PROVECTUS PHARMACEUTICALS INC
Form 10-Q
May 17, 2010

United States
Securities And Exchange Commission
Washington, DC 20549

FORM 10-Q

(Mark One)

x Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2010

OR

oTransition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to _______________

Commission file number: 0-9410

Provectus Pharmaceuticals, Inc.
(Exact Name of Registrant as Specified in its Charter)

Nevada	90-0031917
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

7327 Oak Ridge Highway Suite A, Knoxville, TN 37931
(Address of Principal Executive Offices)

866/594-5999
(Issuer's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):

Large Accelerated Filer	o	Accelerated Filer	o
Non-Accelerated Filer	o	Smaller reporting company	x

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

The number of shares outstanding of the issuer's common stock, $0.001 par value per share, as of April 23, 2010 was 78,010,255. The number of shares outstanding of the issuer's preferred stock, $0.001 par value per share, as of April 23, 2010 was 10,583,324.

Transitional Small Business Disclosure Format (check one): Yes o No x

Item 1. Financial Statements

PROVECTUS PHARMACEUTICALS, INC.
(A Development-Stage Company)

CONSOLIDATED BALANCE SHEETS

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 11,440,926	$ 3,237,178
Prepaid expenses and other current assets	328,628	--
Total Current Assets	11,769,554	3,237,178
Equipment and Furnishings, less accumulated depreciation of $403,193 and $400,587	27,569	30,175
Patents, net of amortization of $4,943,917 and $4,776,137, respectively	6,771,528	6,939,308
Other assets	27,000	27,000
	$ 18,595,651	$ 10,233,661
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable – trade	$ 202,457	$ 220,251
Accrued compensation and payroll taxes	176,923	149,836
Accrued consulting expense	--	42,260
Pension liability	--	345,000
Other accrued expenses	148,550	69,804
Total Current Liabilities	527,930	827,151
Stockholders' Equity		
Preferred stock; par value $.001 per share; 25,000,000 shares authorized; 10,583,324 and no shares issued and outstanding, respectively; liquidation preference $0.75 per share (in aggregate $7,937,449)	10,583	--
	72,791	67,410

Common stock; par value $.001 per share; 150,000,000 shares authorized; 72,791,241 and 67,410,226 shares issued and outstanding, respectively		
Paid-in capital	88,650,285	77,137,021
Deficit accumulated during the development stage	(70,665,938)	(67,797,921)
Total Stockholders' Equity	18,067,721	9,406,510
	$ 18,595,651	$ 10,233,661

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Cumulative Amounts from January 17, 2002 (Inception) Through March 31, 2010
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	792,934	915,933	21,661,129
General and administrative	1,907,353	1,299,424	35,865,828
Amortization	167,780	167,780	4,943,917
Total operating loss	(2,868,067)	(2,383,137)	(62,446,333)
Gain on sale of fixed assets	--	--	55,075
Loss on extinguishment of debt	--	--	(825,867)
Investment income	50	1,174	649,191
Net interest expense	--	--	(8,098,004)
Net loss	$ (2,868,017)	(2,381,963)	(70,665,938)
Dividends on preferred stock	(8,357,584)	--	
Net loss applicable to common shareholders	$ (11,225,601)	(2,381,963)	
Basic and diluted loss per common share	$ (0.16)	(0.04)	
Weighted average number of common	69,004,545	53,263,059	

shares outstanding – basic and diluted

See accompanying notes to consolidated financial statements.

PROVECTUS PHARMACEUTICALS, INC.
(A Development-Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Preferred Stock		Common Stock				
	Number of Shares	Par Value	Number of Shares	Par Value	Paid in capital	Accumulated Deficit	Total
Balance, at January 17 2002	--	$ --	--$	--	$ --	$ --	$ --
Issuance to founding shareholders	--	--	6,000,000	6,000	(6,000)	--	--
Sale of stock	--	--	50,000	50	24,950	--	25,000
Issuance of stock to employees	--	--	510,000	510	931,490	--	932,000
Issuance of stock for services	--	--	120,000	120	359,880	--	360,000
Net loss for the period from January 17, 2002 (inception) to April 23, 2002 (date of reverse merger)	--	--	--	--	--	(1,316,198)	(1,316,198)
Balance, at April 23, 2002	--$	--	6,680,000$	$ 6,680	$ 1,310,320	(1,316,198)	$ 802
Shares issued in reverse merger	--	--	265,763	266	(3,911)	--	(3,645)
Issuance of stock for services	--	--	1,900,000	1,900	5,142,100	--	5,144,000
Purchase and retirement of stock	--	--	(400,000)	(400)	(47,600)	--	(48,000)
Stock issued for acquisition of Valley Pharmaceuticals	--	--	500,007	500	12,225,820	--	12,226,320
Exercise of warrants	--	--	452,919	453	--	--	453
Warrants issued in connection with convertible debt	--	--	--	--	126,587	--	126,587
Stock and warrants issued for acquisition of	--	--	25,000	25	26,975	--	27,000

Pure-ific							
Net loss for the period from April 23, 2002 (date of reverse merger) to December 31,2002	--	--	--	--	--	(5,749,937)	(5,749,937)
Balance, at December 31, 2002	--$	--	9,423,689	$ 9,424	$ 18,780,291	$ (7,066,135)	$ 11,723,580
Issuance of stock for services	--	--	764,000	764	239,036	--	239,800
Issuance of warrants for services	--	--	--	--	145,479	--	145,479
Stock to be issued for services	--	--	--	--	281,500	--	281,500
Employee compensation from stock options	--	--	--	--	34,659	--	34,659
Issuance of stock pursuant to Regulation S	--	--	679,820	680	379,667	--	380,347
Beneficial conversion related to convertible debt	--	--	--	--	601,000	--	601,000
Net loss for the year ended December 31, 2003	--	--	--	--	--	(3,155,313)	(3,155,313)
Balance, at December 31, 2003	--$	--	10,867,509	$ 10,868	$ 20,461,632	$ (10,221,448)	$ 10,251,052
Issuance of stock for services	--	--	733,872	734	449,190	--	449,923
Issuance of warrants for services	--	--	--	--	495,480	--	495,480
Exercise of warrants	--	--	132,608	133	4,867	--	5,000
Employee compensation from stock options	--	--	--	--	15,612	--	15,612
Issuance of stock pursuant to Regulation S	--	--	2,469,723	2,469	790,668	--	793,137
Issuance of stock pursuant to	--	--	1,930,164	1,930	1,286,930	--	1,288,861

Regulation D							
Beneficial conversion related to convertible debt	--	--	--	--	360,256	--	360,256
Issuance of convertible debt with warrants	--	--	--	--	105,250	--	105,250
Repurchase of beneficial conversion feature	--	--	--	--	(258,345)	--	(258,345)
Net loss for the year ended December 31, 2004	--	--	--	--	--	(4,344,525)	(4,344,525)
Balance, at December 31, 2004	$ --	--	16,133,876	$ 16,134	$ 23,711,540	(14,565,973)	$ 9,161,701

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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 pursuant to Regulation D	--	--	6,221,257	6,221	6,506,955	--	6,513,176
Debt conversion to common stock	--	--	3,405,541	3,405	3,045,957	--	3,049,362
Issuance of warrants with convertible debt	--	--	--	--	1,574,900	--	1,574,900
Beneficial conversion related to convertible debt	--	--	--	--	1,633,176	--	1,633,176
Beneficial conversion related to interest expense	--	--	--	--	39,529	--	39,529
Repurchase of beneficial conversion feature	--	--	--	--	(144,128)	--	(144,128)
Net loss for the year ended 2005	--	--	--	--	--	(11,763,853)	(11,763,853)
Balance, at December 31, 2005	$ --	--	27,822,977	$ 27,823	$ 40,689,144	$ (26,329,826)	$ 14,387,141
Issuance of stock for services	--	--	719,246	719	676,024	--	676,743
Issuance of stock for interest payable	--	--	194,327	195	183,401	--	183,596
Issuance of warrants for services	--	--	--	--	370,023	--	370,023
Exercise of warrants and stock options	--	--	1,245,809	1,246	1,188,570	--	1,189,816
Employee compensation from stock options	--	--	--	--	1,862,456	--	1,862,456
Issuance of stock pursuant to Regulation	--	--	10,092,495	10,092	4,120,329	--	4,130,421

D

Debt conversion to common stock	--	--	2,377,512	2,377	1,573,959	--	1,576,336
Beneficial conversion related to interest expense	--	--	--	--	16,447	--	16,447
Net loss for the year ended 2006	--	--	--	--	--	(8,870,579)	(8,870,579)
Balance, at December 31, 2006	$ --	--	42,452,366	$ 42,452	$ 50,680,353	$ (35,200,405)	$ 15,522,400
Issuance of stock for services	--	--	150,000	150	298,800	--	298,950
Issuance of stock for interest payable	--	--	1,141	1	1,257	--	1,258
Issuance of warrants for services	--	--	--	--	472,635	--	472,635
Exercise of warrants and stock options	--	--	3,928,957	3,929	3,981,712	--	3,985,641
Employee compensation from stock options	--	--	--	--	2,340,619	--	2,340,619
Issuance of stock pursuant to Regulation D	--	--	2,376,817	2,377	1,845,761	--	1,848,138
Debt conversion to common stock	--	--	490,000	490	367,010	--	367,500
Net loss for the year ended 2007	--	--	--	--	--	(10,005,631)	(10,005,631)
Balance, at December 31, 2007	$ --	--	49,399,281	$ 49,399	$ 59,988,147	$ (45,206,036)	$ 14,831,510
Issuance of stock for services	--	--	350,000	350	389,650	--	390,000
Issuance of warrants for services	--	--	--	--	517,820	--	517,820
Exercise of warrants and stock options	--	--	3,267,795	3,268	2,636,443	--	2,639,711
Employee compensation from stock options	--	--	--	--	1,946,066	--	1,946,066
Net loss for the year ended 2008	--	--	--	--	--	(10,269,571)	(10,269,571)
Balance, at December 31, 2008	$ --	--	53,017,076	$ 53,017	$ 65,478,126	$ (55,475,607)	$ 10,055,536
Issuance of stock for services	--	--	796,012	796	694,204	--	695,000
	--	--	--	--	1,064,210	--	1,064,210

Issuance of warrants for services							
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 pursuant to Regulation D			10,116,653	10,117	6,508,571	--	6,518,688
Net loss for the year ended 2009	--	--	--	--	--	(12,322,314)	(12,322,314)
Balance, at December 31, 2009	--	$ --	67,410,226	$ 67,410	$ 77,137,021	$ (67,797,921)	$ 9,406,510

Issuance of stock for services	--	--	193,750	194	190,494	--	190,688
Issuance of warrants for services	--	--	--	--	528,953	--	528,953
Exercise of warrants and stock options	--	--	1,671,001	1,671	1,491,747	--	1,493,418
Issuance of common stock pursuant to Regulation S	--	--	250,000	250	187,250	--	187,500
Issuance of common stock pursuant to Regulation D	--	--	3,266,264	3,266	2,242,272	--	2,245,538
Issuance of preferred stock pursuant to Regulation D	10,583,324	10,583	--	--	6,872,548	--	6,883,131
Net loss for the three months ended March 31, 2010	--	--	--	--	--	(2,868,017)	(2,868,017)
Balance, at March 31, 2010	10,583,324	$ 10,583	72,791,241	$72,791	$88,650,285	$(70,665,938)	$ 18,067,721

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Cumulative Amounts from January 17, 2002 (Inception) through March 31, 2010
Cash Flows From Operating Activities			
Net loss	$ (2,868,017)	$ (2,381,963)	$ (70,665,938)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	2,606	2,314	426,194
Amortization of patents	167,780	167,780	4,943,917
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	--	320,000	7,086,101
Compensation through issuance of stock	--	--	932,000
Issuance of stock for services	190,688	70,250	7,598,336
Issuance of warrants for services	528,953	149,437	3,126,787
Issuance of warrants for contractual obligations	--	--	985,010
Gain on sale of equipment	--	--	(55,075)
(Increase) decrease in assets			
Prepaid expenses and other current assets	(328,628)	(32,298)	(328,628)
Increase (decrease) in liabilities			
Accounts payable	(17,794)	(132,472)	198,812
Accrued expenses	(281,427)	176,516	475,103
Net cash used in operating activities	(2,605,839)	(1,660,436)	(36,429,340)
Cash Flows From Investing Activities			
Proceeds from sale of fixed assets	--	--	180,075

Capital expenditures	--	--	(67,888)
Proceeds from investments	--	--	37,010,481
Purchases of investments	--	--	(36,637,186)
Net cash provided by investing activities	--	--	485,482
Cash Flows From Financing Activities			
Net proceeds from loans from stockholder	--	--	174,000
Proceeds from convertible debt	--	--	6,706,795
Net proceeds from sales of preferred stock	6,883,131		6,883,131
Net proceeds from sales of common stock	2,433,038	--	23,930,807
Proceeds from exercises of warrants and stock options	1,493,418	219,084	13,042,141
Cash received in advance for pending stock transaction	--	144,000	--
Cash paid to retire convertible debt	--	--	(2,385,959)
Cash paid for deferred loan costs	--	--	(747,612)
Premium paid on extinguishments of debt	--	--	(170,519)
Purchase and retirement of common stock	--	--	(48,000)
Net cash provided by financing activities	10,809,587	363,084	47,384,784

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Cumulative Amounts from January 17, 2002 (Inception) through March 31, 2010
Net change in cash and cash equivalents	$ 8,203,748	$ (1,297,352)	$ 11,440,926
Cash and cash equivalents, at beginning of period	$ 3,237,178	$ 2,796,020	$ --
Cash and cash equivalents, at end of period	$ 11,440,926	$ 1,498,668	$ 11,440,926

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information pursuant to Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. The Company has evaluated subsequent events through the date the financial statements were issued.

2. Recapitalization and Merger

Provectus Pharmaceuticals, Inc., formerly known as "Provectus Pharmaceutical, Inc." and "SPM Group, Inc.," was incorporated under Colorado law on May 1, 1978. SPM Group ceased operations in 1991, and became a development-stage company effective January 1, 1992, with the new corporate purpose of seeking out acquisitions of properties, businesses, or merger candidates, without limitation as to the nature of the business operations or geographic location of the acquisition candidate.

On April 1, 2002, SPM Group changed its name to "Provectus Pharmaceutical, Inc." and reincorporated in Nevada in preparation for a transaction with Provectus Pharmaceuticals, Inc., a privately-held Tennessee corporation ("PPI"). On April 23, 2002, an Agreement and Plan of Reorganization between Provectus Pharmaceutical and PPI was approved by the written consent of a majority of the outstanding shares of Provectus Pharmaceutical. As a result, Provectus Pharmaceuticals, Inc. issued 6,680,000 shares of common stock in exchange for all of the issued and outstanding shares of PPI. As part of the acquisition, Provectus Pharmaceutical changed its name to "Provectus Pharmaceuticals, Inc." and PPI became a wholly-owned subsidiary of Provectus. This transaction was recorded as a recapitalization of PPI.

On November 19, 2002, the Company acquired Valley Pharmaceuticals, Inc., a privately-held Tennessee corporation formerly known as Photogen, Inc., by merging PPI with and into Valley and naming the surviving corporation "Xantech Pharmaceuticals, Inc." Photogen, Inc. was separated from Photogen Technologies, Inc. in a non-pro-rata split-off to some of its shareholders. The assets of Photogen, Inc. consisted primarily of the equipment and intangibles related to its therapeutic activity and were recorded at their fair value. The majority shareholders of Valley were also the majority shareholders of Provectus. Valley had no revenues prior to the transaction with the Company. By acquiring Valley, the Company acquired its intellectual property, including issued U.S. patents and patentable inventions.

3. Basic and Diluted Loss Per Common Share

Basic and diluted loss per common share is computed based on the weighted average number of common shares outstanding. Loss per share excludes the impact of outstanding options and warrants and convertible preferred stock as they are antidilutive. Potential common shares excluded from the calculation at March 31, 2010 and 2009 relate to 26,521,566 and 20,976,672 from warrants, 8,623,843 and 8,848,427 from options, and 10,583,324 and zero from convertible preferred shares. Included in the weighted average number of shares outstanding are 1,585,411 common shares committed to be issued but not outstanding at March 31, 2010.

4. Equity Transactions

(a) 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.

(b) 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.

(c) 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 a total of four 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 is 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. 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 and which were issued in April 2010. The Company paid $127,190, and is 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. 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 a total of two 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.

(d) 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 off-set against the proceeds received, which are for general corporate purposes. Dividends on the 8% Convertible Preferred Stock accrue at an annual rate of 8% of the original issue price and are payable in either cash or common stock. If the dividend is paid in common stock, the number of shares of common stock will equal the quotient of the amount of cash dividends divided by the market price of the stock on the dividend payment date. The dividends are payable quarterly on the 15th day after the quarter-end. The Company anticipates paying the dividends in common stock. The Company has a deficit and, as a result, the dividends will be recorded against additional paid-in capital. At March 31, 2010, the Company has accrued dividends of $34,794 which are included in dividends on preferred stock on the consolidated statement of operations.

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. Each share of preferred

stock is convertible 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 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

The proceeds received from the issuance of the preferred stock were allocated on a pro rata basis between the preferred stock and the warrants based on the fair value of the preferred stock and warrants on the date of issuance. The fair value of the preferred stock if converted on the date of issuance was greater than the pro rata value allocated to the preferred stock. As a result, a beneficial conversion amount of $8,322,790 was recorded upon issuance of the preferred stock. This beneficial conversion amount has been recorded as a deemed dividend as of March 31, 2010 and is included in dividends on preferred stock on the consolidated statement of operations.

5. 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. For purposes of estimating the fair value of each stock option on the date of grant, the Company utilized the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected volatility factor of the market price of the Company’s common stock (as determined by reviewing its historical public market closing prices). Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. Included in the results for the three months ended March 31, 2010 and 2009, is $0 and $320,000, respectively, of stock-based compensation expense which relates to the fair value of stock options.

6. Related Party Transaction

The Company paid a non-employee member of the Board $22,500 for consulting services performed as of March 31, 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

Capital Structure

Our ability to continue as a going concern is reasonably assured due to our financing completed during 2009 and thus far in 2010, and warrants exercised in 2009 and thus far in 2010. Given our current rate of expenditures, we do not need to raise additional capital unless we commercialize PV-10 on our own to treat metastatic melanoma. Additionally, our existing funds are sufficient to meet what we expect to be minimal necessary expenses until 2012.

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

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

Our current plans include continuing to operate with our four employees during the immediate future, but we have added two additional consultants to the two we already had, and anticipate adding 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

With the reorganization of Provectus and PPI and the acquisition and integration into the Company of Valley and Pure-ific, we believe we have obtained a unique combination of core intellectual properties and OTC and other non-core products. This combination represents the foundation for an operating company that we believe will provide both profitability and long-term growth. In 2009 and thus far in 2010, we continued to carefully control expenditures in preparation for both the licensure of PH-10 and the asset sale and licensure or spin out of our OTC products, medical device, imaging, and biotech technologies, and we will issue equity only when it makes sense and primarily for purposes of attracting strategic investors. In the longer term, we expect to continue the process of developing, testing and obtaining the approval of the U. S. Food and Drug Administration (FDA) for prescription drugs in particular.

We have continued to make significant progress with the major research and development projects, most of which have been nearly completed. The Phase 2 trial in metastatic melanoma has been significantly completed, which has cost approximately $3,018,000 through March 31, 2010 and is not expected to incur additional cost. Additionally, we planned $675,000 of expenditures in 2007 and 2008 to substantially advance our work with other oncology indications which included the third group of our expanded Phase 1 breast carcinoma clinical trial. The third group of our expanded Phase 1 breast carcinoma clinical trial was completed in September 2008. Our Phase 2 psoriasis trial commenced in November 2007 and was completed in December 2009. The study was expected to cost approximately $1,725,000, of which approximately $1,678,000 was expended which closes out the study. Our Phase 2 atopic dermatitis trial commenced in May 2008 and was completed in October 2009. The cost is included in the psoriasis trial budget and actual figures. Our Phase 1 liver cancer trial commenced in October 2009 and is expected to cost approximately $629,000, of which approximately $506,000 has been expended thus far.

We anticipate expending $123,000 during the remainder of 2010 after March 31, 2010 for direct clinical trial expense which includes the remaining expenditures for all projects currently planned unless we determine a Phase 3 trial in metastatic melanoma is appropriate. If a Phase 3 trial is not necessary per guidance from the FDA, we will determine if any additional clinical trial expense is beneficial to further developing our core technologies while we seek to license both PH-10 and potentially PV-10 depending on the timing for the optimal deal structure for our stockholders. The table below summarizes our projects, the actual costs expended to date and costs expected for 2010.

Projects	Planned Project Cost	Expenditures through March 31, 2010	Remaining after March 31, 2010
Melanoma	$ 3,018,000	$ 3,018,000	$ -0-
Breast/Other	$ 675,000	$ 675,000	$ -0-
Psoriasis/AD	$ 1,678,000	$ 1,678,000	$ -0-
Liver	$ 629,000	$ 506,000	$ 123,000

Comparison of Three Months Ended March 31, 2010 and March 31, 2009

Revenues

OTC Product Revenue was $-0- in both the three months ended March 31, 2010 and 2009. We discontinued our proof-of-concept program in November 2006 and have therefore ceased selling our OTC products. There was no medical device revenue in both the three months ended March 31, 2010 and 2009. The lack of medical device revenue resulted due to no emphasis on selling. The Company has designated the OTC and medical device products as non-core and is considering the sale of the underlying assets in conjunction with the planned spin-out of the respective wholly-owned subsidiaries.

Research and development

Research and development costs of $792,934 for the three months ended March 31, 2010 included payroll of $579,440, consulting and contract labor of $90,610, legal of $32,809, insurance of $12,500, lab supplies and pharmaceutical preparations of $58,232, rent and utilities of $16,737, and depreciation expense of $2,606. Research and development costs of $915,933 for the three months ended March 31, 2009 included payroll of $517,437, consulting and contract labor of $272,083, legal of $51,789, insurance of $32,328, lab supplies and pharmaceutical preparations of $22,175, rent and utilities of $17,807, and depreciation expense of $2,314. Consulting and contract labor has decreased for the three months ended March 31, 2010 versus 2009 mainly due to the completion of the Phase 2 studies at the end of 2009.

General and administrative

General and administrative expenses increased by $607,929 in the three months ended March 31, 2010 to $1,907,353 from $1,299,424 for the three months ended March 31, 2009. Approximately $500,000 of this increase is due to investor relations expense incurred to prepare for further awareness of the Company’s progress in both its oncology and dermatology programs.

Investment income

Investment income decreased by $1,124 in the three months ended March 31, 2010 to $50 from $1,174 in the three months ended March 31, 2009.

Cash Flow

Our cash and cash equivalents were $11,440,926 at March 31, 2010, compared with $3,237,178 at December 31, 2009. The increase of approximately $8.2 million was due primarily to cash provided from sales of equity securities and the exercises of warrants during the three months ended March 31, 2010 which was greater than cash 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 in 2010 and until 2012 without additional cash inflows from the exercise of existing warrants or sales of equity securities. We have enough cash on hand to fund operations until 2012 with the cash on hand at March 31, 2010 as well as through financing completed thus far in 2010.

We are seeking to improve our cash flow through both the licensure of PH-10 on the basis of our Phase 2 atopic dermatitis and psoriasis results, and the majority stake asset sale and licensure of our OTC products as well as other non-core assets. However, we cannot assure you that we will be successful in either licensing PH-10 or selling a majority stake of the OTC and other non-core assets via a spin-out transaction and licensing our existing non-core products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless plan to seek additional funds to meet our long-term requirements in 2012 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.

Capital Resources

As noted above, our present cash flow is 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 determine to undertake ourselves versus with a partner. We anticipate that any required funds for our operating and development needs in 2012 and beyond will come from the proceeds of private placements, the exercise of existing warrants outstanding, or public offerings of debt or equity securities. While we believe that we have a reasonable basis for our expectation that we will be able to raise additional funds, we cannot assure you that we will be able to complete additional financing in a timely manner. In addition, any such financing may result in significant dilution to shareholders.

Critical Accounting Policies

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 7-12 years. Annual amortization of the patents is expected to be approximately $671,000 for the next five years.

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 utilized the Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected volatility factor of the market price of the company's common stock (as determined by reviewing its historical public market closing prices). Because 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: consulting - IT, depreciation, lab equipment repair, lab supplies and pharmaceutical preparations, insurance, legal - patents, office supplies, payroll expenses, rental - building, repairs, software, taxes and fees, and utilities.

New Accounting Pronouncements

None.

Contractual Obligations - Leases

We lease office and laboratory space in Knoxville, Tennessee, on an annual basis, renewable for one year at our option. We are committed to pay a total of $13,500 in lease payments through June 2010, which is the remainder of our current lease term at March 31, 2010.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements regarding, among other things, our anticipated financial and operating results. Forward-looking statements reflect our management's current assumptions, beliefs, and expectations. Words such as "anticipate," "believe, "estimate," "expect," "intend," "plan," and similar expressions are intended to identify forward-looking statements. While we believe that the expectations reflected in our forward-looking statements are reasonable, we can give no assurance that such expectations will prove correct. Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from the future results, performance, or achievements expressed in or implied by any forward-looking statement we make. Some of the relevant risks and uncertainties that could cause our actual performance to differ materially from the forward-looking statements contained in this report are discussed below under the heading "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. We caution investors that these discussions of important risks and uncertainties are not exclusive, and our business may be subject to other risks and uncertainties which are not detailed there.

Investors are cautioned not to place undue reliance on our forward-looking statements. We make forward-looking statements as of the date on which this Quarterly Report on Form 10-Q is filed with the SEC, and we assume no obligation to update the forward-looking statements after the date hereof whether as a result of new information or events, changed circumstances, or otherwise, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

None.

Item 4T. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer have evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" (as that term is defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2010, the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that material information relating to the Company and the Company's consolidated subsidiaries is made known to such officers by others within these entities, particularly during the period this Quarterly Report on Form 10-Q was prepared, in order to allow timely decisions regarding required disclosure.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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 a total of four 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 is 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. 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 and which were issued in April 2010. The Company paid $127,190, and is 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. 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 a total of two 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.

We believe the issuances described above were exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) and Regulation D and by Regulation S.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved]

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated May 14, 2010, executed by H. Craig Dees, Ph.D., Chief Executive Officer of the Company.

31.2 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated May 14, 2010, executed by Peter R. Culpepper, Chief Financial Officer of the Company.

32.1 Certification Pursuant to 18 U.S.C. ss. 1350 (Section 906 Certification), dated May 14, 2010, executed by H. Craig Dees, Ph.D., Chief Executive Officer of the Company, and Peter R. Culpepper, Chief Financial Officer of the Company.

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Provectus Pharmaceuticals, Inc.

Date: May 14, 2010	By:	/s/ H. Craig Dees, Ph.D. H. Craig Dees, Ph.D. Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	Description
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