PROVECTUS PHARMACEUTICALS INC
Form 10QSB
November 12, 2004

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 September 30, 2004

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 September 30, 2004 was 15,341,324.

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

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

	September 30, 2004	
	(Unaudited)	
Assets		
Current Assets		
Cash	$ 5,640	$
Stock subscription receivable	-	
Deferred loan costs, net of amortization of $5,178 and $19,569	84,822	
Inventory	68,455	
Prepaid expenses and other current assets	20,370	
Prepaid consulting expense	320,542	
Prepaid commitment fee	310,866	
Total Current Assets	810,695	
Equipment and Furnishings, less accumulated depreciation of $361,868 and $244,760	4,703	
Patents, net of amortization of $1,252,757 and $749,417	10,462,688	
Other Assets	27,000	
	$ 11,305,086	$
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable - trade	$ 158,070	$
Accrued compensation	174,439	
Accrued expenses	86,666	
Accrued interest	166,564	
Short-term convertible debt, net of debt discount of $442,623 at December 31, 2003	-	
Current maturities of long-term convertible debt, net of debt discount of $9,582 and $57,052	1,016,376	
Total Current Liabilities	1,602,115	
Loan From Stockholder	149,000	
Long-term convertible debt, net of debt discount of $239,392 at September 30, 2004	135,608	

Stockholders' Equity	
Common stock; par value $.001 per share; 100,000,000 shares authorized; 15,341,324 and 10,867,509 shares issued and outstanding, respectively	15,341
Paid-in capital	23,134,877
Deficit accumulated during the development stage	(13,731,855)
TOTAL STOCKHOLDERS' EQUITY	9,418,363
	$ 11,305,086 $

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

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Mon Sept
	(Unaudited)	(Unaudited) Restated (Note 9)	(Unaudited)	(U
Operating Income				
Net OTC Product Revenue	$ 439	$ -	$ 1,380	$
Net Medical Device Revenue	-	-	13,125	
Operating Expenses				
Research and development	379,113	95,084	813,252	
General and administrative	537,417	570,697	1,353,635	
Amortization	167,780	167,780	503,340	
Total operating loss	(1,083,871)	(833,561)	(2,655,722)	
Gain on sale of fixed assets	-	-	-	
Loss on extinguishment of debt	-	-	(100,519)	
Net interest (expense) income	(64,651)	(38,507)	(754,166)	
Net Loss Applicable to Common Stockholders	$ 1,148,522)	$ (872,062)	$ (3,510,407)	$

Basic and Diluted Loss Per Common Share	(.08)	(0.09)	(0.26)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	15,080,661	9,721,022	13,606,164

See accompanying notes to financial statements.

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

	Common Stock		
	Number of Shares	Par Value	Paid-in Capital
Balance, at January 17, 2002	-	$ -	$
Issuance to founding shareholders	6,000,000	6,000	(6,00
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, 2004	-	-	
Balance, at December 31, 2003	10,867,509	$ 10,868	$ 20,461,63
Issuance of stock for services	693,040	693	421,03
Issuance of warrants for services	-	-	347,80
Exercise of warrants	10,000	10	4,99
Employee compensation from stock options	-	-	11,70
Issuance of stock pursuant to Regulation S	2,437,443	2,437	790,70
Issuance of stock pursuant to Regulation D	1,333,332	1,333	843,00
Beneficial conversion related to convertible debt	-	-	254,00
Net loss for the nine months ended September 30, 2004	-	-	
Balance, at September 30, 2004	15,341,324	$ 15,341	$ 23,134,87

See accompanying notes to financial statements.

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(Unaudited)	(Unaudited Restated (Note 9)
Cash Flows From Operating Activities		
Net loss	$ (3,510,407)	$ (2,412,5
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	117,107	187,2
Amortization of patents	503,340	503,3
Amortization of original issue discount	504,706	47,2

Amortization of prepaid consultant expense	491,773	
Amortization of deferred loan costs	156,139	
Compensation through issuance of stock options	11,709	33,8
Compensation through issuance of stock	-	
Issuance of stock for services	48,368	40,8
Issuance of warrants for services	18,800	87,8
Gain on sale of fixed asset	-	(55,0
Increase (decrease) in assets		
Prepaid expenses	5,857	26,3
Inventory	4,123	(72,5
Increase (decrease) in liabilities		
Accounts payable	57,430	205,1
Accrued expenses	(169,067)	459,8
Net cash used in operating activities	(1,760,122)	(948,2
Cash Flows From Investing Activities		
Proceeds from sale of fixed asset	-	180,0
Capital expenditures	(395)	(3,3
Net cash (used in) provided by investing activities	(395)	176,6
Cash Flows From Financing Activities		
Proceeds from loans from stockholder	-	40,0
Proceeds from convertible debt	375,000	25,9
Proceeds from sale of common stock	1,812,012	
Proceeds from exercise of warrants	5,000	
Cash paid to retire convertible debt	(500,000)	
Cash paid for deferred loan costs	(90,000)	
Purchase and retirement of common stock	-	
Net cash provided by financing activities	1,602,012	65,9

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(Unaudited)	(Unaudited) Restated (Note 9)

NET CHANGE IN CASH	$ (158,505)	$ (705,640)	$
Cash, at beginning of period	$ 164,145	$ 717,833	$
Cash, at end of period	$ 5,640	$ 12,193	$

Supplemental Disclosure of Noncash Investing and Financing Activities

September 30, 2004
Issuance of stock in exchange for standby equity commitment of $310,866
Issuance of warrants in exchange for prepaid services of $329,000
Issuance of stock in exchange for prepaid services of $62,500
Discounts on convertible debt of $254,006
Accrual of $86,666 for stock issuance costs off-set against gross proceeds from sale of common stock

September 30, 2003
Stock and warrants issued to consultants for prepaid services of $235,583

See accompanying notes to financial statements.

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

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 nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

2. GOING CONCERN

At December 31, 2003, there was doubt regarding the Company's ability to continue as a going concern considering the lack of working capital required to develop its products and develop sales and distribution channels for its products. The accompanying financial statements as of December 31, 2003 have been prepared assuming the Company will continue as a going concern. The

December 31, 2003 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and amounts and classifications of liabilities that might result from any outcome different from this expectation.

At September 30, 2004, as a result of the financing transaction described in Note 5(e), there is no longer doubt regarding the Company's ability to continue as a going concern.

3. 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.

4. 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 September 30, 2004 are 2,478,333

warrants, 1,725,000 options and 2,168,069 shares issuable upon conversion of convertible debt and interest. Additionally, the Company is committed to issue 20,000 warrants. Included in the weighted average number of common shares outstanding are 189,274 shares committed to be issued but not outstanding at September 30, 2004.

5. EQUITY TRANSACTIONS

(a) At December 31, 2003, the Company was committed to issue 416,606 shares to consultants in exchange for services rendered. In January 2004, 341,606 of these shares were issued. In January 2004, the Company also issued 10,000 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were $11,500. In March 2004, the Company committed to issue 36,764 shares to consultants in exchange for services. Consulting costs charged to operations were $62,500. These 36,764 shares, along with 75,000 shares committed in 2003 were issued in August 2004. In August 2004, the Company also issued 15,000 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were $25,200. In September 2004, the Company issued 16,666 shares to a consultant in exchange for services rendered. Consulting costs charged to operations were $11,665.

(b) In May 2004, the Company issued 20,000 warrants to consultants in exchange for services rendered. Consulting costs charged to operations were $18,800. In August 2004, the Company issued 350,000 warrants to consultants in exchange for services valued at $329,000. At September 30, 2004, $41,125 of these costs have been charged to operations with the remaining $287,875 recorded as prepaid consulting expense as it represents payments for future services and the warrants are fully-vested and non-forfeitable.

(c) On June 25, 2004, the Company entered into an agreement to sell 1,333,333 shares of common stock at a purchase price of $.75 per share for an aggregate purchase price of $1,000,000. Payments were received in four installments, the last of which was on August 9, 2004. Stock issuance costs of $155,666 have been off-set against the proceeds received of which $86,666 was accrued at September 30, 2004 as it relates to 66,667 shares of common stock not issued as of September 30, 2004. In conjunction with the sale of the common stock, the Company issued 1,333,333 warrants with an exercise price of $1.00 and a termination date of three years from the installment payment dates. In addition, the Company has given the investors an option to purchase 1,333,333 shares of additional stock including the attachment of warrants under the same terms as the original agreement. This option expires six months after the last installment date.

(d) In conjunction with the June 25, 2004 transaction, the Company entered into a redemption agreement for its $500,000 of short-term convertible debt. Payments on the convertible debt corresponded to payments received from the sale of common stock noted in Note 5(c). As a result, the debt discount previously recorded on the convertible debt and the deferred loan costs were fully amortized and recorded as additional interest expense of $127,378 as of June 30, 2004. In addition to principal payments, the redemption payments included accrued interest and a premium payment of $100,519. This premium payment has been recorded as loss on extinguishment of debt as of June 30, 2004. At September 30, 2004, there were no amounts outstanding related to the short-term convertible debt.

(e) Pursuant to a Standby Equity Distribution Agreement ("SEDA") dated July 28, 2004 between the Company and Cornell Capital Partners, L.P. ("Cornell"), the Company may, at its discretion, issue shares of common stock to Cornell at any time until June 28, 2006. As of September 30, 2004 there were no shares issued pursuant to the SEDA. The maximum aggregate amount of the equity placements pursuant to the SEDA is $20 million, and the Company may draw down up to $1 million per month. Pursuant to the SEDA, on July 28, 2004, the Company issued 190,084 shares of common stock to Cornell and 7,920 shares of common stock to Newbridge Securities Corporation as commitment shares. These 198,004 shares had a FMV of $310,866 on July 28, 2004 which is being amortized over the term of the commitment period which is one year.

(f) On July 28, 2004, the Company entered into an agreement to issue 8% convertible debentures to Cornell Capital Partners in the amount of $375,000 which is due together with interest on July 28, 2007. This debt has a subordinated security interest in the assets of the Company. The debentures are convertible into common stock at a price per share equal to the lesser of (a) an amount equal to 120% of the closing Volume Weighed Average Price (VWAP) of the common stock as of the Closing Date (July 28, 2004) or (b) an amount equal to 80% of the lowest daily VWAP of

the Company's common stock during the 5 trading days immediately preceding the conversion date. There is a floor conversion price of $.75 until December 1, 2004. Emerging Issues Task Force Issue 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" ("EITF 98-5") requires the issuer to assume that the holder will not convert the instrument until the time of the most beneficial conversion. EITF 98-5 also requires that if the conversion terms are based on an unknown future amount, which is the case in item (b) above, the calculation should be performed using the commitment date which in this case is July 28, 2004. As a result, the beneficial conversion amount was computed using 80% of the lowest fair market value for the stock for the five days preceding July 28, 2004 which resulted in a beneficial conversion amount of $254,006. The beneficial conversion amount is being amortized over the term of the debt which is three years. At September 30, 2004, $14,614 has been amortized.

(g) In 2004, the Company sold 2,437,443 shares of restricted common stock under this offering of which 1,867,490 shares were issued in the first quarter 2004 and 569,953 were issued in the second quarter 2004. Shares were sold during 2004 at an average gross price of $0.98 per share with net proceeds of $793,138. Costs related to the placement agent for proceeds received in 2004 of $1,588,302 have been off-set against gross proceeds of $2,381,439. The transaction is a Regulations S offering to foreign investors as defined by Regulation S of the Securities Act. The restricted shares cannot be traded for 12 months. After the first 12 months, sales of the shares are subject to restriction under rule 144 for an additional year.

6. STOCK-BASED COMPENSATION

On March 1, 2004, the Company issued 1,200,000 stock options to employees. The options vest over three years with 225,000 options vesting on the date of grant. The exercise price is the fair market price on the date of issuance, and all options were outstanding at September 30, 2004.

On May 27, 2004, the Company issued 100,000 stock options to the Board of Directors. The options vested immediately on the date of grant. The exercise price is the fair market price on the date of issuance, and all options were outstanding at September 30, 2004. On June 28, 2004, the Company issued 100,000 stock options to an employee. The options vest over four years with 25,000 options vesting on the date of grant. The exercise price is the fair market price on the date of issuance, and all options were outstanding at September 30, 2004.

There were no stock options granted by the Company during the third quarter of 2004.

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, $11,709 of expense was recorded for the nine months ended September 30, 2004. 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 September 30, 2004	Three Months Ended September 30, 2003 Restated (Note 9)	Nine Months Ended September 30, 2004
Net loss, as reported	$ (1,148,522)	$ (872,068)	$ (3,510,407)
Add stock-based employee compensation expense included in reported net loss	3,903	6,347	11,709
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(90,938)	(13,200)	(591,563)
Pro forma net loss	$ (1,235,557)	$ (878,921)	$ (4,090,261)
Basic and diluted loss per common share, as reported	$ (0.08)	$ (0.09)	$ (0.26)
Basic and diluted loss per common share, pro forma	$ (0.08)	$ (0.09)	$ (0.30)

7. REVENUE RECOGNITION

The Company recognizes revenue when product is shipped. When advance payments are received, these payments are recorded as deferred revenue and recognized when the product is shipped.

8. SUBSEQUENT EVENTS

(a) Pursuant to a Standby Equity Distribution Agreement ("SEDA") dated July 28, 2004 between the Company and Cornell Capital Partners, L.P. ("Cornell"), the Company may, at its discretion, issue shares of common stock to Cornell at any time over the next two years. The facility is subject to having in effect an effective registration statement covering the shares. A registration statement covering 2,023,552 shares has been filed with the Securities and Exchange Commission.

(b) Pursuant to a Securities Purchase Agreement between the Company and Cornell dated July 28, 2004 (the "Debenture SPA"), the Company issued a second secured convertible debenture on October 7, 2004 which has the same conversion

terms as the debenture described in Note 5(f). The Company filed a registration statement with the Securities and Exchange Commission for the shares underlying both debentures. This debt is due together with interest on October 7, 2007 and has a subordinated security interest in the assets of the Company.

9. RESTATEMENT

During 2004, the Company restated its historical financial statements to revise the value of its patents acquired from Valley Pharmaceuticals, Inc. on November 19, 2002. During a detailed review of the accounting literature applicable to the valuation of the patents upon acquisition, the Company determined that the guidance under Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB 29") was more appropriate than the guidance under Statement of Financial Accounting Standard No. 141, "Business Combinations"("SFAS 141"), which had originally been used by the Company. Under SFAS 141, the Company used the date that the transaction was entered into to value the shares given up in exchange for the assets acquired compared to using the date the transaction was completed as required under APB 29. Under APB 29, the restated value of the patents upon acquisition is $11,715,445 compared to the $20,037,560 value initially used by the Company. The accompanying financial statements and notes reflect the restated amounts. The following tables detail the effects of the restatement:

	At December 31, 2003	
	As Previously Reported	As Restated
Balance Sheet Data:		
Patents, net of amortization	$ 18,755,791	$ 10,966,028
Total Assets	19,826,809	12,037,046
Stockholders' Equity	18,040,815	10,251,052

	For The Three Months Ended, September 30, 2003		For The Nine Months September 30, 2003
	As Previously Reported (Unaudited)	As Restated (Unaudited)	As Previously Reported (Unaudited)
Income Statement Data:			
Amortization	$ 286,964	$ 167,780	$ 860,891

Total Operating Loss	(952,745)	(833,561)	(2,710,300)
Net Loss	(991,252)	(872,068)	(2,770,058)
Basic and Diluted Loss Per Common Share	(0.10)	(0.09)	(0.29)

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 has become reasonably assured due to our financing in June and July 2004. However, our 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 next 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 2004, 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 marketing,

manufacturing, and distributing our existing OTC products, principally 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 intend to restart 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.

We are in the planning phase for the major research and development projects, and therefore do not have estimated completion dates, completion costs and capital requirements for these projects. The reason we do not have this information available is because we have not completed our 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 $379,113 for the three months ending September 30, 2004 include consulting of $147,711, insurance of $30,416, legal of $44,113, payroll of $151,271, and rent and utilities of $5,602. R&D costs comprising the total of $813,252 for the nine months ending September 30, 2004 include consulting of $289,079, lab expense of $10,958, insurance of $66,591, legal of $91,047, office and other expense of $3,751, payroll of $326,895, rent and utilities of $14,935, and taxes and fees of $9,996. Research and development costs comprising the total of $95,084 for the three months ending September 30, 2003 included depreciation expense of $49,636, insurance of $5,197, payroll of $30,194, and rent and utilities of $10,057. Research and development costs comprising the total of $331,370 for the nine months ending September 30, 2003 included depreciation expense of $187,292, consulting of $26,423, insurance of $10,153, office and other expense of $828, payroll of $78,629, rent and utilities of $26,857, and taxes and fees of $1,188.

CASH FLOW

As of November 12, 2004, we held approximately $250,000 in cash. At our current cash expenditure rate, this amount in addition to proceeds expected from our third and fourth quarter 2004 financings 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 for initial production and distribution of OTC products in order to achieve meaningful sales volumes. Excess cash will be used to finance the next phases in clinical development of our pharmaceutical products and resumption of our currently suspended research programs. We anticipate that the majority of the funds for our operating and development needs in 2004 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 Notes 5(b), 5(c) and 8 of the notes to our financial

statements included in this report.

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, 2003. 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 September 30, 2004, 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

Pursuant to a Securities Purchase Agreement between us and A.I. International Corporate Holdings, Ltd. ("A.I."), American Equity Consulting Services, Inc. ("American Equity") and Castlerigg Master Investments, Ltd. ("Castlerigg") dated June 25, 2004 (the "Common Stock SPA"), we have issued 1,333,333 shares of common stock at a purchase price of $.75 per share, for an aggregate purchase price of $1 million. In addition, we have issued warrants on the following terms:

Investor	Number of Shares	Exercise Price	Issue Date	Termination Date
A.I.	222,222	$1.00	June 25, 2004	June 25, 2009
Castlerigg	222,222	$1.00	June 25, 2004	June 25, 2009
A.I.	148,148	$1.00	July 16, 2004	July 16, 2009
Castlerigg	148,148	$1.00	July 16, 2004	July 16, 2009
Castlerigg	148,148	$1.00	August 5, 2004	August 5, 2009
Castlerigg	444,444	$1.00	August 9, 2004	August 9, 2009

A.I. and Castlerigg have an option to purchase an additional 1,333,333 shares of common stock on the same terms and conditions described above, including the attachment of warrants. We have paid $50,000 and we will issue 66,667 shares of restricted common stock to Baker Consulting, Inc. as compensation for its broker services and as placement agent. We believe that this offering was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") by reason of Section 4(2) of the Securities Act, based upon the fact that the offer and sale of the securities was made to a limited number of purchasers in a transaction not involving any general solicitation or general advertising. Proceeds will be used for general corporate purposes.

Pursuant to a Standby Equity Distribution Agreement ("SEDA") dated July 28, 2004 between us and Cornell Capital Partners, L.P. ("Cornell"), we may, at our discretion, issue shares of common stock to Cornell at any time over the next two years. The facility is subject to having in effect a registration statement covering the shares. A registration statement covering 2,023,552 shares has been filed with the Securities and Exchange Commission. The maximum aggregate amount of the equity placements pursuant to the SEDA is $20 million, and we may draw down up to $1 million per month. Pursuant to the SEDA, on July 28, 2004, we issued 190,084 shares of common stock to Cornell as commitment shares. In addition, we issued 7,920 shares of common stock to Newbridge Securities Corporation ("Newbridge") as compensation for its services as placement agent. We also paid $10,000 in structuring fees to Cornell. We believe that this offering was exempt from the registration requirements of the Securities Act by reason of Rule 506 of Regulation D and Section 4(2) of the Securities Act, based upon the fact that the offer and issuance of the securities satisfied all the terms and conditions of Rules 501 and 502 of the Securities Act, Cornell and Newbridge are financially sophisticated and had access to complete information concerning us and acquired the securities for investment and not with a view to the distribution thereof.

Pursuant to a Securities Purchase Agreement between us and Cornell dated July 28, 2004 (the "Debenture SPA"), we issued a Secured Convertible Debenture (the "Debenture") to Cornell at an original principal amount of $375,000. The Debenture bears interest at 8% per annum. The Debenture is due and payable in

full on July 28, 2007.

At our option, the entire principal amount and all accrued interest may be paid in either cash or in shares of common stock, at a price per share equal to the lesser of (a) $1.88 (the "Fixed Price") or (b) an amount equal to 80% of the lowest daily volume weighted average price of the common stock, as quoted by Bloomberg, L.P., during the 5 trading days immediately preceding the conversion date. There is a $.75 floor conversion price until December 1, 2004. We may redeem a portion or all of the outstanding Debenture at any time with 3 business days advance written notice, at a price that is 110% of the amount redeemed plus accrued interest; provided that if on the date that we provide notice of redemption the price of the common stock is greater than the Fixed Price, the redemption price will be 120% of the amount redeemed plus accrued interest. Pursuant to the Debenture SPA, the Company issued a second secured convertible debenture on the same terms as the Debenture on October 7, 2004 which is the date that the Company filed a registration statement for the shares underlying both debentures. The Debenture is due and payable in full on October 7, 2007. We believe that this offering was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") by reason of Rule 506 of Regulation D and Section 4(2) of the Securities Act, based upon the fact that the offer and issuance of the Debenture satisfied all the terms and conditions of Rules 501 and 502 of the Securities Act, Cornell is financially sophisticated and had access to complete information concerning us and acquired the securities for investment and not with a view to the distribution thereof. Proceeds will be used for general corporate purposes.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

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

31.1 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated November 12, 2004, 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 November 12, 2004, 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 November 12, 2004, 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.

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

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

Date: November 12, 2004

EXHIBIT INDEX

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