PROVECTUS PHARMACEUTICALS INC
Form 10QSB
August 15, 2005

United States Securities And Exchange Commission
Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

[ ] Transition 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 Small Business Issuer 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)	(Zip Code)

865/769-4011

(Issuer's Telephone Number, Including Area Code)

N/A

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

Check whether the issuer: (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 [ ]

The number of shares outstanding of the issuer's stock, $0.001 par value per share, as of June 30, 2005 was 17,086,052.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

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

		June 30, 2005	
		(Unaudited)	
Assets			
Current Assets			
Cash	$	604,130	$
Inventory		75,591	
Prepaid expenses and other current assets		1,512	
Prepaid consulting expense		102,397	
Prepaid commitment fee, net of amortization of $192,482 and $38,326		118,384	
Total Current Assets		902,014	
Equipment and Furnishings, less accumulated depreciation of $367,095 and $366,571		11,324	
Patents, net of amortization of $1,756,097 and $1,420,537		9,959,348	
Deferred loan costs, net of amortization of $120,455 and $35,922		693,745	
Other Assets		27,000	
	$	11,593,431	$
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable - trade	$	147,321	$
Accrued compensation		152,244	
Accrued expenses		17,200	
Accrued interest		184,590	
Other convertible debt, net of debt discount of $774,886 and $-0-		225,114	
Gryffindor convertible debt, net of debt discount of $40,820 and $95,157		1,145,139	
Total Current Liabilities		1,871,608	
Loan From Stockholder		174,000	
Cornell convertible debt, net of debt discount of $-0- and $316,053		-	
Other convertible debt, net of debt discount of $1,549,769 and $-0-		450,231	
Stockholders' Equity			
Common stock; par value $.001 per share; 100,000,000 shares authorized; 17,086,052 and 16,133,876 shares issued and outstanding, respectively		17,086	
Paid-in capital		28,093,407	
Deficit accumulated during the development stage		(19,012,901)	
Total Stockholders' Equity		9,097,592	
	$	11,593,431	$

See accompanying notes to financial statements.

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	J
	(Unaudited)	(Unaudited)	(Unaudited)	
Revenues				
OTC Product Revenue	$ 1,672	$ 835	$ 4,066	
Medical Device Revenue	-	-	984	
Total revenues	1,672	835	5,050	
Cost of Sales	1,069	534	2,609	
Gross Profit	603	301	2,441	
Operating Expenses				
Research and development	$ 1,005,610	$ 246,185	$ 1,298,637	$
General and administrative	558,791	332,540	1,141,542	
Amortization	167,780	167,780	335,560	
Total operating loss	(1,731,578)	(746,204)	(2,773,298)	
Gain on sale of fixed assets	-	-	-	
Loss on extinguishment of debt	(376,487)	(100,519)	(413,455)	
Net interest (expense) income	(967,280)	(474,789)	(1,260,175)	
Net Loss Applicable to Common Stockholders	$ (3,075,345)	$ (1,321,512)	$ (4,446,928)	$
Basic and Diluted Loss Per Common Share	(0.18)	(0.10)	(0.27)	
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	16,789,415	13,714,234	16,534,946	

See accompanying notes to financial statements.

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

	Common St		
	Number of Shares	Par Value	Paid-in Capital
Balance, at January 17, 2002	-	$ -	$ -
Issuance to founding shareholders	6,000,000	6,000	(6,000
Sale of stock	50,000	50	24,95
Issuance of stock to employees	510,000	510	931,49
Issuance of stock for services	120,000	120	359,88
Net loss for the period from January 17, 2002 (inception) to April 23, 2002 (date of reverse merger)	-	-	
Balance, at April 23, 2002	6,680,000	6,680	1,310,32
Shares issued in reverse merger	265,763	266	(3,91
Issuance of stock for services	1,900,000	1,900	5,142,10
Purchase and retirement of stock	(400,000)	(400)	(47,60
Stock issued for acquisition of Valley Pharmaceuticals	500,007	500	12,225,82
Exercise of warrants	452,919	453	
Warrants issued in connection with convertible debt	-	-	126,58
Stock and warrants issued for acquisition of Pure-ific	25,000	25	26,97
Net loss for the period from April 23, 2002 (date of reverse merger) to December 31, 2002	-	-	
Balance, at December 31, 2002	9,423,689	9,424	18,780,29
Issuance of stock for services	764,000	764	239,03
Issuance of warrants for services	-	-	145,47
Stock to be issued for services	-	-	281,50
Employee compensation from stock options	-	-	34,65
Issuance of stock pursuant to Regulation S	679,820	680	379,66
Beneficial conversion related to convertible debt	-	-	601,00
Net loss for the year ended December 31, 2003	-	-	
Balance, at December 31, 2003	10,867,509	$ 10,868	$ 20,461,63
Issuance of stock for services	733,872	734	449,19
Issuance of warrants for services	-	-	495,48
Exercise of warrants	132,608	133	4,86
Employee compensation from stock options	-	-	15,61
Issuance of stock pursuant to Regulation S	2,469,723	2,469	790,66

Issuance of stock pursuant to Regulation D	1,930,164	1,930	1,286,93
Beneficial conversion related to convertible debt	-	-	360,25
Issuance of convertible debt with warrants	-	-	105,25
Repurchase of beneficial conversion feature	-	-	(258,34
Net loss for the year ended December 31, 2004	-	-	
Balance, at December 31, 2004	16,133,876	$ 16,134	$ 23,711,54
Issuance of stock for services	226,733	227	152,05
Issuance of warrants for services	-	-	720,83
Issuance of warrants for contractual obligations	-	-	317,81
Exercise of warrants	10,000	10	9,99
Employee compensation from stock options	-	-	7,87
Issuance of stock pursuant to Regulation D	444,999	445	300,93
Debt conversion to common stock	270,444	270	202,56
Issuance of convertible debt with warrants	-	-	1,574,90
Beneficial conversion related to convertible debt	-	-	1,228,24
Beneficial conversion related to interest expense	-	-	10,78
Repurchase of beneficial conversion feature	-	-	(144,12
Net loss for the six months ended June 30, 2005	-	-	
Balance, at June 30, 2005	17,086,052	$ 17,086	$ 28,093,40

See accompanying notes to financial statements.

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

	Six Months Ended June 30, 2005	Six Month Ended June 30, 2
Cash Flows From Operating Activities		
Net loss	$ (4,446,928)	$ (2,361,8
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	524	92,5
Amortization of patents	335,560	335,5
Amortization of original issue discount	587,739	474,2
Amortization of commitment fee	154,156	
Amortization of prepaid consultant expense	248,940	305,6
Amortization of deferred loan costs	164,590	150,9
Loss on extinguishment of debt	413,455	
Beneficial conversion of convertible interest and conversion of interest	13,614	

Compensation through issuance of stock options	7,876	7,8
Compensation through issuance of stock	-	
Issuance of stock for services	152,286	11,5
Issuance of warrants for services	225,224	18,8
Issuance of warrants for contractual obligations	317,818	
Gain on sale of equipment	-	
(Increase) decrease in assets		
Prepaid consulting expenses	(77,000)	
Prepaid expenses	19,070	5,6
Inventory	18,551	4,6
Increase (decrease) in liabilities		
Accounts payable	(6,893)	(20,6
Accrued expenses	147,747	(97,8
Net cash used in operating activities	(1,723,671)	(1,073,0
Cash Flows From Investing Activities		
Proceeds from sale of fixed asset	-	
Capital expenditures	(11,848)	(3
Net cash (used in) provided by investing activities	(11,848)	(3
Cash Flows From Financing Activities		
Proceeds from loans from stockholder	25,000	
Proceeds from convertible debt	3,150,000	
Proceeds from sale of common stock	301,375	1,180,6
Proceeds from exercise of warrants	10,000	5,0
Cash paid to retire convertible debt	(700,000)	(166,6
Cash paid for deferred loan costs	(387,500)	
Premium paid on extinguishments of debt	(70,000)	
Purchase and retirement of common stock	-	
Net cash provided by financing activities	2,328,875	1,019,0

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

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	A Ja t
Net Change in Cash	$ 593,356	$ (54,452)	$
Cash, at beginning of period	$ 10,774	$ 164,145	$
Cash, at end of period	$ 604,130	$ 109,693	$

Supplemental Disclosure of Cash Flow Information

June 30, 2005
Interest paid of $32,567

Supplemental Disclosure of Noncash Investing and Financing Activities

June 30, 2005
Issuance of warrants in exchange for prepaid services of $68,910
Debtconverted to common stock of $200,000
Beneficial conversion on convertible debt of $1,228,244
Discount on convertible debt with warrants of $1,574,900
Warrants issued for deferred loan costs of $426,700

June 30, 2004
Issuance of stock for services of $11,500, issuance of warrants for services of $18,800 and commitment to issue stock for prepaid services of $62,500
Accrual of $119,999 for stock issuance costs off-set against gross proceeds from sale of common stock
Stock subscription receivable recorded of $668,667

See accompanying notes to 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 generally accepted accounting principles for interim financial information pursuant to Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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 and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

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 or 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, warrants, and convertible debt as they are antidilutive. Potential common shares excluded from the calculation at June 30, 2005 are 14,265,768 warrants, 4,225,000 options and 5,712,193 shares issuable upon conversion of convertible debt and interest. Additionally, the Company is committed to issue 10,000 warrants.

4. EQUITY AND DEBT TRANSACTIONS

(a) 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.

(b) 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. At June 30, 2005, $45,940 of these costs have been charged to operations with the remaining $22,970 recorded as prepaid consulting expense as it represents payments for future services and the warrants are fully-vested and non-forfeitable. 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 April 2005, the Company issued 980,000 warrants to consultants in exchange for services rendered relating to the April 2005 Senior Convertible Debentures (see 4(f) below). Deferred loan costs of $426,700 were recorded which will be amortized over the life of the debentures. At June 30, 2005, $55,456 has been amortized and charged to interest expense. In May 2005, the Company issued 25,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were $9,250.

(c) In March 2005 the Company issued 175,000 warrants to Gryffindor Capital Partners I, L.L.C. pursuant to the terms of the Second Amended and Restated Note dated November 26, 2004. Interest costs charged to operations were $117,568. In April, May and June 2005 the Company issued 175,000 warrants each month 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 $200,250.

(d) 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.

At June 30, 2005, there was no amount outstanding related to the Cornell convertible debt.

(e) During the three months ended March 31, 2005, the Company completed a private placement transaction with 8 accredited investors, which have been subsequently 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 4 accredited investors, which have been subsequently 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 345,500 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, LLC as placement agent for this transaction. The cash costs have been off-set against the proceeds received.

(f) In March 2005, the Company entered into agreements to issue Senior Convertible Debentures to 2 accredited investors with Network 1 Financial Securities, Inc. in the aggregate amount of $450,000. 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. In addition, the Company incurred deferred loan costs of $45,000 which were payable in cash. These costs were recorded as an asset and amortized over the term of the debt. At June 30, 2005, $6,904 has been amortized and charged to interest expense. In April 2005, the Company entered into agreements to issue Senior Convertible Debentures to 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. In addition, the Company incurred deferred loan costs of $342,500 which were payable in cash. These costs were recorded as an asset and amortized over the term of the debt. At June 30, 2005, $58,094 has been amortized and charged to interest expense.

The Company shall be 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 shall be 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"). At June 30, 2005, the Senior Convertible Debentures totaled $675,345, net of debt discount of $2,324,655. Of this total, $225,114 was recorded as a current liability, net of debt discount of $774,886, and $450,231 was recorded as a long-term liability, net of debt discount of $1,549,769.

Interest at the greater of (i) the prime rate (adjust monthly), plus 4% and (ii) 8% is due on a quarterly basis with the first installment accrued at June 30, 2005 in the amount of $78,904. At the time the interest is payable, upon certain conditions, the Company has 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. Under the senior convertible debentures, for purposes of determining market price as of any date, market price means: (i) the average of the last reported sale prices for the shares on the National Association of Securities Dealers Inc.'s Over-the-Counter Bulletin Board, for the five days immediately preceding such date; (ii) if the OTCBB is not the principal trading market for the shares, the average of the last reported sale prices on the principal trading market for the common stock during the same period as reported by Bloomberg, L.P., or (iii) if unable to calculate on any of the foregoing bases, as reasonable determined in good faith by the Board or an independent investment back of nationally recognized standing in the valuation businesses similar to the business of the Company. The Company has chosen to pay the accrued interest at June 30, 2005 in common stock. As a result additional interest expense of $28,843 has been recorded and accrued at June 30, 2005.

The Company may 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 may, 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 or 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 Purchaser of the $400,000 Senior Convertible Debenture 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 10, 2010. Class B Warrants are exercisable for a period through and including 175 days after an effective registration of the common stock underlying the warrants. The per share exercise price of a Class A Warrant is $0.99 and the per share exercise price of the Class B Warrant is $0.945.

The Purchaser of the $50,000 Senior Convertible Debenture and the Purchasers of the Senior Convertible Debentures totaling $2,700,000 also purchased Class A Warrants and Class B Warrants under the Securities Purchase Agreement. Class A Warrants are exercisable at any time between March 30, 2005 through and including March 30, 2010. Class B Warrants are exercisable for a period through and including 175 days after an effective registration of the common stock underlying the warrants. The per share exercise price of a Class A Warrant is $0.935 and the per share exercise price of the Class B Warrant is $0.8925.

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.

The $450,000 proceeds received in March 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 $254,328 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 $195,672 was recorded for this beneficial conversion feature. The combined debt discount of $450,000 is being amortized over the life of the debt using the effective interest method. At June 30, 2005, $67,671 has been amortized and has been recorded as additional interest expense. The $2,700,000 proceeds received in 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 $1,320,572 and was recorded as a discount to the related debt. A beneficial conversion amount of $1,032,572 was also recorded as the value of the debt, if converted, is greater than the pro-rata value allocated to the debt. The combined debt discount of $2,353,144 is being amortized over the life of the debt using the effective interest method. At June 30, 2005, $296,561 has been amortized and has been recorded as additional interest expense.

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. As a result of this conversion, the unamortized portion of the debt discount of $114,255 and deferred loan costs of $24,325, which related to this amount at the date of conversion, have been recorded as additional interest expense.

(g) At June 30, 2005, the Company recorded additional interest expense of $10,782 related to the beneficial conversion feature of the interest on the Gryffindor convertible debt.

5. STOCK-BASED COMPENSATION

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, and all options were outstanding at June 30, 2005. 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, and all options were outstanding at June 30, 2005.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (SFAS No. 123), but applies the intrinsic value method where compensation expense, if any, is recorded as the difference between the exercise price and the market price, as set forth in Accounting Principles Board Opinion No. 25 for stock options granted to employees and directors. In 2003, the Company issued stock options to employees in which the exercise price was less than the market price on the date of grant. These options vest over three years and accordingly, $7,876 of expense was recorded for the six months ended June 30, 2005. If the Company had elected to recognize compensation expense based on the fair value at the grant dates, consistent with the method prescribed by SFAS No. 123, net loss per share would have been changed to the pro forma amount indicated below:

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six E June
Net loss, as reported	$ (3,075,345)	$ (1,321,512)	$ (
Add stock-based employee compensation expense included in reported net loss	3,938	3,903	
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(158,833)	(217,187)	
Pro forma net loss	$ (3,230,240)	$ (1,534,796)	$ (
Basic and diluted loss per common share, as reported	$ (0.18)	$ (0.10)	$
Basic and diluted loss per common share, pro forma	$ (0.19)	$ (0.11)	$

6. Loan From Shareholder

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. Interest on the loan is 5%, compounded monthly. Principal is due on December 31, 2009 and interest is payable quarterly in arrears beginning on June 30, 2003. Accrued interest was $20,180 and $11,361 at June 30, 2005 and 2004, respectively. Interest expense was $4,746 and $3,930 at June 30, 2005 and 2004, respectively.

7. SUBSEQUENT EVENTS

In July 2005, the Company entered into debt conversion agreements with two of the April accredited investors for $350,000 of convertible debt which was converted into 466,667 shares of common stock at $0.75 per share.

Item 2. Management's Discussion and Analysis or Plan of Operation.

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-QSB. 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 continues to be reasonably assured due to our financing in March and April 2005. However, our long-term ongoing operations continue to be dependent upon our ability to raise capital.

We plan to implement our integrated business plan, including execution of the next phases in clinical development of our pharmaceutical products and full resumption of research programs for new research initiatives.

We intend to proceed as rapidly as possible with the development of OTC products that can be sold with a minimum of regulatory compliance and with the further development of revenue sources through licensing of our existing intellectual property portfolio. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to revenues from OTC product sales, 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 anticipate adding some part-time employees during the year. Our current plans also include minimal purchases of new property, plant and equipment, and significantly increased research and development.

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 OTC products and core intellectual properties. This combination represents the foundation for an operating company that we believe will provide both profitability and long-term growth. In 2005, through careful control of expenditures, increasing sales of OTC products, and issuance of debt and equity, we plan to build on that foundation to increase shareholder value.

In the short term, we intend to develop our business by licensing our existing OTC products, principally Pure-Stick, GloveAid and Pure-ific. 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 of prescription drugs and medical devices. Additionally, we have restarted our research programs that will identify additional conditions that our intellectual properties may be used to treat and additional treatments for those and other conditions.

Comparison of Three and Six Months Ended June 30, 2005 and June 30, 2004.

Revenues. OTC Product Revenue increased by $837 in the three months ended June 30, 2005 to $1,672 from $835 in the three months ended June 30, 2004. The increase in OTC Product Revenue resulted primarily from sales of Pure-ific in retail stores. OTC Product Revenue increased by $1,455 in the six months ended June 30, 2005 to $4,066 from $2,611 in the six months ended June 30, 2004. The increase in OTC Product Revenue resulted primarily from sales of Pure-ific in retail stores. Medical Device Revenue was unchanged in the three months ended June 30, 2005 from the three months ended June 30, 2004. Medical Device Revenue decreased by $12,141 in the six months ended June 30, 2005 to $984 from $13,125 in the six months ended June 30, 2004. The decrease in Medical Device Revenue resulted primarily due to a large beta unit sale in the six months ended June 30, 2004 that was not repeated in the six months ended June 30, 2005, partially offset by sales of three smaller devices in the six months ended June 30, 2005.

Research and development. The Company is in the planning phase for the major research and development projects, and therefore does not have estimated completion dates, completion costs and capital requirements for these projects. The reason the Company does not have this information available is because it has not completed the planning process. Since there is no defined schedule for completing these development projects, there are no defined consequences if they are not completed timely. Research and development costs comprising the total of $1,005,610 for the three months ending June 30, 2005 include depreciation expense of $524, consulting of $612,922, lab supplies of $75,415, insurance of $58,735, legal of $61,233, payroll of $188,781, and rent and utilities of $8,000. The research and development costs are higher for the three months ending June 30, 2005 because the Company has initiated clinical trials under the aegis of the Food & Drug Administration (FDA). Research and development costs comprising the total of $1,298,637 for the six months ending June 30, 2005 included depreciation expense of $524, consulting of $702,005, lab supplies of $75,415, insurance of $82,327, legal of $106,054, payroll of $318,712, and rent and utilities of $13,600. The research and development costs are higher for the six months ending June 30, 2005 because the Company has initiated clinical trials under the aegis of the Food & Drug Administration (FDA). Research and development costs comprising the total of $246,185 for the three months ending June 30, 2004 include consulting of $114,525, lab expense of $8,458, insurance of $16,037, legal of $17,886, office and other expense of $3,751, payroll of $71,799, rent and utilities of $3,733, and taxes and fees of $9,996. Research and development costs comprising the total of $434,139 for the six months ending June 30, 2004 include consulting of $141,368, lab expense of $10,958, insurance of $36,175, legal of $46,934, office and other expense of $3,751, payroll of $175,624, rent and utilities of $9,333, and taxes and fees of $9,996.

General and administrative. General and administrative expenses increased by $226,251 in the three months ended June 30, 2005 to $558,791 from $332,540 in the three months ended June 30, 2004. The increase resulted primarily from higher consulting expenses for general corporate purposes. General and administrative expenses increased by $325,324 in the six months ended June 30, 2005 to $1,141,542 from $816,218 in the six months ended June 30, 2004. The increase resulted primarily from higher consulting expenses for general corporate purposes.

CASH FLOW

As of July 1, 2005, we held approximately $600,000 in cash. At our current cash expenditure rate, this amount will be sufficient to meet our needs. We already have begun to increase our expenditure rate by accelerating some of our research programs for new research initiatives; in addition, we are seeking to improve our cash flow by increasing sales of OTC products. However, we cannot assure you that we will be successful in increasing sales of OTC products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless will require additional funds to meet our long-term needs. We anticipate these funds will come from the proceeds of private placements 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 the next phases in clinical development of our pharmaceutical products. We anticipate that the majority of the funds for our operating and development needs beyond 2005 will come from the proceeds of private placements 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. For further information on funding sources, please see Note 4 of the notes to our financial statements included in this report.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS 151 requires that these costs be treated, as current period costs regardless if they meet the criteria of "so abnormal." In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provision of this Statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 is not expected to have a material impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier application permitted. The adoption of SFAS 153 is not expected to have a material impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payments (revised 2004). This statement eliminates the option to apply the intrinsic value measurement provisions of APB Board Opinion No. 25, Accounting for Stock Issued to Employees, to stock compensation awards issued to employees. Rather, the Statement requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award -- the requisite service period (usually the vesting period). In March 2005, the SEC staff expressed their views with respect to SFAS No. 123(R) in Staff Accounting Bulletin No. 107, Share-Based Payment, (SAB 107). SAB 107 provides guidance on valuing options. SFAS 123(R) will be effective for the Company's fiscal year beginning January 1, 2006. The Company is currently evaluating the impact of the adoption of this statement on its financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, (FIN 47). FIN 47 is an interpretation of SFAS No. 143, Asset Retirement Obligations, which was issued in June 2001. FIN 47 was issued to address diverse accounting practices that have developed with regard to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. According to FIN 47, uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an

entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than December 31, 2005 for the Company. The adoption of FIN 47 is not expected to have a material impact on the Company's results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and Statement No. 3. SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not expected to have a material impact on the Company's results of operations or financial position.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB 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 under the heading "Risk Factors" and elsewhere in our Annual Report on Form 10-KSB for the year ended December 31, 2004. 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-QSB 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. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer have evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" (as that term is defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2005, the end of the fiscal quarter covered by this Quarterly Report on Form 10-QSB. 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-QSB 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-QSB 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-QSB.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) Our annual meeting of shareholders was held on May 19, 2005.

(b) The following is a list of all nominees for Director of the Company who were elected at the annual meeting and whose term of office continued after the annual meeting:

H. Craig Dees
Timothy D. Scott
Eric A. Wachter
Stuart R. Fuchs

(c) There were present at the annual meeting in person or by proxy

9,272,015 shares of our common stock out of a total of 16,644,275 shares of our common stock issued and outstanding and entitled to vote at the annual meeting.

(d) The results of the vote of the shareholders taken at the annual meeting by ballot and by proxy as solicited by us on behalf of the board of directors were as follows:

(i) The results of the vote taken at the annual meeting for the election of the nominees for our board of directors were as follows:

Nominee	For	Withheld Authority
H. Craig Dees	8,648,645	623,370
Timothy D. Scott	8,648,645	623,370
Eric A.Wachter	8,648,645	623,370
Stuart R. Fuchs	8,648,645	623,370

(ii) A vote was taken on the proposal to amend the Company's Amended and Restated 2002 Stock Plan to increase the number of shares reserved for issuance from 3,000,000 to 5,000,000. The results of the vote taken at the annual meeting with respect to such proposal were as follows:

For	Against	Abstain	Non-Votes
8,457,742	189,403	624,870	-0-

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

31.1 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated August 15, 2005, 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 August 15, 2005, 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 August 15, 2005, executed by H. Craig Dees, Ph.D., Chief Executive Officer of the Company, and Peter R. Culpepper, Chief Financial Officer of the Company.

(b) Current Reports on Form 8-K.

On April 8, 2005, the Company filed an 8-K.

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.
By:/s/ H. Craig Dees, Ph.D.

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

Date: August 15, 2005

EXHIBIT INDEX

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