its deferred income tax assets in the future, an adjustment to the deferred income tax asset would increase income in the period such determination was made.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained upon an examination. Any recognized income tax positions would be measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement would be reflected in the period in which the change in judgment occurs. The Company would recognize any corresponding interest and penalties associated with its income tax positions in income tax expense. There were no income taxes, interest or penalties incurred in 2012, 2011 or 2010. Tax years going back to 2009 remain open for examination by the IRS.

### 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 for the years ended

---

## Table of Contents

December 31, 2012, 2011 and 2010, respectively, are 30,038,017, 25,119,247 and 15,422,719 from warrants, 15,140,956, 14,890,956 and 11,907,622 from options, and 2,478,185, 3,531,665 and 5,389,998 from convertible preferred shares. Included in the weighted average number of common shares outstanding are 2,048,671 common shares committed to be issued but not outstanding at December 31, 2010.

### Derivative Instruments

The warrants issued in conjunction with convertible preferred stock in March and April 2010 private placements include a reset provision if the Company issues additional warrants, in certain circumstances as defined in the agreement, below the exercise price of \$1.00. Effective January 1, 2009, the reset provision of these warrants preclude equity accounting treatment under ASC 815. Accordingly the Company is required to record the warrants as liabilities at their fair value upon issuance and remeasure the fair value at each period end with the change in fair value recorded in the statement of operations. When the warrants are exercised or cancelled, they are reclassified to equity. The Company uses the Monte-Carlo Simulation model to estimate the fair value of the warrants. Significant assumptions used at December 31, 2012 include a weighted average term of 2.2 years, a 5% probability that the warrant exercise price would be reset, a volatility range between 58.9% and 63.4% and a risk free interest rate range between 0.25% and 0.36%. Significant assumptions used at December 31, 2011 include a weighted average term of 3.2 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.69% and a risk free interest rate of 0.595%.

Additionally, the Series A and Series C Warrants issued in conjunction with the January 2011 registered direct public offering include a reset provision if the Company issues additional warrants, in certain circumstances as defined in the agreement, below the exercise price of \$1.12. At December 31, 2012, the warrant exercise price was reset to \$0.675. Significant assumptions used at December 31, 2012 include a weighted average term of 3.0 years, a 5% probability that the warrant exercise price would be further reset, a volatility range between 58.9% and 63.4% and a risk free interest rate range between 0.25% and 0.36%. Significant assumptions used at December 31, 2011 include a weighted average term of 4.0 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.69% and a risk free interest rate of 0.83%.

### Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, and accounts payable approximate their fair value because of the short-term nature of these items. Cash equivalents are measured on a recurring basis within the fair value hierarchy using Level 1 inputs.

The fair value of derivative instruments is determined by management with the assistance of an independent third party valuation specialist. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters.

### Stock-Based Compensation

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

Warrants to non-employees are generally vested and nonforfeitable upon the date of the grant. Accordingly fair value is determined on the grant date.

## **Table of Contents**

### **Subsequent Events**

Management assesses subsequent events through the issue date of the financial statements.

### **Recent Accounting Pronouncements**

None.

## **2. Recapitalization and Merger**

On April 23, 2002, Provectus Pharmaceutical, Inc., a Nevada corporation and a Merger blank check public company, acquired Provectus Pharmaceuticals, Inc., a privately-held Tennessee corporation ( PPI ), by issuing 6,680,000 shares of common stock of Provectus Pharmaceutical to the stockholders of PPI in exchange for all of the issued and outstanding shares of PPI, as a result of which Provectus Pharmaceutical changed its name to Provectus Pharmaceuticals, Inc. (the Company ) and PPI became a wholly-owned subsidiary of the Company. Prior to the transaction, PPI had no significant operations and had not generated any revenues.

For financial reporting purposes, the transaction has been reflected in the accompanying financial statements as a recapitalization of PPI and the financial statements reflect the historical financial information of PPI which was incorporated on January 17, 2002. Therefore, for accounting purposes, the shares recorded as issued in the reverse merger are the 265,763 shares owned by Provectus Pharmaceuticals, Inc. shareholders prior to the reverse merger.

The issuance of 6,680,000 shares of common stock of Provectus Pharmaceutical, Inc. to the stockholders of PPI in exchange for all of the issued and outstanding shares of PPI was done in anticipation of PPI acquiring Valley Pharmaceuticals, Inc, which owned the intellectual property to be used in the Company s operations.

On November 19, 2002, the Company acquired Valley Pharmaceuticals, Inc, ( Valley ) a privately-held Tennessee corporation by merging PPI with and into Valley and naming the surviving company Xantech Pharmaceuticals, Inc. Valley had no significant operations and had not generated any revenues. Valley was formed to hold certain intangible assets which were transferred from an entity which was majority owned by the shareholders of Valley. Those shareholders gave up their shares of the other company in exchange for the intangible assets in a non-pro-rata split-off. The intangible assets were valued based on the market price of the stock given up in the split-off. The shareholders of Valley also owned the majority of the shares of the Company at the time of the transaction. The Company issued 500,007 shares of stock in exchange for the net assets of Valley which were valued at \$12,226,320 and included patents of \$11,715,445 and equipment and furnishings of \$510,875.

## **3. Commitments**

### **Leases**

The Company leases office and laboratory space in Knoxville, Tennessee on a month-to-month basis. Rent expense was \$55,378, \$55,382 and \$55,378 for Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.

### **Employee Agreements**

On July 1, 2012, the Company entered into executive employment agreements with each of H. Craig Dees, Ph.D., Timothy C. Scott, Ph.D., Eric A. Wachter, Ph.D., and Peter R. Culpepper, CPA, to serve as our Chief Executive Officer, President, Chief Technology Officer, and Chief Financial Officer and Chief Operating Officer, respectively. Each agreement provides that such executive will be employed for a one-year term with automatic one-year renewals unless previously terminated pursuant to the terms of the agreement or either party gives notice that the term will not be extended. The Company is committed to pay a total of \$1,000,000 over six months, which is the remainder of the current employment agreements at December 31, 2012. Executives are also entitled to participate in any incentive compensation plan or bonus plan adopted by the Company without

## **Table of Contents**

diminution of any compensation or payment under the agreement. Executives are further entitled to reimbursement for all reasonable out-of-pocket expenses incurred during their performance of services under the agreement.

Each agreement generally provides that if the executive's employment is terminated prior to a change in control (as defined in the agreement) (1) due to expiration or non-extension of the term by the Company; or (2) by the Company for any reason other than for cause (as defined in the agreement), then such executive shall be entitled to receive payments under the agreement as if the agreement was still in effect through the end of the period in effect as of the date of such termination. If the executive's employment (1) is terminated by the Company at any time for cause, (2) is terminated by executive prior to, and not coincident with, a change in control or (3) is terminated by executive's death, disability or retirement prior to a change in control, the executive (or his estate, as the case may be) shall be entitled to receive payments under the agreement through the last date of the month of such termination, a pro-rata portion of any incentive or bonus payment earned prior to such termination, any benefits to which he is entitled under the terms and conditions of the pertinent plans in effect at termination and any reasonable expenses incurred during the performance of services under the agreement.

In the event that coincident with or following a change in control, the executive's employment is terminated or the agreement is not extended (1) by action of the executive including his death, disability or retirement or (2) by action of the Company not for cause, the executive (or his estate, as the case may be) shall be entitled to receive payments under the agreement through the last day of the month of such termination, a pro-rata portion of any incentive or bonus payment earned prior to such termination, any benefits to which he is entitled under the terms and conditions of the pertinent plans in effect at termination and any reasonable expenses incurred during the performance of services under the agreement. In addition, the Company shall pay to the executive (or his estate, as the case may be), within 30 days following the date of termination or on the effective date of the change in control (whichever occurs later), a lump sum payment in cash in an amount equal to 2.90 times the base salary paid in the preceding calendar year, or scheduled to be paid to such executive during the year of such termination, whichever is greater, plus an additional amount sufficient to pay United States income taxes on the lump-sum amount paid.

## **4. Equity Transactions**

(a) During 2002, the Company issued 2,020,000 shares of common stock in exchange for consulting services. These services were valued based on the fair market value of the stock exchanged which resulted in consulting costs charged to operations of \$5,504,000.

During 2002, the Company issued 510,000 shares of common stock to employees in exchange for services rendered. These services were valued based on the fair market value of the stock exchanged which resulted in compensation costs charged to operations of \$932,000.

In 2003, the Company issued 764,000 shares to consultants in exchange for services rendered, consisting of 29,000 shares issued in January valued at \$11,600, 35,000 shares issued in March valued at \$11,200, and 700,000 shares issued in October valued at \$217,000. The value for these shares was based on the market value of the shares issued. As all of these amounts represented payments for services to be provided in the future and the shares were fully vested and non-forfeitable, a prepaid consulting expense was recorded in 2003 which was fully amortized as of December 31, 2004.

In November and December 2003, the Company committed to issue 341,606 shares of common stock to consultants in exchange for services rendered. The total value for these shares was \$281,500 which was based on the market value of the shares issued. The shares were issued in January 2004. As these amounts represented payments for services to be provided in the future and the shares were fully vested and non-forfeitable, a prepaid consulting expense was recorded in 2003 which was fully amortized as of December 31, 2004.

In January 2004, the Company issued 10,000 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were \$11,500. In March 2004, the Company committed to issue 36,764 shares to

**Table of Contents**

consultants in exchange for services. These shares were recorded as a prepaid consulting expense and were fully amortized at December 31, 2004. Consulting costs charged to operations were \$62,500. These 36,764 shares, along with 75,000 shares committed in 2003 were issued in August 2004. The 75,000 shares committed to be in 2003 were the result of a cashless exercise of 200,000 warrants in 2003, which were not issued as of December 31, 2003. In August 2004, the Company also issued 15,000 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were \$25,200. In September 2004, the Company issued 16,666 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were \$11,666. In October 2004, the Company issued 16,666 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were \$13,666. In November 2004, the Company issued 16,666 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were \$11,000. In December 2004, the Company issued 7,500 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were \$3,525.

In January 2005, the Company issued 7,500 shares to consultants in exchange for services rendered. Consulting costs charged to operations were \$4,950. In February 2005, the Company issued 7,500 shares to consultants in exchange for services. Consulting costs charged to operations were \$7,574. In April 2005, the Company issued 190,733 shares to consultants in exchange for services. Consulting costs charged to operations were \$127,791. In May 2005, the Company issued 21,000 shares to consultants in exchange for services. Consulting costs charged to operations were \$11,970.

In December 2005, the Company committed to issue 689,246 shares to consultants in exchange for services rendered. 655,663 of these shares of were issued in February 2006 and 33,583 shares were issued in May 2006. The total value for these shares was \$650,643 which was based on the market value of the shares issued and was recorded as an accrued liability at December 31, 2005. In February 2006, the Company issued 30,000 shares to consultants in exchange for services. Consulting costs charged to operations were \$26,100.

In May 2007, the Company issued 50,000 shares to consultants in exchange for services. Consulting costs charged to operations were \$84,000. In August 2007, the Company issued 50,000 shares to consultants in exchange for services. Consulting costs charged to operations were \$104,950. In November 2007, the Company issued 50,000 shares to consultants in exchange for services. Consulting costs charged to operations were \$110,000. As of December 31, 2007, the Company is also committed to issue 16,667 shares to consultants in exchange for services. At December 31, 2007, these shares have a value of \$28,667 and have been included in accrued consulting expense.

During the three months ended March 31, 2008, the Company issued 100,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$122,500. During the three months ended June 30, 2008, the Company issued 12,500 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$13,000. During the three months ended September 30, 2008, the Company issued 62,500 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$70,250. During the three months ended December 31, 2008, the Company issued 175,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$184,250.

During the three months ended March 31, 2009, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$70,250. During the three months ended June 30, 2009, the Company issued 275,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$317,500. During the three months ended September 30, 2009, the Company issued 145,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$145,750. During the three months ended December 31, 2009, the Company issued 175,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$161,500.

**Table of Contents**

During the three months ended March 31, 2010, the Company issued 193,750 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$190,688. During the three months ended June 30, 2010, the Company issued 232,500 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$317,425. During the three months ended September 30, 2010, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$76,750. During the three months ended December 31, 2010, the Company issued 275,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$271,750.

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. During the three months ended December 31, 2011, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$64,250.

During the three months ended March 31, 2012, the Company issued 175,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$160,000. During the three months ended June 30, 2012, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$64,500. During the three months ended September 30, 2012, the Company issued 225,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$184,750. During the three months ended December 31, 2012, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$47,250. As the fair market value of these services was not readily determinable, these services were valued based on the fair market value of stock at grant date, determined using the Black-Scholes option-pricing model.

(b) In February 2002, the Company sold 50,000 shares of common stock to a related party in exchange for proceeds of \$25,000.

(c) In October 2002, the Company purchased 400,000 outstanding shares of stock from one shareholder for \$48,000. These shares were then retired.

(d) On December 5, 2002, the Company purchased the assets of Pure-ific L.L.C, a Utah limited liability company, and created a wholly-owned subsidiary called Pure-ific Corporation, to operate the Pure-ific business which consists of product formulations for Pure-ific personal sanitizing sprays, along with the Pure-ific trademarks. The assets of Pure-ific were acquired through the issuance of 25,000 shares of the Company's stock with a fair market value of \$0.50 and the issuance of various warrants. These warrants included warrants to purchase 10,000 shares of the Company's stock at an exercise price of \$0.50 issuable on the first, second and third anniversary dates of the acquisition. Accordingly, the fair market value of these warrants of \$14,500, determined using the Black-Scholes option pricing model, was recorded as additional purchase price for the acquisition of the Pure-ific assets. In 2004, 20,000 warrants were issued for the first and second anniversary dates. 10,000 of these warrants were exercised in 2004. In 2005, 10,000 warrants were issued for the third anniversary date. In January 2006, 10,000 warrants were exercised in a cashless exercise resulting in 4,505 shares issued. In 2007, the remaining 10,000 warrants were forfeited. In addition, warrants to purchase 80,000 shares of stock at an exercise price of \$0.50 will be issued upon the achievement of certain sales targets of the Pure-ific product. At December 31, 2012 and 2011, none of these targets have been met and accordingly, no costs have been recorded.

(e) In January 2003, the Company issued 25,000 warrants to a consultant for services rendered. In February 2003, the Company issued 360,000 warrants to a consultant, 180,000 of which were fully-vested and non-forfeitable at the issuance and 180,000 of which were cancelled in August 2003 due to the termination of the consulting contract. In September 2003, the Company issued 200,000 warrants to two consultants in exchange for services

**Table of Contents**

rendered. In November 2003, the Company issued 100,000 warrants to one consultant in exchange for services rendered. 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. Fair market value for the warrants issued in 2003 ranged from \$0.20 to \$0.24 and totaled \$145,479. As these amounts represented payments for services to be provided in the future and the warrants were fully vested and non-forfeitable, a prepaid consulting expense was recorded in 2003 which was fully amortized as of December 31, 2004.

In May 2004, the Company issued 20,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$18,800. In August 2004, the Company issued 350,000 warrants to consultants in exchange for services valued at \$329,000. In December 2004, the Company issued 10,000 warrants to consultants in exchange for services valued at \$3,680. Fair market value for the warrants issued in 2004 ranged from \$0.37 to \$1.22.

In January 2005, the Company issued 16,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$6,944. In February 2005, the Company issued 13,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$13,130. In March 2005, the Company issued 100,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$68,910. In April 2005, the Company issued 410,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$195,900. In May 2005, the Company issued 25,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were \$9,250. In December 2005, the Company issued 33,583 warrants to consultants in exchange for services. Consulting costs charged to operations were \$24,571. The fair market value for the warrants issued in 2005 ranged from \$0.37 to \$1.01.

In May 2006, 350,000 warrants were exercised for \$334,000 resulting in 350,000 shares issued. During April, May and June, the Company issued 60,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$58,400. In August and September 2006, 732,534 warrants were exercised for \$693,357 resulting in 732,534 shares issued. During the three months ended September 30, 2006, the Company issued 335,000 warrants to consultants in exchange for services. At December 31, 2006, \$155,814 of these costs have been charged to operations with the remaining \$84,019 recorded as prepaid consulting expense as it represents payments for future services and the warrants are fully vested and non-forfeitable. As of December 31, 2007, the prepaid expense has been fully recognized. In November 2006, 100,000 warrants were forfeited. During the three months ended December 31, 2006, the Company issued 85,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$71,790. The fair market value for the warrants issued in 2006 ranged from \$0.67 to \$1.11.

During the three months ended March 31, 2007, the Company issued 85,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$75,933. During the three months ended June 30, 2007, the Company issued 85,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$98,185. In April and May 2007, 260,000 warrants were exercised for \$196,900 resulting in 260,000 shares being issued. In May 2007, 10,000 warrants were forfeited. During the three months ended September 30, 2007, the Company issued 135,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$250,342. During the three months ended September 30, 2007, 2,305,756 warrants were exercised for \$2,219,657 resulting in 2,305,756 shares being issued. 350,000 of the warrants exercised had an exercise price of \$1.00 that was reduced to \$0.90. Additional consulting costs of \$35,000 were charged to operations as a result of the reduction of the exercise price of the 350,000 warrants. During the three months ended December 31, 2007, 1,502,537 warrants were exercised for \$1,327,072 resulting in 1,051,656 shares being issued and 330,881 shares committed to be issued as of December 31, 2007 and then issued January 2, 2008. 65,874 of the warrants exercised had an exercise price of \$1.00 that was reduced to \$0.80. Additional consulting costs of \$13,175 were charged to operations as a result of the reduction of the exercise price of the 65,874 warrants. In December 2007, 10,000 warrants were forfeited. The fair market value for the warrants issued in 2007 ranged from \$0.80 to \$2.19.

**Table of Contents**

During the three months ended March 31, 2008, the Company issued 60,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$40,657. During the three months ended March 31, 2008, 197,013 warrants were exercised for \$184,402 resulting in 197,013 shares being issued. 24,050 of the warrants exercised had an exercise price of \$1.00 that was reduced to \$0.80. Additional consulting costs of \$4,810 were charged to operations as a result of the reduction of the exercise price of the 24,050 warrants. During the three months ended March 31, 2008, 143,999 warrants were forfeited. Additionally, 330,881 shares committed to be issued as of December 31, 2007 were issued January 2, 2008. During the three months ended June 30, 2008, the Company issued 12,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$5,254. During the three months ended June 30, 2008, 1,075,104 warrants were exercised for \$980,064 resulting in 1,075,104 shares being issued. 576,012 of the warrants exercised had an exercise price of \$1.00 that was reduced to \$0.90. Additional consulting costs of \$57,602 were charged to operations as a result of the reduction of the exercise price of the 576,012 warrants. 15,050 of the warrants exercised had an exercise price of \$1.00 that was reduced to \$0.80. Additional consulting costs of \$3,010 were charged to operations as a result of the reduction of the exercise price of the 15,050 warrants. During the three months ended September 30, 2008, the Company issued 21,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$22,023. During the three months ended September 30, 2008, 1,156,555 warrants were exercised for \$1,081,704 resulting in 1,156,555 shares being issued. During the three months ended December 31, 2008, the Company issued 708,055 warrants to consultants in exchange for services. Consulting costs charged to operations were \$384,464. During the three months ended December 31, 2008, 203,500 warrants were exercised for \$172,000 resulting in 203,500 shares being issued. The fair market value for the warrants issued in 2008 ranged from \$0.58 to \$1.03.

During the three months ended March 31, 2009, the Company issued 243,612 warrants to consultants in exchange for services. Consulting costs charged to operations were \$131,476. During the three months ended March 31, 2009, 292,112 warrants were exercised for \$219,084 resulting in 292,112 shares being issued. 292,112 of the warrants exercised had an exercise price of \$0.935 that was reduced to \$0.75. Additional consulting costs of \$17,961 were charged to operations as a result of the reduction of the exercise price of the 292,112 warrants. During the three months ended June 30, 2009, the Company issued 101,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$49,684. During the three months ended June 30, 2009, 1,830,164 warrants were exercised for \$1,380,124 resulting in 1,830,164 shares being issued. 1,800,164 of the warrants exercised had an exercise price of \$0.935 that was reduced to \$0.75. Additional consulting costs of \$118,833 were charged to operations as a result of the reduction of the exercise price of the 1,800,164 warrants. Also, the Company paid \$94,508 and issued 126,012 shares of common stock as a cost of capital at a fair market value of \$151,214 to Chicago Investment Group of Illinois, L.L.C. as a placement agent for the transaction of exercising 1,800,164 warrants. The cash costs have been off-set against the proceeds received and the shares of common stock are classified as stock for services and the fair market value of the common stock as a cost of capital. During the three months ended June 30, 2009, 1,283,508 warrants were forfeited. During the three months ended September 30, 2009, the Company issued 167,833 warrants to consultants in exchange for services. Consulting costs charged to operations were \$110,941. During the three months ended September 30, 2009, 545,625 warrants were exercised for \$409,219 resulting in 545,625 shares being issued. 400,000 of the warrants exercised had an exercise price of \$0.98 that was reduced to \$0.75. 145,625 of the warrants exercised had an exercise price of \$0.935 that was reduced to \$0.75. Additional consulting costs of \$45,888 were charged to operations as a result of the reduction of the exercise price of the 545,625 warrants. During the three months ended September 30, 2009, 150,000 warrants were forfeited. During the three months ended December 31, 2009, the Company issued 987,667 warrants to consultants in exchange for services. Consulting costs charged to operations were \$562,780. During the three months ended December 31, 2009, 338,000 warrants were exercised for \$253,500 resulting in 338,000 shares being issued. 101,333 of the warrants exercised had an exercise price of \$0.935 that was reduced to \$0.75. 236,667 of the warrants exercised had an exercise price of \$1.00 that was reduced to \$0.75. Additional consulting costs of \$26,647 were charged to operations as a result of the reduction of the exercise price of the 338,000 warrants. During the three months ended December 31, 2009, 610,000 warrants were forfeited. The fair market value for the warrants issued in 2009 ranged from \$0.48 to \$0.63.

**Table of Contents**

During the three months ended March 31, 2010, the Company issued 859,833 warrants to consultants in exchange for services. Consulting costs charged to operations were \$506,556. During the three months ended March 31, 2010, 1,603,360 warrants were exercised for \$1,493,418 resulting in 1,584,760 common shares being issued. 18,600 of the 1,603,360 common shares issued were committed to be issued but not outstanding at March 31, 2010 and were issued in April 2010. 200,000 of the warrants exercised had an exercise price of \$1.00 that was reduced to \$0.75. 46,667 of the warrants exercised had an exercise price of \$0.935 that was reduced to \$0.8925. Additional consulting costs of \$22,397 were charged to operations as a result of the reduction of the exercise price of the 246,667 warrants. 350,000 warrants were exercised on a cashless basis resulting in 86,241 shares being issued. During the three months ended March 31, 2010, 563,333 warrants were forfeited. During the three months ended June 30, 2010, the Company issued 697,333 warrants to consultants in exchange for services. Consulting costs charged to operations were \$471,038. During the three months ended June 30, 2010, 123,334 warrants were exercised for \$117,917 resulting in 123,334 common shares being issued. 350,000 warrants were exercised on a cashless basis resulting in 73,914 shares being issued. During the three months ended June 30, 2010, 25,000 warrants were forfeited. During the three months ended September 30, 2010, the Company issued 91,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$50,397. During the three months ended September 30, 2010, 200,000 warrants were exercised on a cashless basis resulting in 10,080 shares being issued. During the three months ended September 30, 2010, 345,000 warrants were forfeited. During the three months ended December 31, 2010, the Company issued 151,500 warrants to consultants in exchange for services. Consulting costs charged to operations were \$91,205. During the three months ended December 31, 2010, 1,076,665 warrants were exercised on a cashless basis resulting in 188,421 shares being issued. During the three months ended December 31, 2010, 9,381,066 warrants were forfeited. During the three months ended December 31, 2010, 2,488,114 warrants were exercised for \$2,320,839 resulting in 2,488,114 common shares issued, of which 439,443 common shares were issued in 2010. \$1,915,509 of the \$2,320,839 was received in January 2011. 2,048,671 of the 2,488,114 common shares issued were committed to be issued but not outstanding at December 31, 2010 and were issued in January 2011. The fair market value for the warrants issued in 2010 ranged from \$0.43 to \$1.01.

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, 193,333 warrants were forfeited. During the three months ended June 30, 2011, 2,000 warrants were exercised for \$1,800 resulting in 2,000 shares of common stock 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. During the three months ended December 31, 2011, the Company issued 752,000 warrants to consultants in exchange for services. Consulting costs charged to operations were \$404,800. During the three months ended December 31, 2011, 708,055 warrants were forfeited. The fair market value for the warrants issued in 2011 ranged from \$0.26 to \$0.78.

During the three months ended March 31, 2012, the Company issued 1,003,000 fully vested 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 expired. During the three months ended June 30, 2012, the Company issued 454,500 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$183,908. During the three months ended June 30, 2012, 4,368,644 warrants expired. During the three months ended September 30, 2012, the Company issued 1,732,135 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$721,753. During the three months ended September 30, 2012, 122,833 warrants expired. During the three months ended December 31, 2012, the Company issued 452,500 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$130,697. During the three months ended December 31, 2012, 987,667 warrants expired. 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. The fair market value for the warrants issued in 2012 ranged from \$0.24 to \$0.47.

**Table of Contents**

There are no provisions or obligations that would require the Company to cash settle any of its outstanding warrants. The equity classification of certain of the Company's warrants is appropriate considering that these warrants provide the counterparties the right to purchase a fixed number of shares at a fixed price and the terms are not subject to any potential adjustments. Certain warrants have been classified as liabilities since they 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. Warrants classified as liabilities in 2011 and 2010 are further discussed in footnotes 4(f), 4(i) and 10.

(f) In December 2003, the Company commenced an offering for sale of restricted common stock. As of December 31, 2003, the Company had sold 874,871 shares at an average gross price of \$1.18 per share. As of December 31, 2003, the Company had received net proceeds of \$292,472 and recorded a stock subscription receivable of \$87,875 for stock subscriptions prior to December 31, 2003 for which payment was received subsequent to December 31, 2003. The transaction is a Regulation S offering to foreign investors as defined by Regulation S of the Securities Act. The restricted shares cannot be traded for 12 months. After the first 12 months, sales of the shares are subject to restrictions under rule 144 for an additional year. The Company used a placement agent to assist with the offering. Costs related to the placement agent of \$651,771 have been off-set against the gross proceeds of \$1,032,118 and therefore are reflected as a direct reduction of equity at December 31, 2003. At December 31, 2003, 195,051 shares had not yet been issued. These shares were issued in the first quarter of 2004.

In 2004, the Company sold 2,274,672 shares of restricted common stock under this offering of which 1,672,439 shares were issued in the first quarter 2004 and 602,233 were issued in the second quarter 2004. Shares were sold during 2004 at an average gross price of \$1.05 per share with net proceeds of \$793,137. Costs related to the placement agent for proceeds received in 2004 of \$1,588,627 have been off-set against gross proceeds of \$2,381,764. On June 25, 2004, the Company entered into an agreement to sell 1,333,333 shares of common stock at a purchase price of \$.75 per share for an aggregate purchase price of \$1,000,000. Payments were received in four installments, the last of which was on August 9, 2004. Stock issuance costs included 66,665 shares of stock valued at \$86,666 and cash costs of \$69,000. The cash costs have been off-set against the proceeds received. In conjunction with the sale of the common stock, the Company issued 1,333,333 warrants with an exercise price of \$1.00 and a termination date of three years from the installment payment dates. In addition, the Company has given the investors an option to purchase 1,333,333 shares of additional stock including the attachment of warrants under the same terms as the original agreement. This option expired February 8, 2005. On November 16, 2004, the Company completed a private placement transaction with fourteen (14) accredited investors, pursuant to which the Company sold 530,166 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$397,625. In connection with the sale of the common stock, the Company also issued warrants to the investors to purchase up to 795,249 shares of our common stock at an exercise price of \$1.00 per share. The Company paid \$39,764 and issued 198,812 warrants to Venture Catalyst, LLC as placement agent for this transaction. The cash costs have been off-set against the proceeds received.

During the three months ended March 31, 2005, the Company completed a private placement transaction with eight (8) accredited investors, which were registered effective June 20, 2005, pursuant to which the Company sold 214,666 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$161,000. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 322,000 shares of common stock at an exercise price of \$1.00 per share. The Company paid \$16,100 and issued 80,500 warrants to Venture Catalyst, LLC as placement agent for this transaction. The cash costs have been off-set against the proceeds received. During the three months ended June 30, 2005, the Company completed a private placement transaction with four (4) accredited investors, which were registered effective June 20, 2005, pursuant to which the Company sold 230,333 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$172,750. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 325,500 shares of common stock at an exercise price of \$1.00 per share. The Company paid \$16,275 and issued 81,375 warrants to Venture Catalyst,

**Table of Contents**

LLC as placement agent for this transaction. The cash costs have been off-set against the proceeds received. During the three months ended September 30, 2005, the Company completed a private placement transaction with twelve (12) accredited investors pursuant to which the Company sold 899,338 shares of common stock at a purchase price of \$0.75 per share of which 109,333 are committed to be issued at December 31, 2005, for an aggregate purchase price of \$674,500. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 1,124,167 shares of common stock at an exercise price of \$0.935 per share. The Company paid \$87,685 and committed to issue 79,000 shares of common stock at a fair market value of \$70,083 to Network 1 Financial Securities, Inc. as placement agent for this transaction which is accrued at December 31, 2005. The cash and common stock costs have been off-set against the proceeds received. During the three months ended December 31, 2005, the Company completed a private placement transaction with sixty-two (62) accredited investors pursuant to which the Company sold 10,065,605 shares of common stock at a purchase price of \$0.75 per share of which 5,126,019 are committed to be issued at December 31, 2005, for an aggregate purchase price of \$7,549,202. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 12,582,009 shares of common stock at an exercise price of \$0.935 per share. The Company paid \$959,540, issued 46,667 shares of common stock at a fair market value of \$46,467, issued 30,550 warrants, and committed to issue 950,461 shares of common stock at a fair market value of \$894,593 to a syndicate led by Network 1 Financial Securities, Inc. as placement agent for this transaction which is accrued at December 31, 2005. The cash and common stock costs have been off-set against the proceeds received.

In January 2006, the Company issued 5,235,352 shares committed to be issued at December 31, 2005 for shares sold in 2005. In February 2006, the Company issued 1,029,460 shares committed to be issued at December 31, 2005 for stock issuance costs related to shares sold in 2005. The total value for these shares was \$964,676 which was based on the market value of the shares issued and was recorded as an accrued liability at December 31, 2005. During the three months ended March 31, 2006, the Company completed a private placement transaction with five (5) accredited investors pursuant to which the Company sold 466,833 shares of common stock at a purchase price of \$0.75 per share for an aggregate purchase price of \$350,125. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 466,833 shares of common stock at an exercise price of \$0.935 per share. The Company paid \$35,013 and issued 46,683 shares of common stock at a fair market value of \$41,815 to Chicago Investment Group, L.L.C. as placement agent for this transaction. The cash costs have been off-set against the proceeds received. In May 2006, the Company completed a private placement transaction with two (2) accredited investors pursuant to which the Company sold a total of 153,647 shares of common stock at an average purchase price of \$1.37 per share, for an aggregate purchase price of \$210,000. In connection with the sale of common stock, the Company also issued warrants to the 2 investors to purchase up to 76,824 shares of common stock at an average exercise price of \$2.13 per share. In September 2006, the Company completed a private placement transaction with seven (7) accredited investors pursuant to which the Company sold a total of 708,200 shares of common stock at a purchase price of \$1.00 per share, for an aggregate purchase price of \$708,200. The Company paid \$92,067 and issued 70,820 shares of common stock at a fair market value of \$84,984 to Network 1 Financial Securities, Inc. as placement agent for this transaction. The cash costs have been off-set against the proceeds received. In October 2006 the Company completed a private placement transaction with 15 accredited investors pursuant to which the Company sold a total of 915,000 shares of common stock at a purchase price of \$1.00 per share, for an aggregate purchase price of \$915,000. The Company paid \$118,950 and issued 91,500 shares of common stock at a fair market value of \$118,500 to Network 1 Financial Securities, Inc. as placement agent for this transaction. The cash costs have been off-set against the proceeds received. During the three months ended December 31, 2006, the Company completed a private placement transaction with 10 accredited investors pursuant to which the Company sold 1,400,000 shares of common stock at a purchase price of \$1.00 per share of which 150,000 are committed to be issued at December 31, 2006, for an aggregate purchase price of \$1,400,000. The Company paid \$137,500, issued 125,000 shares of common stock at a fair market value of \$148,750, and committed to pay \$16,500 and to issue 15,000 shares of common stock at a fair market value of \$17,550 to Chicago Investment Group of Illinois, L.L.C. as a placement agent for this transaction which is accrued at December 31, 2006. The cash and accrued stock costs have been off-set against the proceeds received.

**Table of Contents**

In January 2007, the Company issued 150,000 shares committed to be issued at December 31, 2006 for shares sold in 2006. In January 2007, the Company also issued 15,000 shares committed to be issued at December 31, 2006 for common stock costs related to shares sold in 2006. The total value for these shares was \$17,550 which was based on the market value of the shares issued and was recorded as an accrued liability at December 31, 2006. In January and February 2007, the Company completed a private placement transaction with six accredited investors pursuant to which the Company sold a total of 265,000 shares of common stock at a purchase price of \$1.00 per share, for an aggregate purchase price of \$265,000. The Company paid \$29,150 and issued 26,500 shares of common stock at a fair market value of \$32,130 to Chicago Investment Group of Illinois, L.L.C. as a placement agent for this transaction. The cash costs have been off-set against the proceeds received. Also in January and February 2007, the Company completed a private placement transaction with 13 accredited investors pursuant to which the Company sold a total of 1,745,743 shares of common stock at a purchase price of \$1.05 per share, for an aggregate purchase price of \$1,833,031. The Company paid \$238,293 and issued 174,574 shares of common stock at a fair market value of \$200,760 to Network 1 Financial Securities, Inc. as placement agent for this transaction. The cash costs have been off-set against the proceeds received.

In May and June 2009 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 1,750,000 shares of common stock at a purchase price of \$0.90 per share, for an aggregate purchase price of \$1,575,000. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 875,000 shares of common stock at an exercise price of \$1.00 per share. The Company paid \$227,250 and issued 175,000 shares of common stock at a fair market value of \$197,750 to Maxim Group, LLC as a placement agent for this transaction. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. During the three months ended June 30, 2009, the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 2,868,994 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$2,151,749. 186,667 of the 2,868,994 common shares sold were committed to be issued but not outstanding at June 30, 2009 and which were issued in July 2009. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 1,434,510 shares of common stock at an exercise price of \$1.50 per share. The Company paid \$255,323, has accrued \$24,404 to be paid as of June 30, 2009, which was paid in July 2009, and was committed to issue 286,900 shares of common stock at June 30, 2009 at a fair market value of \$295,507 to Network 1 Financial Securities, Inc. as placement agent for this transaction, which were issued in August 2009. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. In July 2009 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 1,040,570 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$780,427. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 520,120 shares of common stock at an exercise price of \$1.50 per share. The Company paid \$101,485 and issued 100,016 shares of common stock in August 2009 at a fair market value of \$95,015 to Network 1 Financial Securities, Inc. as placement agent for this transaction. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. In July and September 2009 the Company completed a private placement transaction with a total of two accredited investors pursuant to which the Company sold a total of 309,000 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$231,750. The proceeds received are for general corporate purposes. In September 2009 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 1,696,733 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$1,272,550. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 848,366 shares of common stock at an exercise price of \$1.00 per share. The Company paid \$180,432 and was committed to issue 169,673 shares of common stock at a fair market value of \$169,673 to Maxim Group, LLC as a placement agent for this transaction which were issued in November 2009. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. During the three months ended December 31, 2009, the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 1,486,367 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$1,114,775. 266,600 of the 1,486,367 common shares sold are committed to

**Table of Contents**

be issued but not outstanding at December 31, 2009 and which were issued in January 2010. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 743,185 shares of common stock at an exercise price of \$0.95 per share. The Company paid \$118,926, has accrued \$25,994 to be paid as of December 31, 2009, which was paid in January 2010, and is committed to issue 148,637 shares of common stock at December 31, 2009 at a fair market value of \$132,287 to Network 1 Financial Securities, Inc. as placement agent for this transaction. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. In December 2009 the Company completed a private placement transaction with an accredited investor pursuant to which the Company sold a total of 500,000 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$375,000. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 250,000 shares of common stock at an exercise price of \$1.00 per share. The Company paid \$48,750 and is committed to issue 50,000 shares of common stock at a fair market value of \$45,000 to Maxim Group, LLC as a placement agent for this transaction at December 31, 2009, which were issued in January 2010. The cash costs have been off-set against the proceeds received, which are for general corporate purposes.

The Company issued 50,000 shares of common stock, which were committed to be issued at December 31, 2009 to Maxim Group, LLC in January 2010. The Company issued 148,637 shares of common stock, which were committed to be issued at December 31, 2009 to Network 1 Financial Securities, Inc. in March 2010. During the three months ended March 31, 2010 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 250,000 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$187,500. The proceeds received are for general corporate purposes. The transaction is a Regulation S offering to foreign investors as defined by Regulation S of the Securities Act. During the three months ended March 31, 2010, the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 1,564,683 shares of common stock at a purchase price of \$0.75 to \$0.80 per share, for an aggregate purchase price of \$1,178,824. 1,106,250 of the 1,564,683 common shares sold were committed to be issued but not outstanding at March 31, 2010 and which were issued in April 2010. In connection with the sale of common stock, the Company also issued warrants to the investors to purchase up to 739,217 shares of common stock at an exercise price of \$1.00 per share. 266,600 shares of common stock that were committed to be issued at December 31, 2009 were issued in January 2010. During the three months ended March 31, 2010, the Company paid \$44,697, and has accrued \$108,550 to be paid as of March 31, 2010, which was paid in April 2010 to Network 1 Financial Securities, Inc. as a placement agent for this transaction. The Company issued 45,843 shares of common stock at a fair market value of \$60,971, and was committed to issue 110,625 shares of common stock at a fair market value of \$164,831 to Network 1 Financial Securities, Inc. as a placement agent for this transaction and which were issued in May 2010. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. During the three months ended March 31, 2010 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 1,360,322 shares of common stock at a purchase price of \$0.935 per share, for an aggregate purchase price of \$1,271,901. 213,904 of the 1,360,322 common shares sold were committed to be issued but not outstanding at March 31, 2010 which were issued in April 2010. The Company paid \$127,190, and was committed to issue 136,032 shares of common stock at a fair market value of \$191,805 to Brewer Financial Services, LLC as a placement agent for this transaction which were issued in April 2010. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. During the three months ended March 31, 2010 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 92,000 shares of common stock at a purchase price of \$0.75 to \$1.00 per share, for an aggregate purchase price of \$75,250. The proceeds received are for general corporate purposes. During the three months ended June 30, 2010 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 150,000 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$112,500. The proceeds received are for general corporate purposes. The transaction is a Regulation S offering to foreign investors as defined by Regulation S of the Securities Act. During the three months ended June 30, 2010, the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 3,531,250 shares of common stock at a purchase price of \$0.75 to \$0.80 per share, for an aggregate purchase price of

**Table of Contents**

\$2,815,000. In connection with the sale of common stock, the Company also issued warrants to an investor to purchase up to 100,000 shares of common stock at an exercise price of \$1.00 per share. During the three months ended June 30, 2010, the Company paid \$365,949 and issued 353,125 shares of common stock at a fair market value of \$462,594 to Network 1 Financial Securities, Inc. as a placement agent for this transaction. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. During the three months ended June 30, 2010 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 200,000 shares of common stock at a purchase price of \$1.00 per share, for an aggregate purchase price of \$200,000. The proceeds received are for general corporate purposes. During the three months ended September 30, 2010 the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 139,000 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$104,250. The proceeds received are for general corporate purposes. The transaction is a Regulation S offering to foreign investors as defined by Regulation S of the Securities Act. During the three months ended September 30, 2010, the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 556,150 shares of common stock at a purchase price of \$0.935 per share, for an aggregate purchase price of \$520,000. The Company paid \$67,600 and issued 55,614 shares of common stock at a fair market value of \$52,278 to Network 1 Financial Securities, Inc. as a placement agent for this transaction. The cash costs have been off-set against the proceeds received, which are for general corporate purposes. During the three months ended December 31, 2010 the Company completed a private placement transaction with an accredited investor pursuant to which the Company sold a total of 20,000 shares of common stock at a purchase price of \$0.75 per share, for an aggregate purchase price of \$15,000. The proceeds received are for general corporate purposes. The transaction is a Regulation S offering to foreign investors as defined by Regulation S of the Securities Act. In December 2010, we completed a registered direct offering with Lincoln Park Capital Fund, LLC, pursuant to which Lincoln Park purchased 1,000,000 shares of our common stock for an aggregate purchase price of \$1,000,000. In connection with the sale of common stock, the Company also issued warrants to the investor to purchase up to 500,000 shares of common stock at an exercise price of \$1.50 per share. The Company issued 300,000 common shares to Lincoln Park at a fair market value of \$273,000 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 \$30,000,000 of our common stock over the 30-month term of the purchase agreement at no less than \$0.75 per share.

In January 2011, the Company 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, the Company 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 the Company entered into on January 13, 2011, described below, the Company 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, or 2,181,821 shares, Series B Warrants to purchase up to 70% of the shares of common stock, or 3,818,185 shares, and Series C Warrants to purchase up to 28% of the common stock, or 1,527,273 shares. 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

---

**Table of Contents**

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 warrant liability was then revalued at each quarter ended March 31, 2011, June 30, September 30 and December 31, 2011 and 2012. 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 for \$1,400,001, resulting in 1,497,528 common shares being issued. The Company determined the fair value of the warrants exercised on the date of exercise and adjusted the related warrant liability accordingly, 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. During the three months ended June 30, 2011, the remainder of the Series B Warrants was exercised for \$2,171,801, resulting in 2,320,857 shares being issued. The Company determined the fair value of the warrants exercised on the date of exercise and adjusted the related warrant liability accordingly, 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. For the year ended December 31, 2011 there was a gain recognized from the revaluation of the warrant liability of \$1,457,639. At December 31, 2012, the Series A Warrants and the Series C Warrants exercise price of \$1.12 per share was reduced to \$0.675 per share due to a new issuance price, net of commissions, from a private offering of common stock and warrants to accredited investors during the three months ended December 31, 2012 and pursuant to their exercise price reset provision. For the year ended December 31, 2012 there was a gain recognized from the revaluation of the warrant liability of \$495,338.

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. The Company used the proceeds, after deducting offering expenses of approximately \$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 December 31, 2011, the Company completed a private offering of common stock in its Pure-ific Corporation subsidiary and warrants to accredited investors for gross proceeds of \$500,000. The Company sold 666,666 Units in its Pure-ific Corporation subsidiary which totaled a 33 percent ownership in the subsidiary as of December 31, 2011 and 500,000 warrants to purchase 500,000 shares of the Company at an exercise price of \$1.25 per share with a five year term. Since at the time of the sale and as of December 31, 2012 and 2011, the carrying value of the net assets in Pure-ific Corporation was \$0 and the Company has legal rights to retain the proceeds from the offering, no value was ascribed to the non-controlling interest in the subsidiary.

**Table of Contents**

Also, since the Company maintains a controlling interest in Pure-ific Corporation, the sale was accounted for as an equity transaction. The Company intends to use the proceeds, after deducting offering expenses of approximately \$56,500, to spin-off Pure-ific Corporation as a new publicly traded Company. Network 1 Financial Securities, Inc. served as placement agent for the offering.

During the three months ended June 30, 2012 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$2,077,796. The Company accepted subscriptions, in the aggregate, for 1,855,176 shares of common stock, and five year warrants to purchase 1,855,176 shares of common stock. Investors received five year fully vested warrants to purchase up to 100% 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. 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 issued five year fully vested warrants to purchase 371,035 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 December 31, 2012 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$2,379,365. The Company accepted subscriptions, in the aggregate, for 3,172,486 shares of common stock, and five year warrants to purchase 3,172,486 shares of common stock. Investors received five year fully vested warrants to purchase up to 100% 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 \$279,317 and issued five year fully vested warrants to purchase 317,249 shares of common stock with an exercise price of \$1.00 to Network 1 Financial Securities, Inc., which represents 10% of the total number of shares of common stock sold to investors solicited by Network 1 Financial Securities, Inc. During the three months ended December 31, 2012 the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$710,000. The Company accepted subscriptions, in the aggregate, for 946,666 shares of common stock, and five year warrants to purchase 946,666 shares of common stock. Investors received five year fully vested warrants to purchase up to 100% 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. Maxim Group LLC served as placement agent for the offering. In connection with the offering, the Company paid \$97,300 and issued five year fully vested warrants to purchase 94,667 shares of common stock with an exercise price of \$1.00 to Maxim Group LLC, which represents 10% of the total number of shares of common stock sold to investors solicited by Maxim Group LLC.

(g) Pursuant to a Standby Equity Distribution Agreement ( SEDA ) dated July 28, 2004 between the Company and Cornell Capital Partners, L.P. ( Cornell ), the Company could, at its discretion, issue shares of common stock to Cornell at any time until June 28, 2006. As of December 31, 2006 there were no shares issued pursuant to the SEDA. The facility is subject to having in effect a registration statement covering the shares. A registration statement covering 2,023,552 shares was declared effective by the Securities and Exchange Commission on November 16, 2004. The maximum aggregate amount of the equity placements pursuant to the SEDA was \$20 million, and the Company could draw down up to \$1 million per month. Pursuant to the SEDA, on July 28, 2004, the Company issued 190,084 shares of common stock to Cornell and 7,920 shares of common stock to Newbridge Securities Corporation as commitment shares. These 198,004 shares had a FMV of \$310,866 on July 28, 2004 which was being amortized over the term of the commitment period which was one year from the date of registration. The full amount was amortized as of December 31, 2006.

(h) The Company issued 175,000 warrants each month from March 2005 to November 2005, resulting in total warrants of 1,575,000, to Gryffindor Capital Partners I, L.L.C. pursuant to the terms of the Second Amended and Restated Note dated November 26, 2004. Total interest costs charged to operations were \$985,010.

---

**Table of Contents**

(i) In March 2010, the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 10,583,324 units (the Units ), at purchase price of \$0.75 per Unit, each Unit consisting of one share of 8% convertible preferred stock, par value \$.001 per share (the 8% Convertible Preferred Stock ) and a warrant to purchase one-half share of common stock, par value \$.001 per share, totaling 5,291,654 warrants with an exercise price of \$1.00 per share of common stock, for an aggregate amount of gross proceeds of \$7,937,449. The Company paid \$1,054,318, and issued 1,058,333 shares of common stock at a fair market value of \$1,407,583 to Maxim Group, LLC as a placement agent for this transaction. The cash costs have been offset against the proceeds received, which are for general corporate purposes.

At the option of the holder, each share of preferred stock is convertible at any time into one share of common stock. At the option of the Company, but only after such time that the volume-weighted average price of common stock exceeds \$2.25 and the average daily trading volume exceeds 150,000 shares for 30 consecutive days, the Company may convert all or a portion of the outstanding preferred stock into common stock. At the option of the Company, but only after such time that the volume-weighted average price of common stock exceeds \$2.25 and the average daily trading volume exceeds 150,000 shares for 30 consecutive days, the Company may redeem all or a portion of the outstanding preferred stock at the original issue price of \$0.75 per share, plus all accrued and unpaid dividends. Prior to redemption, the holders of the preferred stock can elect to convert to common stock. Upon voluntary or involuntary liquidation, winding-up or dissolution of the Company, the holders of preferred stock will be entitled to receive out of the assets of the Company, cash in an amount equal to the original issue price of \$0.75 per share plus all accrued or unpaid dividends prior to any payments made to common shareholders.

In April 2010, the Company completed a private placement transaction with accredited investors pursuant to which the Company sold a total of 2,700,000 units (the Units ), at purchase price of \$0.75 per Unit, each Unit consisting of one share of 8% convertible preferred stock, par value \$.001 per share (the 8% Convertible Preferred Stock ) and a warrant to purchase one-half share of common stock, par value \$.001 per share, totaling 1,350,000 warrants with an exercise price of \$1.00 per share of common stock, for an aggregate amount of gross proceeds of \$2,025,000. The proceeds received are for general corporate purposes.

The Company determined that these warrants issued in March and April, 2010 should be classified as liabilities in accordance 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 March 2010 issuance was \$3,651,241 resulting in a beneficial conversion amount of \$4,286,208. The beneficial conversion and the amount allocated to the warrants have been recorded as a deemed dividend as of March 31, 2010 and are included in dividends on preferred stock on the consolidated statements of operations. The fair value of the warrants recorded from the April 2010 issuance was \$1,039,500 resulting in a beneficial conversion amount of \$985,000. The beneficial conversion and the amount allocated to the warrants have been recorded as a deemed dividend as of June 30, 2010 and are 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. The warrant liability was initially recorded on March 11, 2010 for \$3,651,241 which is the value of the warrants issued on that date based on the Monte-Carlo Simulation model. The warrant liability was then revalued at each quarter ended March 31, June 30, September 30 and December 31, 2010, 2011 and 2012. On April 27, 2010 an additional

**Table of Contents**

warrant liability was recorded for \$1,039,500 which is the value of warrants issued on that date based on the Monte-Carlo Simulation model. In November 2010, 901,664 of the warrants included in the warrant liability were exercised. The Company determined the fair value of the warrants exercised on the date of exercise and adjusted the related warranty liability to this amount. The adjusted fair value of the warrants exercised of \$197,700 was reclassified into additional paid-in capital. For the year ended December 31, 2010 there was a gain recognized from the revaluation the warranty liability of \$2,139,645. For the year ended December 31, 2011 there was a gain recognized from the revaluation of the warrant liability of \$546,999. For the year ended December 31, 2012 there was a gain recognized from the revaluation of the warrant liability of \$1,272,580.

Dividends on the 8% Convertible Preferred Stock accrue at an annual rate of 8% of the original issue price and are payable in either cash or common stock. If the dividend is paid in common stock, the number of shares of common stock will equal the quotient of the amount of cash dividends divided by the market price of the stock on the dividend payment date. The dividends are payable quarterly on the 15<sup>th</sup> day after the quarter-end. The Company anticipates paying the dividends in common stock. The Company has a deficit and, as a result, the dividends will be recorded against additional paid-in capital. At March 31, 2010, the Company recognized dividends of \$34,794 which are included in dividends on preferred stock on the consolidated statement of operations. In April 2010, the Company issued 40,478 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of April 15, 2010. At June 30, 2010, the Company recognized dividends of \$219,391 which are included in dividends on preferred stock on the consolidated statement of operations. In July 2010, the Company issued 179,991 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of July 15, 2010. At September 30, 2010, the Company recognized dividends of \$111,484 which are included in dividends on preferred stock on the consolidated statement of operations. In October 2010, the Company issued 118,384 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of October 15, 2010. At December 31, 2010, the Company recognized dividends of \$79,748 which are included in dividends on preferred stock on the consolidated statement of operations. 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. 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. 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. 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. At December 31, 2011, the Company recognized dividends of \$53,385 which are included in dividends on preferred stock on the condensed consolidated statement of operations. In January 2012, the Company issued 64,183 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of January 15, 2012. At March 31, 2012, the Company recognized dividends of \$50,631 which are included in dividends on preferred stock on the consolidated statement of operations. In April 2012, the Company issued 58,490 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of April 16, 2012. At June 30, 2012, the Company recognized dividends of \$51,194 which are included in dividends on preferred stock on the consolidated statement of operations. In July 2012, the Company issued 61,424 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of July 16, 2012. At September 30, 2012, the Company recognized dividends of \$43,884 which are included in dividends on preferred stock on the consolidated statement of operations. In October 2012, the Company issued 69,222 shares of common stock in dividends on preferred stock in lieu of cash dividends due as of October 15, 2012. At December 31, 2012, the Company recognized dividends of \$37,478 which are included in dividends on preferred stock on the consolidated statement of operations. 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.

**Table of Contents**

During the three months ended September 30, 2010 there were 5,836,661 shares of the Company's preferred stock that converted into 5,836,661 shares of the Company's common stock. During the three months ended December 31, 2010 there were 2,056,665 shares of the Company's preferred stock that converted into 2,056,665 shares of the Company's common stock. 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. 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. 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. During the three months ended December 31, 2011 there were 316,667 shares of the Company's redeemable preferred stock that converted into 316,667 shares of the Company's common stock. During the three months ended March 31, 2012 there were 100,000 shares of the Company's redeemable preferred stock that converted into 100,000 shares of the Company's common stock. During the three months ended September 30, 2012 there were 490,000 shares of the Company's redeemable preferred stock that converted into 490,000 shares of the Company's common stock. During the three months ended December 31, 2012 there were 463,480 shares of the Company's redeemable preferred stock that converted into 463,480 shares of the Company's common stock.

**5. Stock Incentive Plan and Warrants**

The Company maintains two long-term incentive compensation plans, the Provectus Pharmaceuticals, Inc. 2002 Stock Plan, which provided for the issuance of 18,450,000 shares of common stock pursuant to stock options, and the 2012 Stock Plan, which provides for the issuance of up to 20,000,000 shares of common stock pursuant to stock options, stock appreciation rights, stock purchase rights and long-term performance awards granted to key employees and directors of and consultants to the Company.

Options granted under the 2002 Stock Plan were either incentive stock options within the meaning of Section 422 of the Internal Revenue Code or options which are not incentive stock options. Options granted under the 2012 Stock Plan may be either incentive stock options within the meaning of Section 422 of the Internal Revenue Code or options which are not incentive stock options. The stock options are exercisable over a period determined by the Board of Directors (through its Compensation Committee), but generally no longer than 10 years after the date they are granted.

For stock options granted to employees during 2012, 2011 and 2010, the Company has estimated the fair value of each option granted using the Black-Scholes option pricing model with the following assumptions:

	2012		2011		2010	
Weighted average fair value per options granted	\$0.73		\$0.78		\$0.88	
Significant assumptions (weighted average) risk-free interest rate at grant date	0.25%		0.25%		0.25%	
Expected stock price volatility	83%	87%	87%	91%	91%	94%
Expected option life (years)	10		10		10	

On March 1, 2004, the Company issued 1,200,000 stock options to employees. The options vest over three years with 225,000 options vesting on the date of grant. The exercise price is the fair market price on the date of issuance. On May 27, 2004, the Company issued 100,000 stock options to the Board of Directors. The options vested immediately on the date of grant. The exercise price is the fair market price on the date of issuance. On June 28, 2004, the Company issued 100,000 stock options to an employee. The options vest over four years with 25,000 options vesting on the date of grant. The exercise price is the fair market price on the date of issuance.

On January 7, 2005, the Company issued 1,200,000 stock options to employees. The options vest over four years with no options vesting on the date of grant. The exercise price is the fair market price on the date of issuance.

**Table of Contents**

On May 19, 2005, the Company issued 100,000 stock options to the Board of Directors. The options vested immediately on the date of grant. The exercise price is the fair market price on the date of issuance. On May 25, 2005, the Company issued 1,200,000 stock options to employees. The options vest over three years with no options vesting on the date of grant. The exercise price is \$0.75 which is greater than the fair market price on the date of issuance. On December 9, 2005, the Company issued 775,000 stock options to employees. The options vest over three years with no options vesting on the date of grant. The exercise price is the fair market price on the date of issuance. During 2005, an employee of the Company exercised 26,516 options at an exercise price of \$1.10 per share of common stock for \$29,167.

Two employees of the Company exercised a total of 114,979 options during the three months ended March 31, 2006 at an exercise price of \$1.10 per share of common stock for \$126,477. On June 23, 2006, the Company issued 4,000,000 stock options to employees. The options vest over three years with no options vesting on the date of grant. The exercise price is the fair market price on the date of issuance. On June 23, 2006, the Company issued 200,000 stock options to its Members of the Board. The options vested on the date of grant. The exercise price is the fair market price on the date of issuance. One employee of the Company exercised a total of 7,166 options during the three months ended June 30, 2006 at an exercise price of \$1.10 per share of common stock for \$7,882 and another employee of the Company exercised a total of 12,500 options during the three months ended June 30, 2006 at an exercise price of \$0.32 per share of common stock for \$4,000. One employee of the Company exercised a total of 14,000 options during the three months ended September 30, 2006 at an exercise price of \$1.10 per share of common stock for \$15,400 and another employee of the Company exercised a total of 3,125 options during the three months ended September 30, 2006 at an exercise price of \$0.32 per share of common stock for \$1,000. One employee of the Company exercised a total of 7,000 options during the three months ended December 31, 2006 at an exercise price of \$1.10 per share of common stock for \$7,700.

One employee of the Company exercised a total of 120,920 options during the three months ended March 31, 2007 at an exercise price of \$1.10 per share of common stock for \$133,012. Another employee of the Company exercised a total of 9,375 options during the three months ended March 31, 2007 at an exercise price of \$0.32 per share of common stock for \$3,000. One employee of the Company exercised a total of 100,000 options during the three months ended September 30, 2007 at an exercise price of \$0.64 per share of common stock for \$64,000. Another employee of the Company exercised a total of 25,000 options during the three months ended September 30, 2007 at an exercise price of \$0.32 per share of common stock for \$8,000. One employee of the Company exercised a total of 50,000 options during the three months ended December 31, 2007 at an exercise price of \$0.64 per share of common stock for \$32,000. Another employee of the Company exercised a total of 6,250 options during the three months ended December 31, 2007 at an exercise price of \$0.32 per share of common stock for \$2,000. On June 21, 2007, the Company issued 200,000 stock options to its Members of the Board. The options vested on the date of grant. The exercise price is the fair market price on the date of issuance.

One employee of the Company exercised a total of 193,281 options during the three months ended June 30, 2008 at an exercise price of \$0.32 to \$1.02 per share of common stock for \$109,600. Another employee of the Company exercised a total of 44,795 options during the three months ended June 30, 2008 at an exercise price of \$1.10 per share of common stock for \$49,275. One employee of the Company exercised a total of 66,666 options during the three months ended December 31, 2008 at an exercise price of \$0.94 per share of common stock for \$62,666. On June 3, 2008, the Company issued 50,000 stock options to a newly appointed member of the board of directors. The options vested on the date of grant. The exercise price is the fair market price on the date of issuance. On June 27, 2008, the Company issued 200,000 stock options to its re-elected members of the board of directors. The options vested on the date of grant. The exercise price is the fair market price on the date of issuance.

One employee of the Company exercised a total of 156,250 options during the three months ended June 30, 2009 at an exercise price of \$0.64 per share of common stock for \$100,000. Another employee of the Company exercised a total of 150,000 options during the three months ended June 30, 2008 at an exercise price of \$0.64 per share of common stock for \$96,000. On June 19, 2009, the Company issued 250,000 stock options to its re-elected Members of the Board. The options vested on the date of grant. The exercise price is the fair market price

**Table of Contents**

on the date of issuance, and all options were outstanding at June 30, 2009. One employee of the Company exercised options during the three months ended September 30, 2009 at an exercise price of \$1.02 per share of common stock for \$20,400 for 20,000 options and an exercise price of \$0.94 per share of common stock for \$47,000 for 50,000 options. One employee of the Company exercised options during the three months ended December 31, 2009 at an exercise price of \$1.02 per share of common stock for \$15,300 for 15,000 options and an exercise price of \$0.94 per share of common stock for \$78,334 for 83,334 options.

One employee of the Company exercised 105,469 options at an exercise price of \$0.64 per share of common stock for \$67,500 and 52,419 options at an exercise price \$0.75 per share of common stock for \$39,315 during the three months ended June 30, 2010. On June 18, 2010, the Company issued 250,000 stock options to its re-elected members of the board. The options vested on the date of grant. The exercise price is the fair market price on the date of issuance, and all options were outstanding at June 30, 2010. One employee of the Company exercised 75,000 options at an exercise price of \$1.10 per share of common stock for \$82,500 and 100,000 options at an exercise price \$1.00 per share of common stock for \$100,000 during the three months ended September 30, 2010. On July 22, 2010, the Company issued 4,000,000 stock options to its employees. The options vested on the date of grant. The exercise price is the fair market price on the date of issuance, and 3,400,000 options were outstanding at December 31, 2010. One employee of the Company exercised 500,000 options at an exercise price of \$1.00 per share of common stock for \$500,000 during the three months ended December 31, 2010. Another employee of the Company exercised 133,333 options at an exercise price of \$0.75 per share of common stock for \$100,000 during the three months ended December 31, 2010.

One employee of the Company exercised 133,333 options at an exercise price of \$0.75 per share of common stock for \$100,000 during the three months ended March 31, 2011. One employee of the Company exercised 350,000 options at an exercise price of \$1.00 per share of common stock for \$350,000 during the three months ended June 30, 2011. Another employee of the Company exercised 133,333 options at an exercise price of \$0.75 per share of common stock for \$100,000 during the three months ended June 30, 2011. 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. 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. One employee of the Company exercised 300,000 options at an exercise price of \$0.93 per share of common stock for \$279,000 and 100,000 options at an exercise price of \$0.75 per share of common stock for \$75,000 during the three months ended December 31, 2011. Another employee of the Company exercised 75,000 options at an exercise price of \$0.32 per share of common stock for \$24,000 and 25,000 options at an exercise price of \$0.60 per share of common stock for \$15,000 during the three months ended December 31, 2011.

On May 14, 2012, the Company issued 50,000 stock options to a newly appointed member of the board. On June 28, 2012, the Company issued 200,000 stock options to its re-elected members of the board. All of the stock options issued in 2012 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 share-based payment transactions is measured based on the fair value of the equity or liability instruments issued. For purposes of estimating the fair value of each stock option on the date of grant, the Company utilized the Black-Scholes option-pricing model. The Black-Scholes option-pricing 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-pricing 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

**Table of Contents**

a reliable single measure of the fair value of its employee and board member stock options. Included in the results for the year ended December 31, 2012, is \$183,028 of stock-based compensation expense which relates to the fair value of stock options vested in 2012. Included in the results for the year ended December 31, 2011, is \$3,368,950 of stock-based compensation expense which related to the fair value of stock options vested in 2011. Included in the results for the year ended December 31, 2010, is \$3,759,650 of stock-based compensation expense which relates to the fair value of stock options vested in 2010.

The following table summarizes the options granted, exercised, outstanding and exercisable as of December 31, 2010, 2011 and 2012:

	Shares	Exercise Price Per Share		Weighted Average Exercise Price
Outstanding at January 1, 2010	8,623,843	\$ 0.32	1.50	\$ 0.95
Granted	4,250,000	\$ 1.00	1.16	\$ 1.01
Exercised	(966,221)	\$ 0.62	1.10	\$ 0.92
Forfeited				
Outstanding and exercisable at December 31, 2010	11,907,622	\$ 0.32	1.50	\$ 0.98
Outstanding at January 1, 2011	11,907,622	\$ 0.32	1.50	\$ 0.98
Granted	4,300,000	\$ 0.93	1.04	\$ 0.94
Exercised	(1,316,666)	\$ 0.32	1.00	\$ 0.86
Forfeited				
Outstanding and exercisable at December 31, 2011	14,890,956	\$ 0.32	1.50	\$ 0.98
Outstanding at January 1, 2012	14,890,956	\$ 0.32	1.50	\$ 0.98
Granted	250,000	\$ 0.84	0.93	\$ 0.86
Exercised				
Forfeited				
Outstanding and exercisable at December 31, 2012	15,140,956	\$ 0.32	1.50	\$ 0.97

**Table of Contents**

The following table summarizes information about stock options outstanding at December 31, 2012 in order of issuance from oldest to newest.

Exercise Price	Number Outstanding at December 31, 2012	Weighted Average Remaining contractual Life	Outstanding Weighted Average Exercise price	Number Exercisable at December 31, 2012	Exercisable Weighted Average Exercise Price
\$0.32	18,750	0.58 years	\$ 0.32	18,750	\$ 0.32
\$0.60	50,000	0.58 years	\$ 0.60	50,000	\$ 0.60
\$1.10	789,624	1.17 years	\$ 1.10	789,624	\$ 1.10
\$0.95	100,000	1.42 years	\$ 0.95	100,000	\$ 0.95
\$1.25	100,000	1.50 years	\$ 1.25	100,000	\$ 1.25
\$0.64	600,000	2.00 years	\$ 0.64	600,000	\$ 0.64
\$0.75	722,582	2.42 years	\$ 0.75	722,582	\$ 0.75
\$0.94	575,000	2.92 years	\$ 0.94	575,000	\$ 0.94
\$1.02	4,135,000	3.50 years	\$ 1.02	4,135,000	\$ 1.02
\$1.50	200,000	4.50 years	\$ 1.50	200,000	\$ 1.50
\$1.16	50,000	5.42 years	\$ 1.16	50,000	\$ 1.16
\$1.00	150,000	5.50 years	\$ 1.00	150,000	\$ 1.00
\$1.04	250,000	6.50 years	\$ 1.04	250,000	\$ 1.04
\$1.16	250,000	7.50 years	\$ 1.16	250,000	\$ 1.16
\$1.00	3,000,000	7.50 years	\$ 1.00	3,000,000	\$ 1.00
\$1.04	250,000	8.50 years	\$ 1.04	250,000	\$ 1.04
\$0.99	50,000	8.50 years	\$ 0.99	50,000	\$ 0.99
\$0.93	3,600,000	8.67 years	\$ 0.93	3,600,000	\$ 0.93
\$0.93	50,000	9.38 years	\$ 0.93	50,000	\$ 0.93
\$0.84	250,000	9.50 years	\$ 0.84	250,000	\$ 0.84
	15,140,956	5.58 years	\$ 0.97	15,140,956	\$ 0.97

The weighted-average grant-date fair value of options granted during 2012 was \$0.73. There were no options exercised during the year ended December 31, 2012.

The weighted-average grant-date fair value of options granted during 2011 was \$0.78. The total intrinsic value of options exercised during the year ended December 31, 2011 which were in the money was \$108,583.

The weighted-average grant-date fair value of options granted during 2010 was \$0.88. The total intrinsic value of options exercised during the year ended December 31, 2010 which were in the money was \$143,702.

The following is a summary of nonvested stock option activity for the year ended December 31, 2012:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2011		\$
Granted	250,000	\$ 0.73
Vested	(250,000)	\$ 0.73
Canceled		
Nonvested at December 31, 2012		\$

As of December 31, 2012, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan.



**Table of Contents**

The following is a summary of the aggregate intrinsic value of shares outstanding and exercisable at December 31, 2012. The aggregate intrinsic value of stock options outstanding and exercisable is defined as the difference between the market value of the Company's stock as of the end of the period and the exercise price of the stock options which are in the money.

	Number of Shares	Aggregate Intrinsic Value
Outstanding and Exercisable at December 31, 2012	15,140,956	\$ 4,500

The following table summarizes the warrants granted, exercised, outstanding and exercisable as of December 31, 2010, 2011 and 2012.

	Warrants	Exercise Price Per Warrant	Weighted Average Exercise Price
Outstanding at January 1, 2010	22,147,554	\$ 0.75 2.00	\$ 1.02
Granted	9,781,037	\$ 0.95 1.50	\$ 1.02
Exercised	(6,191,473)	\$ 0.94 1.25	\$ 0.98
Forfeited	(10,314,399)	\$ 0.94 1.75	\$ 0.95
Outstanding and exercisable at December 31, 2010	15,422,719	\$ 0.75 2.00	\$ 1.09
Outstanding at January 1, 2011	15,422,719	\$ 0.75 2.00	\$ 1.09
Granted	14,484,601	\$ 0.94 2.00	\$ 1.15
Exercised	(3,820,185)	\$ 0.90 0.94	\$ 0.93
Forfeited	(967,888)	\$ 0.75 2.00	\$ 1.06
Outstanding and exercisable at December 31, 2011	25,119,247	\$ 0.91 2.00	\$ 1.15
Outstanding at January 1, 2012	25,119,247	\$ 0.91 2.00	\$ 1.15
Granted	10,399,414	\$ 0.68 1.50	\$ 1.00
Exercised			
Forfeited	(5,480,644)	\$ 0.91 1.50	\$ 1.29
Outstanding and exercisable at December 31, 2012	30,038,017	\$ 0.68 2.00	\$ 1.05

The following table summarizes information about warrants outstanding at December 31, 2012.

Exercise Price	Number Outstanding and Exercisable at December 31, 2012	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$0.68	3,709,094	3.00	\$ 0.68
\$0.95	982,401	1.87	\$ 0.95
\$1.00	14,391,256	2.81	\$ 1.00
\$1.12	3,296,536	2.87	\$ 1.12
\$1.15	160,000	2.50	\$ 1.15
\$1.25	5,848,729	2.76	\$ 1.25
\$1.45	80,000	2.50	\$ 1.45
\$1.50	1,170,001	3.17	\$ 1.50
\$1.75	200,000	3.00	\$ 1.75
\$2.00	200,000	3.25	\$ 2.00

30,038,017	2.81	\$	1.05
------------	------	----	------

F-33

---

**Table of Contents****6. Convertible Debt.**

(a) Pursuant to a Convertible Secured Promissory Note and Warrant Purchase Agreement dated November 26, 2002 (the "Purchase Agreement") between the Company and Gryffindor Capital Partners I, L.L.C., a Delaware limited liability company ("Gryffindor"), Gryffindor purchased the Company's \$1 million Convertible Secured Promissory Note dated November 26, 2002 (the "Note"). The Note bore interest at 8% per annum, payable quarterly in arrears, and was due and payable in full on November 26, 2004. Subject to certain exceptions, the Note was convertible into shares of the Company's common stock on or after November 26, 2003, at which time the principal amount of the Note was convertible into common stock at the rate of one share for each \$0.737 of principal so converted and any accrued but unpaid interest on the Note was convertible at the rate of one share for each \$0.55 of accrued but unpaid interest so converted. The Company's obligations under the Note were secured by a first priority security interest in all of the Company's assets, including the capital stock of the Company's wholly owned subsidiary Xantech Pharmaceuticals, Inc., a Tennessee corporation ("Xantech"). In addition, the Company's obligations to Gryffindor were guaranteed by Xantech, and Xantech's guarantee was secured by a first priority security interest in all of Xantech's assets.

Pursuant to the Purchase Agreement, the Company also issued to Gryffindor and to another individual Common Stock Purchase Warrants dated November 26, 2002 (the "Warrants"), entitling these parties to purchase, in the aggregate, up to 452,919 shares of common stock at a price of \$0.001 per share. Simultaneously with the completion of the transactions described in the Purchase Agreement, the Warrants were exercised in their entirety. The \$1,000,000 in proceeds received in 2002 was allocated between the long-term debt and the warrants on a pro-rata basis. The value of the warrants was determined using a Black-Scholes option pricing model. The allocated fair value of these warrants was \$126,587 and was recorded as a discount on the related debt and amortized over the life of the debt using the effective interest method.

In 2003, an additional \$25,959 of principal was added to the 2002 convertible debt outstanding.

Pursuant to an agreement dated November 26, 2004 between the Company and Gryffindor, the Company issued Gryffindor a Second Amended and Restated Senior Secured Convertible Note dated November 26, 2004 in the amended principal amount of \$1,185,959 which included the original note principal plus accrued interest. The second amended note bore interest at 8% per annum, payable quarterly in arrears, was due and payable in full on November 26, 2005, and amended and restated the amended note in its entirety. Subject to certain exceptions, the Note was convertible into shares of the Company's common stock on or after November 26, 2004, at which time the principal amount of the Note was convertible into common stock at the rate of one share for each \$0.737 of principal so converted and any accrued but unpaid interest on the Note was convertible at the rate of one share for each \$0.55 of accrued but unpaid interest so converted. The Company issued warrants to Gryffindor to purchase up to 525,000 shares of the Company's common stock at an exercise price of \$1.00 per share in satisfaction of issuing Gryffindor the Second Amended and Restated Senior Secured Convertible Note dated November 26, 2004. The value of these warrants was determined to be \$105,250 using a Black-Scholes option-pricing model and was recorded as a discount on the related debt and was amortized over the life of the debt using the effective interest method. Amortization of \$95,157 has been recorded as additional interest expense as of December 31, 2005. The Company recorded additional expense of \$36,945 related to the beneficial conversion feature of the interest on the Gryffindor convertible debt as of December 31, 2005.

On November 26, 2005 the Company entered into a redemption agreement with Gryffindor to pay \$1,185,959 of the Gryffindor convertible debt and accrued interest of \$94,877. Also on November 26, 2005 the Company issued a legal assignment attached to and made a part of that certain Second Amended and Restated Senior Secured Convertible Note dated November 26, 2004 in the original principal amount of \$1,185,959 together with interest of \$94,877 paid to the order of eight investors dated November 26, 2005 for a total of \$1,280,836. The Company subsequently entered into debt conversion agreements with seven of the investors for an aggregate of \$812,000 of convertible debt which was converted into 1,101,764 shares of common stock at \$0.737 per share. As of December 31, 2005, the Company had \$468,836 in principal and \$3,647 in accrued interest owed to holders of the convertible debentures due on November 26, 2006. At December 31, 2005, the Company recorded

**Table of Contents**

additional interest expense of \$2,584 related to the beneficial conversion feature of the interest on the November 2005 convertible debt. The \$1,280,836 in principal was issued when the conversion price was lower than the market value of the Company's common stock on the date of issue. As a result, a discount of \$404,932 was recorded for this beneficial conversion feature. The debt discount of \$404,932 is being amortized over the life of the debt using the effective interest method. At December 31, 2005, \$270,924 of the debt discount has been amortized which includes \$256,711 of the unamortized portion of the debt discount related to the debt which was converted. In conjunction with the November 26, 2005 financing, the Company incurred debt issuance costs consisting of cash of \$128,082, 356,335 shares of common stock valued at \$345,645 and 1,000,000 warrants valued at \$789,000. The warrants are exercisable over five years, have an exercise price of \$1.00, a fair market value of \$0.79 and were valued using the Black-Scholes option-pricing model. The total debt issuance costs of \$1,262,727 were recorded as an asset and amortized over the term of the debt. At December 31, 2005, \$835,294 of the debt issuance costs have been amortized which includes \$800,520 related to the debt that was converted as of December 31, 2005. The 356,335 shares of common stock were not issued as of December 31, 2005 and therefore have been recorded as an accrued liability at December 31, 2005.

In May 2006, the Company entered into a debt conversion agreement with one of the November 2005 accredited investors for \$86,586 of its convertible debt which was converted into 117,483 shares of common stock at \$0.737 per share. In addition, accrued interest expense of \$3,078 due at the time of the debt conversion was paid in 5,597 shares of common stock. In June 2006, the Company entered into a debt conversion agreement with one of the November 2005 accredited investors for \$382,250 of convertible debt which was converted into 518,657 shares of common stock at \$0.737 per share. In addition, accrued interest expense of \$15,800 due at the time of the debt conversion was paid in 28,727 shares of common stock. As of December 31, 2006, all principal and accrued interest owed to holders of the November 2005 convertible debentures had been converted. At March 31, 2006, the Company recorded additional interest expense of \$8,354 related to the beneficial conversion feature of the interest on the November 2005 convertible debt. At June 30, 2006, the Company recorded additional interest expense of \$8,093 related to the beneficial conversion feature of the interest on the November 2005 convertible debt. In 2006 the remaining \$417,886 of debt issuance costs have been amortized which includes \$189,948 of the unamortized portion of the deferred loan costs related to the converted debt at the time of conversion. In 2006 the remaining debt discount of \$134,008 has been amortized.

(b) On November 19, 2003, the Company completed a short-term unsecured debt financing in the aggregate amount of \$500,000. The notes bear interest of 8% and were due in full on November 19, 2004. The notes were convertible into common shares at a conversion rate equal to the lower of (i) 75% of the average market price for the 20 trading days ending on the 20th trading day subsequent to the effective date or (ii) \$0.75 per share. Pursuant to the note agreements, the Company also issued warrants to purchase up to 500,000 shares of the Company's common stock at an exercise price of \$1.00 per share. During 2005, 52,000 of the warrants were exercised and the remaining warrants expired on November 19, 2005.

The \$500,000 proceeds received was allocated between the debt and the warrants on a pro-rata basis. The value of the warrants was determined using a Black-Scholes option-pricing model. The allocated fair value of these warrants was \$241,655 and was recorded as a discount to the related debt. In addition, the conversion price was lower than the market value of the Company's common stock on the date of issue. As a result, an additional discount of \$258,345 was recorded for this beneficial conversion feature. The combined debt discount of \$500,000 was being amortized over the term of the debt using the effective interest method.

In conjunction with the debt financing, the Company issued warrants to purchase up to 100,000 shares of the Company's common stock at an exercise price of \$1.25 per share in satisfaction of a finder's fee. The value of these warrants was determined to be \$101,000 using a Black-Scholes option-pricing model. In addition, the Company incurred debt issuance costs of \$69,530 which were payable in cash. Total debt issuance costs of \$170,530 were recorded as an asset and amortized over the term of the debt. In 2004, in conjunction with the June 25, 2004 transaction (Note 4(1)), the Company entered into a redemption agreement for its \$500,000 of short-term convertible debt. Payments on the convertible debt corresponded to payments received from the sale of common stock. As a result, the unamortized portion of the debt discount at the date of extinguishment of

**Table of Contents**

\$193,308 and the unamortized portion of the deferred loan costs of \$65,930 were recorded as a loss on extinguishment of debt. In addition to principal payments, the redemption payments included accrued interest and a premium payment of \$100,519. This premium payment has been recorded as a loss on extinguishment. As part of this redemption, the Company repurchased the beneficial conversion feature amount of \$258,345 in 2004.

(c) On July 28, 2004, the Company entered into an agreement to issue 8% convertible debentures to Cornell in the amount of \$375,000 which was due together with interest on July 28, 2007. This debt had a subordinated security interest in the assets of the Company. The Company issued a second secured convertible debenture on October 7, 2004 which had the same conversion terms as the prior debenture and was issued on the date the Company filed a registration statement for the shares underlying both debentures. This was due together with interest on October 7, 2007 and had a subordinated security interest in the assets of the Company. The debentures were convertible into common stock at a price per share equal to the lesser of (a) an amount equal to 120% of the closing Volume Weighted Average Price (VWAP) of the common stock as of the Closing Date (\$1.88 on Closing Date) or (b) an amount equal to 80% of the lowest daily VWAP of the Company's common stock during the 5 trading days immediately preceding the conversion date. There was a floor conversion price of \$.75 until December 1, 2004.

The accounting guidance requires the issuer to assume that the holder will not convert the instrument until the time of the most beneficial conversion. The accounting guidance also requires that if the conversion terms are based on an unknown future amount, which is the case in item (b) above, the calculation should be performed using the commitment date which in this case is July 28, 2004 and October 7, 2004, respectively. As a result, the beneficial conversion amount was computed using 80% of the lowest fair market value for the stock for the five days preceding July 28, 2004 and October 7, 2004, respectively, which resulted in a beneficial conversion amount of \$254,006 and \$106,250, respectively. The beneficial conversion amount was being amortized over the term of the debt which was three years.

In conjunction with the debt financing, the Company issued warrants to purchase up to 150,000 shares of the Company's common stock at an exercise price of \$1.00 per share in satisfaction of a finder's fee. The value of warrants was determined to be \$144,000 using a Black-Scholes option-pricing model. In addition, the Company incurred debt issuance costs of \$162,500 which were payable in cash. Total debt issuance costs of \$306,500 were recorded as an asset and amortized over the term of the debt.

In February 2005, the Company entered into a redemption agreement with Cornell Capital Partners to pay \$50,000 of the Cornell convertible debt. As a result, the unamortized portion of the debt discount of \$27,715 and deferred loan costs of \$20,702, which related to this amount at the date of extinguishments, were recorded as a loss on extinguishment of debt. The Company also paid a \$5,000 prepayment penalty which has been recorded as loss on extinguishment of debt. As part of this redemption, the Company has repurchased the beneficial conversion feature related to the redeemed amount of \$16,449.

In March 2005, the Company entered into a debt conversion agreement with Cornell Capital Partners for \$50,000 of its convertible debt which was converted into 66,667 shares of common stock at \$0.75 per share. As a result of this conversion, the unamortized portion of the debt discount of \$24,890 and deferred loan costs of \$18,779, which related to this amount at the date of conversion, have been recorded as additional interest expense.

In April 2005, the Company entered into a redemption agreement with Cornell Capital Partners to pay \$650,000 of the Cornell convertible debt. As a result, the unamortized portion of the debt discount of \$233,425 and deferred loan costs of \$205,741, which related to this amount at the date of extinguishments, were recorded as a loss on extinguishment of debt. The Company also paid a \$65,000 prepayment penalty which has been recorded as loss on extinguishment of debt. As part of this redemption, the Company has repurchased the beneficial conversion feature related to the redeemed amount of \$127,679.

(d) In March 2005, the Company entered into agreements to issue Senior Convertible Debentures to two (2) accredited investors with Network 1 Financial Securities, Inc. in the aggregate amount of \$450,000. This debt

**Table of Contents**

has a security interest in the assets of the Company, a maturity date of March 30, 2007, and is convertible into shares of the Company's common stock at a per share conversion price of \$0.75. In April 2005, the Company entered into agreements to issue Senior Convertible Debentures to five (5) accredited investors in the aggregate amount of \$2,700,000. This debt has a security interest in the assets of the Company, a maturity date of March 30, 2007, and is convertible into shares of the Company's common stock at a per share conversion price of \$0.75.

The Company was obligated to pay the principal of the Senior Convertible Debentures in installments as follows: Twelve (12) equal monthly payments of principal (the "Monthly Amount") plus, to the extent not otherwise paid, accrued but unpaid interest plus any other obligations of the Company to the Investor under this Debenture, the Purchase Agreement, or the Registration Rights Agreement, or otherwise. The first such installment payment was due and payable on March 30, 2006, and subsequent installments shall be due and payable on the thirtieth (30th) day of each succeeding month thereafter (each a "Payment Date") until the Company's obligations under this Debenture is satisfied in full. The Company shall have the option to pay all or any portion of any Monthly Amount in newly issued, fully paid and nonassessable shares of Common Stock, with each share of Common Stock having a value equal to (i) eighty-five percent (85%) multiplied by (ii) the Market Price as of the third (3rd) Trading Day immediately preceding the Payment Date (the "Payment Calculation Date").

Interest at the greater of (i) the prime rate (adjusted monthly), plus 4% and (ii) 8% was due on a quarterly basis. At the time the interest was payable, upon certain conditions, the Company had the option to pay all or any portion of accrued interest in either cash or shares of the Company's common stock valued at 85% multiplied by the market price as of the third trading date immediately preceding the interest payment date.

The Company could prepay the Senior Convertible Debentures in full by paying the holders the greater of (i) 125% multiplied by the sum of the total outstanding principal, plus accrued and unpaid interest, plus default interest, if any or (ii) the highest number of shares of common stock issuable upon conversion of the total amount calculated pursuant to (i) multiplied by the highest market price for the common stock during the period beginning on the date until prepayment.

On or after any event or series of events which constitutes a fundamental change, the holder could, in its sole discretion, require the Company to purchase the debentures, from time to time, in whole or in part, at a purchase price equal to 110% multiplied by the sum of the total outstanding principal, plus accrued and unpaid interest, plus any other obligations otherwise due under the debenture. Under the senior convertible debentures, fundamental change means (i) any person becomes a beneficial owner of securities representing 50% or more of the (a) outstanding shares of common stock or (b) the combined voting power of the then outstanding securities; (ii) a merger or consolidation whereby the voting securities outstanding immediately prior thereto fail to continue to represent at least 50% of the combined voting power of the voting securities immediately after such merger or consolidation; (iii) the sale or other disposition of all or substantially all of the Company's assets; (iv) a change in the composition of the Board within two years which results in fewer than a majority of directors are directors as of the date of the debenture; (v) the dissolution or liquidation of the Company; or (vi) any transaction or series of transactions that has the substantial effect of any of the foregoing.

The Purchasers of the \$3,150,000 in Senior Convertible Debentures also purchased Class A Warrants and Class B Warrants under the Securities Purchase Agreement. Class A Warrants are exercisable at any time between March 10, 2005 through and including March 30, 2010 depending on the particular Purchaser. Class B Warrants were exercisable for a period through and including 175 days after an effective registration of the common stock underlying the warrants, which began June 20, 2005 and ended December 12, 2005. The range of the per share exercise price of a Class A Warrant is \$0.93 to \$0.99 and the range of the per share exercise price of the Class B Warrant was \$0.8925 to \$0.945.

The Purchasers of the Senior Convertible Debentures received a total of 4,200,000 Class A Warrants and a total of 2,940,000 Class B Warrants. 1,493,333 of the Class B Warrants were exercised in December, 2005 for proceeds of \$1,122,481. The warrant holders were given an incentive to exercise their warrants due to the

**Table of Contents**

lowering of the exercise price to \$0.75. Interest expense of \$236,147 was recorded to recognize expense related to this conversion incentive. The remaining Class B Warrants were forfeited in December, 2005 at the expiration of their exercise period.

The \$3,150,000 proceeds received in March and April 2005 was allocated between the debt and the warrants on a pro-rata basis. The value of the warrants was determined using a Black-Scholes option-pricing model. The allocated fair value of these warrants was \$1,574,900 and was recorded as a discount to the related debt. In addition, the conversion prices were lower than the market value of the Company's common stock on the date of issue. As a result, an additional discount of \$1,228,244 was recorded for this beneficial conversion feature. The combined debt discount of \$2,803,144 was being amortized over the life of the debt using the effective interest method.

In June 2005, the Company entered into a debt conversion agreement with one of the April accredited investors for \$150,000 of its convertible debt which was converted into 200,000 shares of common stock at \$0.75 per share, and \$2,833 of accrued interest was converted into 3,777 shares of common stock at \$0.75 per share. In July 2005, the Company entered into a debt conversion agreement with two of the April accredited investors for an aggregate of \$350,000 of convertible debt which was converted into 466,666 shares of common stock at \$0.75 per share. In September 2005, the Company entered into a debt conversion agreement with one of the March accredited investors for \$400,000 of its convertible debt which was converted into 533,333 shares of common stock at \$0.75 per share. In October 2005, the Company entered into a debt conversion agreement with two of the March accredited investors for an aggregate of \$100,000 of convertible debt which was converted into 133,334 shares of common stock at \$0.75 per share. In November 2005, the Company entered into a debt conversion agreement with three of the April accredited investors for an aggregate of \$675,000 of convertible debt which was converted into 900,000 shares of common stock at \$0.75 per share.

In conjunction with the financing, the Company incurred debt issuance costs consisting of \$387,500 in cash and 980,000 of warrants valued at \$426,700. The warrants are exercisable over five years, have exercise prices ranging from \$0.98 \$1.23, fair market values ranging from \$0.42 \$0.44 and were valued using the Black-Scholes option pricing model. The total debt issuance costs of \$814,200 were recorded as an asset and amortized over the term of the debt.

The Company chose to pay the quarterly interest due at June 30, 2005, September 30, 2005 and December 31, 2005 in common stock instead of cash. As a result, accrued interest at June 30, 2005 of \$78,904 was paid in 165,766 shares of common stock resulting in additional interest expense of \$28,843. 159,780 shares were issued July 11, 2005 and the remaining 5,986 shares were issued November 7, 2005. The accrued interest due September 30, 2005 of \$72,985 was converted into 97,955 shares of common stock resulting in additional interest expense of \$15,299. 66,667 of these shares were issued on September 30, 2005 and the remaining 31,288 shares were issued October 20, 2005. The interest due December 31, 2005 of \$50,486 was converted into 65,742 shares of common stock resulting in additional interest expense of \$10,922. The 65,742 shares were not issued as of December 31, 2005 and were recorded in accrued liabilities at December 31, 2005. The shares were issued January 9, 2006.

In January 2006, the Company entered into a debt conversion agreement with one of the March 2005 accredited investors for \$250,000 of its convertible debt which was converted into 333,333 shares of common stock at \$0.75 per share. In March 2006, the Company entered into a total of three debt conversion agreements with two of the March 2005 accredited investors for an aggregate of \$500,000 of convertible debt which was converted into 666,667 shares of common stock at \$0.75 per share. In May 2006, the Company entered into a debt conversion agreement with one of the March 2005 accredited investors for \$25,000 of its convertible debt which was converted into 33,333 shares of common stock at \$0.75 per share. In September 2006, the Company entered into a debt conversion agreement with one of the March 2005 accredited investors for \$112,500 of its convertible debt which was converted into 150,000 shares of common stock at \$0.75 per share. In November 2006, the Company entered into a debt conversion agreement with one of the March 2005 accredited investors for \$200,000 of its convertible debt which was converted into 266,666 shares of common stock at \$0.75 per share. In December

---

**Table of Contents**

2006, the Company entered into a debt conversion agreement with one of the March 2005 accredited investors for \$20,000 of its convertible debt which was converted into 26,667 shares of common stock at \$0.75 per share.

In 2006, \$928,090 of the total debt discount had been amortized which includes \$386,451 of the unamortized portion of the debt discount related to the converted debt at the time of the debt conversions. In 2006, \$287,493 of the deferred loan costs have been amortized which includes \$112,256 of the unamortized portion of the deferred loan costs related to the converted debt at the time of the debt conversions.

The Company chose to pay the quarterly interest due at March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006 in common stock instead of cash. As a result, accrued interest due March 31, 2006 of \$33,274 was converted into 35,939 shares of common stock resulting in additional interest expense of \$4,975. 7,656 of these shares were issued March 20, 2006 and the remaining shares of 28,283 were issued March 31, 2006. The accrued interest due June 30, 2006 of \$21,305 was converted into 24,674 shares of common stock resulting in additional interest expense of \$3,650. These shares were issued June 30, 2006. The accrued interest due September 30, 2006 of \$21,010 was converted into 18,888 shares of common stock resulting in additional interest expense of \$2,167. These shares were issued September 29, 2006. The accrued interest due December 31, 2006 of \$15,086 was converted into 14,760 shares of common stock resulting in additional interest expense of \$1,843. These shares were issued December 29, 2006.

In January 2007, the Company entered into a separate debt conversion agreement with two of its March 2005 accredited investors for \$245,833 of convertible debt which was converted into 327,777 shares of common stock at \$0.75 per share. In February 2007, the Company entered into a separate debt conversion agreement with two of its March 2005 accredited investors for \$121,667 of convertible debt which was converted into 162,223 shares of common stock at \$0.75 per share.

In February 2007, the remaining total debt discount has been amortized, which is \$2,797. In February 2007, the remaining deferred loan costs have been amortized, which is \$3,713.

At December 31, 2007 the Company had no remaining principal or accrued interest owed to holders of the March 2005 convertible debentures due on March 31, 2007.

The Company chose to pay a portion of the quarterly interest due at February 28, 2007 in common stock instead of cash. The accrued interest not paid in cash that was due February 28, 2007 of \$1,109 was converted into 1,141 shares of common stock resulting in additional interest expense of \$149. 358 of these shares were issued on January 25, 2007 and the remaining shares of 783 were issued on February 28, 2007.

**7. Related Party Transactions**

During 2002, a shareholder who is also an employee and member of the Company's board of directors loaned the Company \$109,000. During 2003, the same shareholder loaned the Company an additional \$40,000. During 2005, the same shareholder loaned the Company an additional \$25,000. In December 2005, the Company approved a request from the shareholder to exchange the total loan amount of \$174,000 plus accrued interest of \$24,529 for 264,705 shares of common stock at \$0.75 per share which were committed to be issued at December 31, 2005. These shares were issued on January 3, 2006. In connection with this transaction which was based on the same terms as the private placement conducted at the same time, the Company also issued warrants to the shareholder to purchase up to 330,881 shares of common stock at an exercise price of \$0.935 per share. In December 2007, the employee exercised all of these warrants.

The Company paid a non-employee member of the Board \$82,500 for consulting services performed in 2009, and issued 70,000 shares of common stock at a fair market value of \$70,000 in July 2009.

The Company paid one non-employee member of the Board \$135,000 for consulting services performed in 2010. The Company paid another non-employee member of the Board \$56,500 for consulting services performed in 2010.

**Table of Contents**

The Company paid one non-employee member of the Board \$105,000 for consulting services performed in 2011 as of July 12, 2011, the day of his resignation from the Board. The Company paid two other non-employee members of the Board \$129,000 for consulting services performed as of December 31, 2011.

The Company paid one non-employee member of the board \$54,000 for consulting services performed as of December 31, 2012. The Company paid another non-employee member of the board \$75,000 for consulting services performed as of December 31, 2012 and issued 100,000 fully vested warrants in exchange for services. Consulting costs charged to operations were \$47,520 for the services for which these warrants were issued. 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. The Company paid a third non-employee member of the board \$75,000 for consulting services performed as of December 31, 2012.

**8. Income Taxes**

Reconciliations between the statutory federal income tax rate and the Company's effective tax rate follow:

Years Ended December 31,	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Federal statutory rate	\$ (4,273,000)	(34.0)	\$ (6,608,000)	(34.0)	\$ (6,308,000)	(34.0)
State taxes	(566,000)	(4.5)	(874,000)	(4.5)	(835,000)	(4.5)
Adjustment to valuation allowance	4,596,000	36.5	6,406,000	33.0	6,118,000	33.0
Non-deductible compensation	924,000	7.0	1,848,000	9.5	1,848,000	10.0
Gain on warrant liability	(681,000)	(5.0)	(772,000)	(4.0)	(823,000)	(4.5)
Actual tax benefit	\$		\$		\$	

The components of the Company's deferred income taxes are summarized below:

December 31,	2012	2011
Deferred tax assets		
Net operating loss carry-forwards	\$ 26,980,000	\$ 24,023,000
Stock-based compensation	6,245,000	5,447,000
Warrants for services	3,839,000	3,257,000
Deferred tax asset	37,064,000	32,727,000
Deferred tax liabilities		
Patent amortization	(1,896,000)	(2,155,000)
Valuation allowance	(35,168,000)	(30,572,000)
Net deferred taxes	\$	\$

A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. The Company is in the development stage and realization of the deferred tax assets is not considered more likely than not. As a result, the Company has recorded a valuation allowance for the net deferred tax asset.

Since inception of the Company on January 17, 2002, the Company has generated tax net operating losses of approximately \$72.0 million, expiring in 2022 through 2032. The tax loss carry-forwards of the Company may be subject to limitation by Section 382 of the Internal Revenue Code with respect to the amount utilizable each year. This limitation reduces the Company's ability to utilize net operating loss carry-forwards. The amount of the limitation has not been quantified by the Company. In addition, the Company acquired certain net operating losses in its acquisition of Valley Pharmaceuticals, Inc. (Note 2). However, the amount of these net operating losses has not been determined and even if recorded, the amount would be fully reserved. If the Company determines that there were net operating losses acquired, any realization of a deferred tax asset would be reflected as a tax benefit.



**Table of Contents**

The Company has determined that there are no uncertain tax positions as of December 31, 2012 or 2011 and does not expect any significant change within the next year.

**9. 401(K) Profit Sharing Plan**

In January 2007, the Company established the Provectus Pharmaceuticals, Inc. Cash Balance Defined Benefit Plan and Trust (the Plan), effective January 1, 2007, for the exclusive benefit of its four employees and their beneficiaries. In September 2010, the Company terminated the Cash Balance Defined Benefit Plan and Trust (the Plan) for its employees. There was an immaterial settlement charge that was not recorded after the termination of the Plan. The Company transferred approximately \$1,353,000 in assets from the Plan to the 401(K) Profit Sharing Plan of the Company which was formed in the three months ended September 30, 2010. Company contributions to the 401(K) Profit Sharing Plan are discretionary. Contributions made by the Company in 2010 totaled approximately \$497,000 and include the amounts originally contributed to the Plan in 2010. Contributions made by the Company in 2011 totaled approximately \$130,000. Contributions made by the Company in 2012 totaled approximately \$132,000 and are included in other accrued expenses.

**10. Fair Value of Financial Instruments**

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

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

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

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

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The fair value of derivative instruments is determined by management with the assistance of an independent third party valuation specialist. The warrant liability is a derivative instrument and is classified as Level 3. The Company used the Monte-Carlo Simulation model to estimate the fair value of the warrants except for the Series B Warrants. Significant assumptions used at December 31, 2012 for the 2010 warrants include a weighted average term of 2.2 years, a 5% probability that the warrant exercise price would be reset, a volatility range between 58.9% and 63.4% and a risk free interest rate range between 0.25% and 0.36%. Significant assumptions used at December 31, 2011 for the 2010 warrants include a weighted average term of 3.2 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.69% and a risk free interest rate of 0.595%. Significant assumptions used at December 31, 2012 for the 2011 Series A and C Warrants include a weighted average term of 3.0 years, a 5% probability that the warrant exercise price would be reset, a volatility range between 58.9% and 63.4% and a risk free interest rate range between 0.25% and 0.36%. Significant assumptions used at December 31, 2011 for the 2011 Series A and C Warrants include a weighted average term of 4.0 years, a 5% probability that the warrant exercise price would be reset, volatility of 66.69% and a risk free interest rate of 0.83%. As of December 31, 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 December 31, 2012	\$ 1,299,570	\$	\$	\$ 1,299,570
Warrant liability at December 31, 2011	\$ 3,067,488	\$	\$	\$ 3,067,488

**Table of Contents**

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 December 31, 2012 follows:

Balance at January 1, 2011	\$ 2,353,396
Issuance of warrants	3,204,197
Net gain included in earnings	(2,004,638)
Exercise of warrants	(485,467)
 Balance at December 31, 2011	 \$ 3,067,488
 Balance at January 1, 2012	 \$ 3,067,488
Issuance of warrants	
Net gain included in earnings	(1,767,918)
Exercise of warrants	
 Balance at December 31, 2012	 \$ 1,299,570

**11. Subsequent Events**

The Company has evaluated subsequent events through the date of the filing of these financial statements. 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 \$0.01 per share, and a warrant to purchase one and one-quarter shares of the Company's common stock, par value \$0.01 per share (subject to adjustment) at an exercise price of \$1.00 per whole share (subject to adjustment). 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 entered into a Placement Agent's Agreement dated March 11, 2013, with Network 1 Financial Securities, Inc. ( "Network 1" ) as placement agent, which allows for the sale of the Company's common stock at a purchase price of \$0.75 per share and 100% warrant coverage to purchase shares of common stock at an exercise price of \$1.00 per share. The Company also entered into a Placement Agent's Agreement, dated March 11, 2013, with Network 1 as placement agent, which allows for the sale of Units, each Unit consisting of the right to receive shares of common stock of up to four wholly-owned subsidiaries of the Company and a warrant to purchase three-fourths ( $\frac{3}{4}$ ) of one share of the Company's common stock.

Subsequent to year end, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$2,620,634. The Company accepted subscriptions, in the aggregate, for 3,494,179 shares of common stock, and five year warrants to purchase 3,494,179 shares of common stock. Investors received five year fully vested warrants to purchase up to 100% 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 \$340,682 and issued five year fully vested warrants to purchase 349,418 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.

**Table of Contents****12. Selected Quarterly Financial Data (Unaudited)**

The following tables present a summary of quarterly results of operations for 2012 and 2011:

	March 31, 2012	Three Months Ended		December 31, 2012
		June 30, 2012	September 30, 2012	
	(in thousands, except per share data)			
<b>Consolidated Statement of Operations Data:</b>				
Total revenues	\$	\$	\$	\$
Total operating loss	(4,205)	(4,285)	(3,594)	(2,253)
Other income (expense), net	(263)	453	1,247	332
Net loss	(4,468)	(3,833)	(2,347)	(1,921)
Dividends on preferred stock	(50)	(51)	(44)	(38)
Net loss applicable to common stockholders	\$ (4,518)	\$ (3,884)	\$ (2,391)	\$ (1,959)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding basic and diluted	110,775	112,267	113,167	115,948

	March 31, 2011	Three Months Ended		December 31, 2011
		June 30, 2011	September 30, 2011	
	(in thousands, except per share data)			
<b>Consolidated Statement of Operations Data:</b>				
Total revenues	\$	\$	\$	\$
Total operating loss	(4,193)	(5,379)	(7,471)	(4,398)
Other income (expense), net	(811)	844	1,028	945
Net loss	(5,004)	(4,535)	(6,443)	(3,453)
Dividends on preferred stock	(70)	(64)	(59)	(54)
Net loss applicable to common stockholders	\$ (5,074)	\$ (4,599)	\$ (6,502)	\$ (3,507)
Basic and diluted loss per common share	\$ (0.05)	\$ (0.04)	\$ (0.06)	\$ (0.03)
Weighted average number of common shares outstanding basic and diluted	97,991	105,794	109,100	110,017

**Table of Contents**

**PROVECTUS PHARMACEUTICALS, INC.**

8,453,941 Shares of Common Stock

PROSPECTUS

**APRIL 16, 2013**