PROVECTUS PHARMACEUTICALS INC
Form 10QSB
May 17, 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 March 31, 2004

[ ] 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 April 20, 2004 was 13,507,030.

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

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

CONSOLIDATED BALANCE SHEETS

	March 31, 2004 (Unaudited)	Dec (
Assets		
Current Assets		
Cash	$ 452,229	$
Stock subscription receivable	41,192	
Deferred Loan Costs, net of amortization of $62,202 and $19,569	108,328	
Inventory	69,060	
Prepaid expenses and other current assets	28,757	
Prepaid consulting expense	346,141	
Total Current Assets	1,045,707	
Equipment and furnishings, less accumulated depreciation of $298,401 and $244,760	68,169	
Patents, net of amortization of $1,568,733 and $1,281,770	18,468,828	18,
Other Assets	27,000	
	$19,609,704	$19,
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable - trade	$ 142,466	$
Accrued compensation	240,000	
Accrued expenses	73,707	
Accrued interest	131,975	
Short-term convertible debt, net of debt discount of $318,306 and $442,623	181,694	
Current maturities of long-term convertible debt, net of debt discount of $41,229 and $57,052	984,730	
Total Current Liabilities	1,754,572	1,
Loan From Stockholder	149,000	
Stockholders' Equity		
Common stock; par value $.001 per share; 100,000,000 shares		

authorized; 13,096,605 and 10,867,509 shares issued and outstanding, respectively	13,097	
Paid-in capital	29,606,391	28,
Deficit accumulated during the development stage	(11,913,356)	(10,
Total Stockholders' Equity	17,706,132	18,
	$19,609,704	$19,

See accompanying notes to financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2004 (Unaudited)	Three Months Ended March 31, 2003 (Unaudited)	Cumulative Through March 31,2004 (Unaudited)
Operating Income			
Net OTC product revenue	$ 640	$ -	$ 640
Net medical device revenue	13,125	-	13,125
Operating Expenses			
Research and development	187,954	155,783	963,592
General and administrative	483,678	511,917	8,988,874
Amortization	286,963	286,963	1,568,732
Total operating loss	(944,830)	(954,663)	(11,507,433)
Gain on sale of fixed assets	-	-	55,000
Interest expense	(214,726)	(38,021)	(460,923)
Net Loss Applicable to Common Stockholders	$(1,159,556)	$ (992,684)	$(11,913,356)
Basic and Diluted Loss Per Common Share	(0.09)	(0.11)	
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	12,241,172	9,451,667	

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	
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	28,7
Issuance of stock for services	351,606	352	
Exercise of warrants	10,000	10	
Stock to be issued for services	-	-	
Employee compensation from stock options	-	-	
Issuance of stock pursuant to Regulation S	1,867,490	1,867	7
Net loss for the three months ended March 31, 2004	-	-	
Balance, at March 31, 2004	13,096,605	$ 13,097	$29,6

See accompanying notes to financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2004 (Unaudited)	Three Months Ended March 31, 2003 (Unaudited)
Cash Flows From Operating Activities		
Net loss	$ (1,159,556)	(992,684)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	53,641	83,881
Amortization of patents	286,963	286,963
Amortization of original issue discount	140,140	15,570
Amortization of prepaid consultant expense	137,176	-
Amortization of deferred loan costs	42,633	-
Compensation through issuance of stock options	3,903	-
Compensation through issuance of stock	-	-
Issuance of stock for services	11,500	22,800
Issuance of warrants for services	-	19,574
(Gain)loss on sale of fixed asset	-	-
(Increase) decrease in assets		

Prepaid expenses	(2,530)	2,499
Inventory	3,518	-
Increase (decrease) in liabilities		
Accounts payable	41,826	(46,302)
Accrued expenses	(64,388)	7,469
Net cash used in operating activities	(505,174)	(600,230)
Cash Flows From Investing Activities		
Proceeds from sale of fixed asset	-	-
Capital expenditures	(395)	(3,301)
Net cash (used in) provided by investing activities	(395)	(3,301)
Cash Flows From Financing Activities		
Proceeds from loans from stockholder	-	-
Proceeds from convertible debt	-	25,959
Proceeds from sale of common stock	788,653	-
Proceeds from exercise of warrants	5,000	-
Cash paid for deferred loan costs	-	-
Purchase and retirement of common stock	-	-
Net cash provided by financing activities	793,653	25,959
Net Change in Cash	288,084	(577,572)
Cash, at beginning of period	164,145	717,833
Cash, at end of period	452,229	140,261

Supplemental Disclosure of Noncash Investing and Financing Activities

March 31, 2004

Issuance of stock for services of $11,500 and commitment to issue stock for prepaid services of $62,500

Stock subscription receivable recorded of $41,192

March 31, 2003

Issuance of stock and warrants for services of $117,291

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

2. GOING CONCERN

The Company will continue to require additional capital to develop its products and develop sales and distribution channels for its products. Management believes there are a number of potential alternatives available to meet the Company's continuing capital requirements, including proceeding as rapidly as possible with the development of over-the-counter products that can be sold with a minimum of regulatory compliance and developing revenue sources through licensing of our existing intellectual property portfolio. In addition, the Company is pursuing actively additional debt and/or equity capital in order to support ongoing operations. There can be no assurance that the Company will be able to obtain sufficient additional working capital on commercially reasonable terms or conditions, or at all.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. Continuing as a going concern is dependent upon successfully obtaining additional working capital as described above. The 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 the outcome of this uncertainty.

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 of Reorganization between Provectus Pharmaceutical and PPI was approved by the written consent of a majority of the outstanding shares of Provectus Pharmaceutical. As a result, Provectus Pharmaceuticals, Inc. issued 6,680,000 shares of common stock in exchange for all 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-prorata 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.

Prior to the acquisition of Valley, the Company was considered to be, and continues to be, in the development stage and has not generated any revenues from the assets acquired.

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 March 31, 2004 are 955,000 warrants, 1,525,000 options and 2,274,558 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 111,765 shares committed to be issued but not outstanding at March 31, 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. At March 31, 2004 the full value of these shares of $62,500 has been classified as prepaid consulting expense as it represents payments for services to be provided in the future. The shares are fully vested and non-forfeitable.

(b) In December 2003, the Company commenced an offering for sale of restricted common stock. In the first quarter 2004, the Company sold 1,867,490 shares of restricted common stock under this offering at an average gross price of $1.18 per share and received net proceeds of $788,653. The Company has also recorded a stock subscription receivable of $41,192 for stock subscriptions prior to March 31, 2004 for which payment was received subsequent to March 31, 2004. The Company has engaged a placement agent to assist in the offering. Costs related to the placement agent for proceeds received in the first quarter 2004 of $1,410,256 have been off-set against the gross proceeds of $2,198,909 and therefore are reflected as a direct reduction of equity at March 31, 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.

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 March 31, 2004.

For stock options granted to employees during the first quarter of 2004, the Company has estimated the fair value of each option granted using the Black-Scholes option pricing model with the following assumptions:

	2004
Weighted average fair value per options granted	$ 1.10
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, $3,903 of expense was recorded for the three months ended March 31, 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 March 31, 2004	Three Months Ended March 31, 2003
Net loss, as reported	$ (1,159,556)	$ (992,684)
Add stock based employee compensation expense included in reported net loss	3,903	-
Less total stock-based employee compensation expense determined under the fair value based method for all awards	(283,438)	
Pro forma net loss	$ (1,439,091)	$ (992,684)
Basic and diluted loss per common share, as reported	(0.09)	$ (0.11)
Basic and diluted loss per common share, pro forma	(0.12)	$ (0.11)

The following table summarizes the options granted, exercised and outstanding as of March 31, 2004.

	Exercise Price Per

	Shares	Share
Outstanding at December 31, 2003	356,250	$0.26 - $0.60
Granted	1,200,000	$1.10
Exercised	-	-
Forfeited	(31,250)	$0.26 - $0.32
Outstanding at March 31, 2004	1,525,000	$0.32 - $1.10
Options exercisable at March 31, 2004	381,250	$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.

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.

GOING CONCERN

In connection with their audit report on our consolidated financial statements as of December 31, 2003, BDO Seidman LLP, our independent certified public accountants, expressed substantial doubt about our ability to continue as a going concern because such continuance is dependent upon our ability to raise capital.

Our technologies are in early stages of development. We have not generated material revenues from sales or operations and we do not expect to generate sufficient revenues to enable us to be profitable for several calendar quarters. At critical junctures during 2003 we obtained $40,000 in additional funding, amounting to $149,000 in total, through loans from Eric A. Wachter, our Vice President - Pharmaceuticals, a member of our Board of Directors, and a major shareholder. These funds allowed us to complete our planned corporate reorganization and acquisitions, complete initial production runs for several of

our OTC products, and maintain our facilities and intellectual property portfolio. We require additional funding to continue initial production and distribution of OTC products in order to achieve meaningful sales volumes. In addition, we must raise substantial additional funds in order to fully 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 that are currently delayed.

Ultimately, we must achieve profitable operations if we are to be a viable entity. 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 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 successfully raise the needed funds, we cannot assure you that we will be able to raise sufficient capital to sustain operations before we can commence revenue generation or 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 limited 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 short-term 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 March 31, 2004, we held $452,229 in cash. At our current cash expenditure rate, this amount will be sufficient to meet our needs until the end of August 2004. We already have begun to reduce our expenditure rate by delaying 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 either in increasing sales of OTC products or in reducing expenditures. Moreover, even if we are successful in improving our current cash flow position, we nonetheless will require additional funds to meet our short-term and long-term needs. We anticipate these funds will come from the proceeds of private placements or public offerings of debt or equity securities, but we cannot assure you that we will be able to obtain such funds.

Capital Resources

As noted above, our present cash flow is not sufficient to meet our short-term operating needs for initial production and distribution of OTC products in order to achieve meaningful sales volumes, much less to meet our longer-term needs for investment in our business through execution of 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. We are currently in discussions with multiple funding sources and feel confident adequate operating funding and development funding will result. While we believe that we have reasonable basis for our expectation that we will be able to raise additional funds, we cannot give you any assurance that we will be able to do so on commercially reasonable terms. In addition, any such financing may result in significant dilution to shareholders.

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(1) (millions)
OTC Products	
Personal hygiene(2)	$ 100
Disposable glove care(3)	1,200
Acne (all grades)(4)	1,300
Prescription Pharmaceuticals	
Psoriasis(5)	1,500
Liver, breast and prostate cancer(6)	2,000
Medical Devices	
Medical device systems(7)	1,600

(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-Myers 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, Medical 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, will occur 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, 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-14(c) under the Exchange Act) as of March 31, 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

During the three months ended March 31, 2004, we did not sell any securities which were not registered under the Securities Act of 1933, as amended (the "Securities Act"), other than the following.

In the first quarter of 2004, the Company issued 1,867,490 shares of our restricted common stock for net proceeds of $788,653. In December 2003, we commenced an offering for sale up to approximately $1 million of this restricted common stock. Net proceeds to us were initially expected to be approximately $400,000 to $600,000. We have since increased this offering amount to $3 million and have received proceeds of $1,122,317 as of March 31, 2004. If we are successful in selling the remaining shares, total net proceeds are expected to be approximately $1.2 million to $1.8 million. The transaction is a Regulation S offering to foreign investors as defined by Regulation S of the Securities Act. The restricted shares cannot be traded for 12 months. After the first 12 months, sales of the shares are subject to restrictions under rule 144 for an additional year. We have engaged a placement agent to assist us in the offering.

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.

(a) Exhibits. Exhibits required by Item 601 of Regulation S-B are incorporated herein by reference and are listed on the attached Exhibit Index, which begins on page X-1 of this Quarterly Report on Form 10-QSB.

(b) Reports on Form 8-K.

None.

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

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

Date: May 17, 2004

EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Provectus Pharmaceuticals, Inc., a Nevada corporation ("Provectus"), incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 2003, as filed with the SEC on August 14, 2003.
3.2	Bylaws of Provectus, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2003, as filed with the SEC on May 9, 2003.
4.2.1*	Convertible Secured Promissory Note and Warrant Purchase Agreement dated as of November 26, 2002 between Provectus and Gryffindor Capital Partners I, L.L.C. ("Gryffindor"), incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 26, 2002, as filed with the SEC on December 10, 2002.
4.2.2	Letter Agreement dated January 31, 2003 between Provectus and Gryffindor, incorporated herein by reference to Exhibit 4.2.2 to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2003, as filed with the SEC on May 9, 2003.
4.3	Amended and Restated Convertible Secured Promissory Note of Provectus dated January 31, 2003, issued to Gryffindor, reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2003, as filed with the SEC on May 9, 2003.
4.6*	Stock Pledge Agreement dated as of November 26, 2002 between Provectus and Gryffindor, incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K dated November 26, 2002, as filed with the SEC on December 10, 2002.
4.7	Guaranty dated November 26, 2002 from Xantech Pharmaceuticals,

	Inc., a Tennessee corporation and a wholly owned subsidiary of Provectus ("Xantech"), to Gryffindor, incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K dated November 26, 2002, as filed with the SEC on December 10, 2002.
4.8	Form of Security Agreement between the Company and Gryffindor, incorporated herein by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K dated November 26, 2002, as filed with the SEC on December 10, 2002.
4.9	Form of Patent and License Security Agreement between the Company and Gryffindor, incorporated herein by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K dated November 26, 2002, as filed with the SEC on December 10, 2002.
4.10	Form of Trademark Collateral Assignment and Security Agreement between the Company and Gryffindor, incorporated herein by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K dated November 26, 2002, as filed with the SEC on December 10, 2002.
4.11	Form of Copyright Security Agreement between the Company and Gryffindor, incorporated herein by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K dated November 26, 2002, as filed with the SEC on December 10, 2002.
4.16*	Promissory Note of Provectus dated December 31, 2002, issued to Eric A. Wachter.
10.2**	Provectus Pharmaceuticals, Inc. Amended and Restated 2002 Stock Plan, incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003, filed with the SEC on August 14, 2003.

Exhibit No.	Description
10.14	Settlement Agreement dated as of June 16, 2003 among Kelly Adams, Justeene Blankenship, Nicholas Julian, and Pacific Management Services, Inc.; and Provectus and Xantech, incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K dated June 16, 2003, as filed with the SEC on June 26, 2003.
10.15	Material Transfer Agreement dated as of July 31, 2003 between Schering-Plough Animal Health Corporation, a Delaware corporation, and Provectus, incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003, filed with the SEC on August 14, 2003.
31.1+	Certification Pursuant to Rule 13a-14(a) (Section 302 Certification), dated May 17, 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 May 17, 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 August 14, 2003, executed by H. Craig Dees, Ph.D., Chief Executive Officer of the Company, and Peter R. Culpepper, Chief Financial Officer of the Company.

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* The Company agrees by this filing to supplementally furnish to the SEC, upon request, a copy of the exhibits and/or schedules to this agreement.

** Management compensation contract or plan.

+ Filed herewith.