PROVECTUS PHARMACEUTICALS INC
Form 10QSB
August 16, 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 June 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 August 13, 2004 was 15,361,042.

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

Part I

ITEM 1. FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

	June 30, 2004	
	(Unaudited)	
Assets		
Current Assets		
Cash	$ 109,693	$
Stock subscription receivable	668,667	
Deferred Loan Costs, net of amortization of $170,530 and $19,569	-	
Inventory	67,930	
Prepaid expenses and other current assets	20,567	
Prepaid consulting expense	177,716	
Total Current Assets	1,044,573	
Equipment and Furnishings, less accumulated depreciation of $337,269 and $244,760	29,302	
Patents, net of amortization of $1,855,696 and $1,281,770	18,181,865	
Other Assets	27,000	
	$ 19,282,740	$
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable - trade	$ 80,034	$
Accrued compensation	183,750	
Accrued expenses	125,735	
Accrued interest	222,695	
Short-term convertible debt, net of debt discount of $-0- and $442,623	333,333	
Current maturities of long-term convertible debt, net of debt discount of $25,405 and $57,052	1,000,553	
Total Current Liabilities	1,946,100	
Loan From Stockholder	149,000	
Stockholders' Equity		
Common stock; par value $.001 per share; 100,000,000 shares authorized; 14,111,002 and 10,867,509 shares issued and		

outstanding, respectively	14,111
Paid-in capital	30,527,580
Deficit accumulated during the development stage	(13,354,051)
TOTAL STOCKHOLDERS' EQUITY	17,187,640
	$ 19,282,740 $

See accompanying notes to financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Mon June
	(Unaudited)	(Unaudited)	(Unaudited)	(U
Operating Income				
Net OTC Product Revenue	$ 301	-	$ 941	
Net Medical Device Revenue	-	-	13,125	
Operating Expenses				
Research and development	$ 246,185	$ 80,503	$ 434,139	$
General and administrative	332,540	435,425	816,218	
Amortization	286,963	286,964	573,926	
Total operating loss	(865,387)	(802,892)	(1,810,217)	
Gain on sale of fixed assets	-	55,000	-	
Loss on extinguishment of debt	(100,519)	-	(100,519)	
Net interest (expense) income	(474,789)	(38,230)	(689,515)	
Net Loss Applicable to Common Stockholders	$ (1,440,695)	$ (786,122)	$ (2,600,251)	$
Basic and Diluted Loss Per Common Share	(0.11)	(0.08)	(0.20)	
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	13,714,234	9,487,689	12,977,703	

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	P C
Balance, at January 17, 2002	-	$ -	$
Issuance to founding shareholders	6,000,000	6,000	
Sale of stock	50,000	50	
Issuance of stock to employees	510,000	510	9
Issuance of stock for services	120,000	120	3
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	1,3
Shares issued in reverse merger	265,763	266	
Issuance of stock for services	1,900,000	1,900	5,1
Purchase and retirement of stock	(400,000)	(400)	(
Stock issued for acquisition of Valley Pharmaceuticals	500,007	500	20,5
Exercise of warrants	452,919	453	
Warrants issued in connection with convertible debt	-	-	1
Stock and warrants issued for acquisition of Pure-ific	25,000	25	
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	27,1
Issuance of stock for services	764,000	764	2
Issuance of warrants for services	-	-	1
Stock to be issued for services	-	-	2
Employee compensation from stock options	-	-	
Issuance of stock pursuant to Regulation S	679,820	680	3
Issuance of convertible debt with warrants	-	-	6
Net loss for the year ended December 31, 2003	-	-	
Balance, at December 31, 2003	$ 10,867,509	$ 10,868	$ 28,78
Issuance of stock for services	351,606	352	1

Issuance of warrants for services	-	-	1
Exercise of warrants	10,000	10	
Stock to be issued for services	-	-	6
Employee compensation from stock options	-	-	
Issuance of stock pursuant to Regulation S	2,437,443	2,437	79
Issuance of stock pursuant to Regulation D	444,444	444	84
Net loss for the six months ended June 30, 2004	-	-	
Balance, at June 30, 2004	$ 14,111,002	$ 14,111	$30,52

See accompanying notes to financial statements.

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

CONSOLICATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	
	(Unaudited)	(Unaudited)	
Cash Flows From Operating Activities			
Net loss	$ (2,600,251)	$ (1,778,806)	$
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	92,508	137,861	
Amortization of patents	573,926	573,927	
Amortization of original issue discount	474,269	31,313	
Amortization of prepaid consulting expense	305,601		
Amortization of deferred loan costs	150,961	-	
Compensation through issuance of stock options	7,806	27,506	
Compensation through issuance of stock	-	-	
Issuance of stock for services	11,500	22,800	
Issuance of warrants for services	18,800	57,177	
Gain on sale of fixed asset	-	(55,000)	
(Increase) decrease in assets			
Prepaid expenses	5,660	14,605	
Inventory	4,648	(72,135)	
Increase (decrease) in liabilities			
Accounts payable	(20,607)	130,065	
Accrued expenses	(97,890)	25,389	
Net cash used in operating activities	(1,073,069)	(885,298)	
Cash Flows From Investing Activities			
Proceeds from sale of fixed asset	-	180,000	
Capital expenditures	(395)	(3,301)	

Net cash (used in) provided by investing activities	(395)	176,699
Cash Flows From Financing Activities		
Proceeds from loans from stockholder	-	-
Proceeds from convertible debt	-	25,959
Proceeds from sale of common stock	1,180,679	-
Proceeds from exercise of warrants	5,000	-
Cash paid for deferred loan costs	-	-
Payment on convertible debt	(166,667)	-
Purchase and retirement of common stock	-	-
Net cash provided by financing activities	1,019,012	25,959

See accompanying notes to financial statements.

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

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	(Unaudited)	(Unaudited)
NET CHANGE IN CASH	$ (54,452)	$ (682,640)	$
Cash, at beginning of period	$ 164,145	$ 717,833	$
Cash, at end of period	$ 109,693	$ 35,193	$

Supplemental Disclosure of Noncash Investing and Financing Activities

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

June 30, 2003

Warrants issued to consultants for prepaid services of $84,174

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 six months ended June 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 recoverbility and classification of assets and amounts and classifications of liabilities that might result from any outcome different from this expectation.

At June 30, 2004, as a result of the subsequent financing transaction described in Note 8, 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 June 30, 2004 are 2,308,333 warrants, 1,725,000 options and 1,624,802 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 1,065,520 shares committed to be issued but not outstanding at June 30, 2004.

5. EQUITY TRANSACTIONS

(a) At December 31, 2003, the Company was committed to issue 341,606 shares to consultants in exchange for services rendered. In January 2004, all 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 of which $25,000 remains in prepaid consulting expense at June 30, 2004 as it represents payments for services to be provided in the future. The shares are fully vested and non-forfeitable. In May 2004, the Company issued 20,000 warrants to consultants in exchange for services. Consulting costs charged to operations for these warrants were $18,800.

(b) In 2004, the Company sold 2,437,443 shares of restricted common stok 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 $793,137.

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.

(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 are to be received in three equal installments on June 25, 2004, July 16, 2004 and August 9, 2004. As of June 30, 2004, the first installment was received and 444,444 shares of stock were issued. A stock subscription receivable of $666,667 was recorded as of June 30, 2004 for the last two payments, as all the cash was received prior to the filing of the 10-QSB. Stock issuance costs of $151,666 have been off-set against the proceeds received of which $119,900 was accrued at June 30, 2004 as it relates to the installments to be received after June 30, 2004. Stock issuance costs consists of $65,000 in cash and 66,667 shares of common stock with a fair market value of $86,666. 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.

In conjunction with the June 25, 2004 transaction, the Company entered into a redemption agreement for its $500,000 short-term convertible debt. Payments on the convertible debt are to be made in three equal installments which corresponded to the common stock issuance dates noted above. Payment of the debt is contingent on receiving the payments from the sale of the common stock. As all installment payments for the sale of common stock were received prior to the filing of the 10-QSB, the full redemption of the convertible debt has been recorded as of June 30, 2004. 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 $172,378 as of June 30, 2004. In addition to principal payments, the redemption payments include 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. As of June 30, 2004, principal payments of $166,667 were made and an accrual of $67,013 has been recorded for the remaining premium paid subsequent to June 30, 2004.

6. STOCK-BASED COMPENSATION

On March 1, 2004, the Company issued 1,200,000 stock options to employees. The options vest over 3 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 are outstanding at June 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 June 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 June 30, 2004.

For stock options granted to the Board of Directors and the employee during the second quarter of 2004, the Company has estimated the fair value of each

option granted using the Black-Scholes pricing model with the following assumptions:

	2004
Weighted average fair value per options granted - Board of Directors	$ 0.95
Weighted average fair value per options granted - employee	$ 1.25
Significant assumptions (weighted average)	
Risk-free interest rate at grant date	2.0 %
Expected stock price volatility	150 %
Expected option life (years)	10

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, $7,806 of expense was recorded for the six months ended June 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 June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004
Net loss, as reported	$ (1,440,695)	$ (786,122)	$ (2,600,251)
Add stock-based employee compensation expense included in reported net loss	3,903	27,506	7,806
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(217,187)	(57,200)	(500,625)
Pro forma net loss	$ (1,653,979)	$ (815,816)	$ (3,093,070)
Basic and diluted loss per common share, as reported	(0.11)	(0.08)	(0.20)
Basic and diluted loss per common share, pro forma	(0.12)	(0.08)	(0.24)

The following table summarizes the options granted, exercised and outstanding as

of June 30, 2004.

	Shares	Exercise Price Per Share
Outstanding at December 31, 2003	356,250	$ 0.26 - $ 0.60
Granted	1,400,000	$ 0.95 - $ 1.25
Exercised	-	- -
Forfeited	(31,250)	$ 0.26 - $ 0.32
Outstanding at June 30, 2004	1,725,000	$ 0.32 - $ 1.25
Options exercisable at June 30, 2004	562,500	$ 0.32 - $ 1.10

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) On August 9, 2004 the Company completed the redemption in full of its outstanding long-term convertible debt.

(b) 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 a registration statement covering the shares. 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 240,000 shares of common stock to Cornell as commitment shares.

(c) Pursuant to a Securities Purchase Agreement between the Company and Cornell dated July 28, 2004 (the "Debenture SPA"), the Company 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 the Company's 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 defined in the Debenture SPA. Pursuant to the Debenture SPA, the Company has also agreed to issue a second secured convertible debenture on the same terms as the Debenture, on the date that the Company files a registration statement for the shares underlying both debentures.

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.

CASH FLOW

As of August 10, 2004, we held approximately $250,000 in cash. At our current cash expenditure rate, this amount in addition to proceeds expected from our July 2004 financing 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(c) and 8 of the notes to our financial statements included in this report.

MARKET OUTLOOK

Our products are divided into three classes:

- OTC products addressing the skincare markets;
- Prescription pharmaceuticals addressing the dermatology and oncology markets; and
- Medical devices

Our estimates of the size of the markets for each of these three product classes are set forth in the following table:

Product Area	Approximate Annual Value of Sales in U.S. Market

	(millions)
OTC Products	
Personal hygiene	$ 100
Disposable glove care	100
Acne (all grades)	1,000
Prescription Pharmaceuticals	
Psoriasis	1,500
Liver, breast and prostate cancer	1,000
Medical Devices	
Medical device systems	250

Our estimates of market size are based on relevant technical and scientific literature, published market analyses, and analysis of publicly-available sales data for products currently directed at these markets described below.

(1) Our estimates of market size are based on relevant technical and scientific literature, published market analyses, and analysis of publicly-available sales data for products currently directed at these markets.

(2) Company Profile Report: GOJO Industries, Inc., D&B, April 22, 2004 and GOJO Company Facts from GOJO Industries website, April 22, 2004.

(3) "Anxiety Spreads Love of Gloves," USA Today, February 28, 2002; and "Kimberly-Clark Completes Acquisition of Safeskin Corporation," company press release dated February 8, 2000.

(4) Abstract in: Berson et al., "Current concepts in the treatment of acne: report from a clinical roundtable," Cutis. 72 (2003) 5-13; and Figure 1 in: "US Prescription Dermatology Pharms - Anti-Acne Mkt," Frost & Sullivan, October 31, 1996.

(5) Zanolli, in Principles and Practice of Dermatology, 1996, p. 341; C. Camisa, Handbook of Psoriasis, 1998, p. 5; and Ho et al., Goldman Sachs Global Equity Research, "Healthcare: Biotechnology, Industry Overview," January 8, 2004, p. 56.

(6) Cancer Facts & Figures 2004, American Cancer Society, p. 4; Ho et al., Goldman Sachs Global Equity Research, "Genentech, Inc., Analyst Day Handbook," March 10, 2004, pp. 3, 20; Murphy et al., Goldman Sachs Global Equity Research, "Novartis, R&D Pipeline Analysis," September 8, 2003, p. 39; Ho et al., Goldman Sachs Global Equity Research, "Genentech, Inc., Analyst Day Handbook," March 10, 2004, p. 15; and Form 10-K, Bristol-Meyers Squibb, March 15, 2004, p. 5.

(7) Medical Laser Report, Vol. 14, No. 1, January 2000, p. 1; "Skin Rejuvenation" in Form 10-K, Candela Corporation, September 26, 2003, p. 7; and Laser Hair Removal Market Study, Medial Insight, Inc., May 2000, p. 24.

Skincare

We are developing OTC products for three areas in the skincare market:

1. personal hygiene products;

2. hand care products for workers who use disposable gloves; and

3. products for treatment of acne.

In the future, we expect to develop products for additional areas in the skincare market, including treatments for psoriasis, eczema, and various fungal infections such as dandruff and athlete's foot.

Personal Hygiene. Our Pure-ific brand of OTC products includes a number of topical antibacterial products that address the personal hygiene market, including a hand sanitizer that immediately kills germs on skin and prevents regrowth for six hours. We believe that annual retail sales in the United States of hand sanitizers are approximately $100 million; this figure excludes sales of antibacterial sprays such as Lysol(R), which we estimate at more than $1.2 billion in annual U.S. sales. We anticipate extending our Pure-ific brand to include additional products that leverage technologies utilized in our other skincare products.

Disposable Glove Care. We estimate that annual wholesale sales of disposable gloves in the U.S. are over $1.2 billion, including $530 million in sales to the acute care or hospital market, $560 million in sales to the medical laboratory and non-hospital market, and $100 million in sales to the dental market. Use of gloves for protection in other areas, including airport security, food preparation, sanitation, blood banks, research facilities, mail handling, police and fire personnel, is rapidly growing as concerns over possible exposure to biological or other hazards increase. We further anticipate that consumers will spend comparable amounts on hand care products as on the gloves themselves.

Acne. Acne affects an estimated 17 million people in the U.S. at any given time. 85% of all people aged 12 to 25 will experience acne problems, while 59% of women aged 25 to 39 suffer from this affliction. 70% percent of adult acne sufferers, and an even a higher fraction of teenagers, rely on self-medication to treat their acne. OTC products for treatment of mild- to moderate-grade acne generally are sold through department stores, supermarkets, and drug stores; combined sales of these products are believed to have exceeded $800 million in the year 2000 and were expected to increase by approximately 10% per year. In addition to these OTC products, Frost & Sullivan have estimated the U.S. prescription acne care market at $1.3 billion, with over 7.7 million visits to physicians in 2001 for treatment of severe acne.

Other Skincare. We anticipate that the formulations of our OTC products and prescription drugs can be used to treat other conditions of the skin, including psoriasis, eczema, and fungal infections such as dandruff and athlete's foot. There are approximately 7 million psoriasis patients in the U.S., with between 160,000 and 250,000

new cases diagnosed every year. In the U.S., the total cost of psoriasis treatment was $2.9 billion in 1995. The numbers are similar for eczema and fungal infections. We believe these represent extremely large future opportunities for our skincare products.

Prescription Pharmaceuticals

We are developing prescription drugs for the treatment of certain severe dermatologic conditions such as psoriasis, and for the treatment of serious

cancers, including those of the liver, breast, and prostate.

Acute Psoriasis. Psoriasis is a chronic skin disease affecting approximately 5 million Americans, with over 150,000 new cases diagnosed annually. The cause of psoriasis is unknown and there is no cure. Thus, patients typically undergo prolonged care over a period of years to decades. Approximately 2.5 million psoriasis patients are treated annually by U.S. physicians (primarily dermatologists), comprising an estimated annual expenditure of $1.5 billion for treatment in the mid-1990s. More recent estimates project a $1-2 billion market opportunity for new therapies divided among several multi-hundred-million dollar products.

Liver Cancer. Hepatocellular carcinoma, or HCC, accounts for approximately 90% of all liver tumors and is the most common solid-organ tumor worldwide, causing over 1 million deaths annually. HCC is associated with chronic liver injury from viral hepatitis (hepatitis B and C), and has attained epidemic proportions among men aged 25 to 34 in eastern Asia, tropical Africa, and southern Italy. Although currently of relatively low incidence in the U.S. and Europe, the rapid rise in hepatitis infection in these regions signifies that this may soon change. In contrast, the primary form of liver cancer in the U.S. currently is metastatic colorectal carcinoma (155,000 new cases and 60,000 deaths annually, with a 6% five-year survival rate). The current standard of care for these forms of liver cancer is ablative therapy (via localized ethanol injection, cryosurgery, or radiofrequency ablation). A combined five-year survival rate of 33% for these therapies demonstrates the pressing need for new therapeutic approaches in a worldwide market estimated at over $500 million.

Breast Cancer. The American Cancer Society estimates that approximately 205,000 new cases of invasive breast cancer, and over 54,000 new cases of in situ breast cancer, occurred in the U.S. in 2002, leading to approximately 40,000 deaths. Current treatments (lumpectomy, mastectomy, removal of regional lymph nodes, radiation therapy, chemotherapy, and hormone therapy) are expensive and associated with unacceptable side effects. While five-year survival rates are excellent for localized tumors (96%), this rate drops to 21% once distant metastasis has occurred. This illustrates that surgical excision and standard adjuvant treatments (such as chemotherapy and radiation) are ineffective at eliminating metastatic cells that have migrated from the primary treatment site. New, minimally invasive treatment modalities for breast cancer may have broad applicability to this therapeutic market estimated at well over $1 billion.

Prostate Cancer. The American Cancer Society estimates that approximately 190,000 U.S. men are afflicted annually with cancer of the prostate, leading to over 30,000 deaths. As with breast cancer, surgical resection, chemotherapy, radiation therapy, and immunotherapy comprise the standard treatments for the majority of cases, and can result in serious, permanent side effects. We believe that new, minimally-invasive modalities - such as direct injection of our prescription drug Provecta into prostate tumors - may have broad applicability to this therapeutic market as an adjuvant or primary form of therapy, providing an entry into a therapeutic market estimated at well over $500 million.

Medical Device Systems

This market area comprises two sectors: cosmetic treatments, such as non-ablative wrinkle reduction, elimination of spider veins and other cosmetic blemishes, and laser hair reduction; and therapeutic uses, including activation of certain of our light-activated drugs. Additional areas include non-surgical destruction of skin cancers and removal of unwanted moles and other hyperpigmented features. The U.S. medical laser market exceeded $1.6 billion in 2000, while the market for wrinkle reduction and hair reduction systems alone is currently in excess of $100 million annually. We believe that we can develop new markets for laser devices, significantly in addition to the current market for these devices, as a result of the development of therapies consisting of

photoactivation of the our prescription drug products.

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-14(c) under the Exchange Act) as of June 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. Changes in Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

In December 2003, the Company commenced an offering for the sale of restricted common stock. In the second quarter 2004, the Company sold 245,462 shares of restricted common stock under this offering at an average gross price of $1.09 per share and received net proceeds of $90,360. The Company has also recorded a stock subscription receivable of $2,000 for stock subscriptions prior to June 30, 2004 for which payment was received subsequent to June 30, 2004. The Company has engaged a placement agent to assist in the offering. Costs related to the placement agent for proceeds received in the second quarter 2004 of $178,047 have been off-set against the gross proceeds of $268,407 and therefore are reflected as a direct reduction of equity at June 30, 2004. The transaction is a Regulation S offering to foreign investors as defined by Regulation S of the Securities Act. The restricted shares cannot be traded for 12 months. After the first 12 months, sales of the shares are subject to restriction under rule 144 for an additional year. We have engaged a placement agent to assist us in the offering.

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
A.I.	222,222	$1.00	June 25, 2004
Castlerigg	222,222	$1.00	June 25, 2004
A.I.	148,148	$1.00	July 16, 2004
Castlerigg	148,148	$1.00	July 16, 2004
Castlerigg	148,148	$1.00	August 5, 2004
Castlerigg	444,444	$1.00	August 9, 2004

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. 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.

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. 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 240,000 shares of common stock to Cornell as commitment shares. In addition, we issued 10,000 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) $1.82 (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. 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. We have agreed, pursuant to the Debenture SPA, to issue a second secured convertible debenture (the "Second Debenture"), on the same terms as the Debenture, on the date that we file a registration statement with the Securities and Exchange Commission to register the shares underlying the Debenture and the Second Debenture. 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.

Item 3. Defaults Upon Senior Securities.

None.

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

An annual meeting was held on May 27, 2004, at which the following directors were elected:

	For	Withhold Authority
H. Craig Dees	7,931,372	300
Eric Wachter	7,931,272	400

Timothy D. Scott	7,931,272	400
Stuart R. Fuchs	7,931,372	300

Item 5. Other Information.

None.

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

21.0 List of Subsidiaries

31.1 Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated August 16, 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 August 16, 2004, executed by Peter R. Culpepper, Chief Financial Officer of the Company.

32. Certification Pursuant to 18 U.S.C. ss. 1350 (Section 906 Certification), dated August 16, 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: August 16, 2004

EXHIBIT INDEX

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