

PROVECTUS BIOPHARMACEUTICALS, INC.

Form 10-Q

May 07, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2015**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from                      to**

**Commission file number 001-36457**

**PROVECTUS BIOPHARMACEUTICALS, INC.**

**(Exact name of registrant as specified in its charter)**

|   |  |
|---|--|
| <b>Delaware</b><br><b>(State or other jurisdiction of</b>   | <b>90-0031917</b><br><b>(I.R.S. Employer</b> |
| <b>incorporation or organization)</b>                       | <b>Identification No.)</b>                   |
| <b>7327 Oak Ridge Highway, Suite A,</b>                     |  |
| <b>Knoxville, Tennessee</b>                                 | <b>37931</b>                                 |
| <b>(Address of principal executive offices)</b>             | <b>(Zip Code)</b>                            |
| <b>866-594-5999</b>   |  |
| <b>(Registrant's telephone number, including area code)</b> |  |

N/A

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

Indicate by check mark whether the registrant: (1) has 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, par value \$.001 per share, as of March 31, 2015, was 185,972,159.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements as defined under U.S. federal securities laws. These statements reflect management's current knowledge, assumptions, beliefs, estimates, and expectations and express management's current views of future performance, results, and trends and may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will, or similar terms. Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to materially differ from those described in the forward-looking statements. Readers should not place undue reliance on forward-looking statements. Such statements are made as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update such statements after this date.

Risks and uncertainties that could cause our actual results to materially differ from those described in forward-looking statements include those discussed in our filings with the Securities and Exchange Commission (including those described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014), and the following:

our determination, based on guidance from the FDA, whether to proceed with or without a partner with the fully enrolled phase 3 trial of PV-10 to treat locally advanced cutaneous melanoma and the costs associated with such a trial if it is necessary to complete (versus interim data alone);

our determination whether to license PV-10, our melanoma drug product candidate, and other solid tumors such as cancers of the liver, if such licensure is appropriate considering the timing and structure of such a license, or to commercialize PV-10 on our own to treat melanoma and other solid tumors such as cancers of the liver;

our ability to license our dermatology drug product candidate, PH-10, on the basis of our phase 2 atopic dermatitis and psoriasis results, which are in the process of being further developed in conjunction with mechanism of action studies; and

our ability to raise additional capital if we determine to commercialize PV-10 and/or PH-10 on our own, although our expectation is to be acquired by a prospective pharmaceutical or biotech concern prior to commercialization.

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## PROVECTUS BIOPHARMACEUTICALS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

|   | <b>March 31,<br/>2015<br/>(Unaudited)</b> | <b>December 31, 2014<br/>(Audited)</b> |
|---|---|--|
| <b>Assets</b>   |   |  |
| <b>Current Assets</b>   |   |  |
| Cash and cash equivalents   | \$ 14,170,733                             | \$ 17,391,601                          |
| Short-term receivable settlement  | 466,666                                   | 733,333                                |
| Other current assets  | 1,223,668                                 | 978,000                                |
| <b>Total Current Assets</b>   | <b>15,861,067</b>                         | <b>19,102,934</b>                      |
| Equipment and furnishings, less accumulated depreciation of \$441,052 and \$437,863, respectively   | 88,982                                    | 92,171                                 |
| Patents, net of amortization of \$8,299,517 and \$8,131,737, respectively   | 3,415,928                                 | 3,583,708                              |
| Long-term receivable settlement, net of discount  | 3,378,345                                 | 3,378,345                              |
| Other assets  | 27,000                                    | 27,000                                 |
|   | <b>\$ 22,771,322</b>                      | <b>\$ 26,184,158</b>                   |
| <b>Liabilities and Stockholders Equity</b>  |   |  |
| <b>Current Liabilities</b>  |   |  |
| Accounts payable trade  | \$ 652,501                                | \$ 440,702                             |
| Accrued consulting expense  | 91,282                                    | 91,282                                 |
| Other accrued expenses  | 278,656                                   | 315,738                                |
| <b>Total Current Liabilities</b>  | <b>1,022,439</b>                          | <b>847,722</b>                         |
| <b>Long-Term Liability</b>  |   |  |
| Warrant liability   | 52,534                                    | 146,560                                |
| <b>Total Liabilities</b>  | <b>1,074,973</b>                          | <b>994,282</b>                         |
| <b>Stockholders Equity</b>  |   |  |
| Preferred stock; par value \$.001 per share; 25,000,000 shares authorized; no shares outstanding as of March 31, 2015 and December 31, 2014 |   |  |
| Common stock; par value \$.001 per share; 300,000,000 authorized; 185,972,159 and 184,796,275 shares issued and outstanding, respectively   |   |  |
|   | 185,972                                   | 184,796                                |
| Paid-in capital   | 182,329,294                               | 181,298,890                            |
| Accumulated deficit   | (160,818,917)                             | (156,293,810)                          |

|                    |        |               |               |
|--------------------|--------|---------------|---------------|
| Total Stockholders | Equity | 21,696,349    | 25,189,876    |
|                    |        | \$ 22,771,322 | \$ 26,184,158 |

See accompanying notes to condensed consolidated financial statements.

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## PROVECTUS BIOPHARMACEUTICALS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|  | <b>Three Months<br/>Ended<br/>March 31, 2015</b> | <b>Three Months<br/>Ended<br/>March 31, 2014</b> |
|--|--|--|
| Operating expenses   |  |  |
| Research and development   | \$ 2,280,706                                     | \$ 1,157,883                                     |
| General and administrative   | 2,171,985  | 3,055,944  |
| Amortization   | 167,780  | 167,780  |
| Total operating loss   | (4,620,471)                                      | (4,381,607)                                      |
| Investment income  | 1,338  | 1,373  |
| Gain (loss) on change in fair value of warrant liability               | 94,026   | (2,287,033)                                      |
| Net loss   | \$ (4,525,107)                                   | \$ (6,667,267)                                   |
| Basic and diluted loss per common share                                | \$ (0.02)  | \$ (0.04)  |
| Weighted average number of common shares outstanding basic and diluted | 185,196,323                                      | 168,859,658                                      |

See accompanying notes to condensed consolidated financial statements.



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## PROVECTUS BIOPHARMACEUTICALS, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

|   | <b>Preferred<br/>Stock<br/>Number of<br/>Shares</b> | <b>Par Value</b> | <b>Common Stock<br/>Number of<br/>Shares</b> | <b>Par Value</b> | <b>Paid-in<br/>capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Total</b>  |
|---|---|------------------|--|------------------|----------------------------|--------------------------------|---------------|
| <b>Balance, at<br/>December 31, 2014</b>                                |   | \$               | 184,796,275                                  | \$ 184,796       | \$ 181,298,890             | \$ (156,293,810)               | \$ 25,189,876 |
| Issuance of stock for<br>services                                       |   |                  | 75,000                                       | 75               | 63,925                     |                                | 64,000        |
| Issuance of warrants<br>for services                                    |   |                  |  |                  | 1,632                      |                                | 1,632         |
| Cash proceeds from<br>exercise of warrants<br>and stock options         |   |                  | 324,884                                      | 325              | 290,503                    |                                | 290,828       |
| Issuance of common<br>stock and warrants<br>pursuant to<br>Regulation D |   |                  | 776,000                                      | 776              | 674,344                    |                                | 675,120       |
| Net loss for the three<br>months ended<br>March 31, 2015                |   |                  |  |                  |                            | (4,525,107)                    | (4,525,107)   |
| <b>Balance, at<br/>March 31, 2015</b>                                   |   | \$               | 185,972,159                                  | \$ 185,972       | \$ 182,329,294             | \$ (160,818,917)               | \$ 21,696,349 |

See accompanying notes to condensed consolidated financial statements.

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## PROVECTUS BIOPHARMACEUTICALS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

|  | <b>Three Months<br/>Ended<br/>March 31, 2015</b> | <b>Three Months<br/>Ended<br/>March 31, 2014</b> |
|--|--|--|
| <b>Cash Flows From Operating Activities</b>                                |  |  |
| Net loss   | \$ (4,525,107)                                   | \$ (6,667,267)                                   |
| Adjustments to reconcile net loss to net cash used in operating activities |  |  |
| Depreciation   | 3,189  | 1,716  |
| Amortization of patents  | 167,780  | 167,780  |
| Issuance of stock for services   | 64,000   | 137,500  |
| Issuance of warrants for services  | 1,632  | 900,317  |
| (Gain) loss on change in fair value of warrant liability                   | (94,026)   | 2,287,033  |
| Increase (decrease) in assets  |  |  |
| Settlement receivable  | 266,667  |  |
| Other current assets   | (245,668)  |  |
| Increase (decrease) in liabilities   |  |  |
| Accounts payable   | 211,799  | 376,419  |
| Accrued expenses   | (37,082)   | (54,211)   |
| <b>Net cash used in operating activities</b>                               | <b>(4,186,816)</b>                               | <b>(2,850,713)</b>                               |
| <b>Cash Flows From Investing Activities</b>                                |  |  |
| <b>Net cash used in investing activities</b>                               |  |  |
| <b>Cash Flows From Financing Activities</b>                                |  |  |
| Net proceeds from sales of common stock and warrants                       | 675,120  |  |
| Proceeds from exercises of warrants and stock options                      | 290,828  | 3,803,386  |
| <b>Net cash provided by financing activities</b>                           | <b>965,948</b>                                   | <b>3,803,386</b>                                 |
| <b>Net change in cash and cash equivalents</b>                             | <b>(3,220,868)</b>                               | <b>952,673</b>                                   |
| Cash and cash equivalents, at beginning of period                          | 17,391,601                                       | 15,696,243                                       |
| Cash and cash equivalents, at end of period                                | \$ 14,170,733                                    | \$ 16,648,916                                    |

**Supplemental Disclosure of Noncash Investing and Financing Activities:**

During the three months ended March 31, 2014, the Company had reclassified \$9,717,549 from warrant liability to equity due to the exercise of a portion of our warrants.

See accompanying notes to condensed consolidated financial statements.



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information pursuant to Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The Company has evaluated subsequent events through the date the condensed consolidated financial statements were issued.

**2. Nature of Operations**

Provectus Biopharmaceuticals, Inc., a Delaware corporation, is a biopharmaceutical company whose planned principal operations is focusing on developing minimally invasive products for the treatment of psoriasis and other topical diseases, and certain forms of cancer including melanoma, breast cancer, and cancers of the liver. To date, the Company has no revenues from planned principal operations. The Company's activities are subject to significant risks and uncertainties, including failing to successfully develop and license or commercialize the Company's prescription drug candidates, or sell or license the Company's OTC products or non-core technologies.

**3. Basic and Diluted Loss Per Common Share**

Basic and diluted loss per common share is computed based on the weighted average number of common shares outstanding. Loss per share excludes the impact of outstanding options and warrants as they are antidilutive. Potential common shares excluded from the calculation at March 31, 2015 and 2014, respectively, relate to 60,010,658 and 58,090,500 from warrants, and 10,220,214 and 13,893,334 from options.

**4. Equity Transactions**

(a) During the three months ended March 31, 2015, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$64,000. During the three months ended March 31, 2014, the Company issued 75,000 shares of common stock to consultants in exchange for services. Consulting costs charged to operations were \$137,500.

(b) During the three months ended March 31, 2015, the Company issued 3,000 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$1,632. During the three months ended March 31, 2015, 3,693,898 warrants were forfeited. During the three months ended March 31, 2014, the Company issued 733,000 fully vested warrants to consultants in exchange for services. Consulting costs charged to operations were \$900,317. During the three months ended March 31, 2014, 121,500 warrants were forfeited. During the three months ended March 31, 2014, 12,522,198 warrants were exercised on a cashless basis resulting in 9,100,824 common shares being issued. During the three months ended March 31, 2014, 3,036,218 warrants were exercised for \$2,672,364 resulting in 3,036,218 common shares issued.

As the fair market value of these services was not readily determinable, these services were valued based on the fair market value, determined using the Black-Scholes option-pricing model.

(c) The Company determined that warrants issued January 13, 2011 and referred to as Series A Warrants and Series C Warrants should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter. For the three months ended March 31, 2015, there was a gain recognized from the revaluation of the warrant liability of \$14,275. For the three months ended March 31, 2014, there was a loss recognized from the revaluation of the warrant liability of \$1,153,835.

(d) In March and April 2010, the Company issued 8% Convertible Preferred Stock with warrants. The Company determined that warrants issued with the 8% Convertible Preferred Stock should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter. For the three months ended March 31, 2015, there was a gain recognized from the revaluation of the warrant liability of \$79,751. For the three months ended March 31, 2014, there was a loss recognized from the revaluation of the warrant liability of \$211,422. During the three months ended March 31, 2015, the remaining warrants included in the warrant liability were forfeited.

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(e) In February 2013, the Company issued Series A 8% Convertible Preferred Stock with warrants. The Company determined that warrants issued with the Series A 8% Convertible Preferred Stock should be classified as liabilities in accordance with ASC 815 because the warrants in question contain exercise price reset features that require the exercise price of the warrants be adjusted if the Company issues certain other equity related instruments at a lower price per share. The preferred stock was determined to have characteristics more akin to equity than debt. As a result, the conversion option was determined to be clearly and closely related to the preferred stock and therefore does not need to be bifurcated and classified as a liability. The proceeds received from the issuance of the preferred stock were first allocated to the fair value of the warrants with the remainder allocated to the preferred stock. The fair value of the preferred stock if converted on the date of issuance was greater than the value allocated to the preferred stock. As a result, a beneficial conversion amount was recorded upon issuance. The value of the warrant liability was determined based on the Monte-Carlo Simulation model at the date the warrants were issued. The warrant liability is then revalued at each subsequent quarter. For the three months ended March 31, 2014, there was a loss recognized from the revaluation of the warrant liability of \$921,776. There were no outstanding 2013 warrants at December 31, 2014 and therefore there is no gain or loss for the three months ended March 31, 2015.

(f) In January 2014, there were 33,334 shares of the Company's Series A 8% Convertible Preferred Stock that converted into 33,334 shares of the Company's common stock. As of January 15, 2014, there were no shares of Series A 8% Convertible Preferred Stock outstanding. In 2014, the Company recognized no dividends because of the conversion of all outstanding shares of preferred stock to common stock as of January 15, 2014.

(g) During the three months ended March 31, 2015, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$776,000. The Company received subscriptions, in the aggregate, for 776,000 shares of common stock and five year warrants to purchase 388,000 shares of common stock. Investors received five year fully vested warrants to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants is \$1.00. The Company plans to use the proceeds for working capital and other general corporate purposes. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company paid \$100,880 and issued five year fully vested warrants to purchase 77,600 shares of common stock with an exercise price of \$1.25 to Network 1 Financial Securities, Inc., which represents 10% of the total number of shares of common stock subscribed for by investors solicited by Network 1 Financial Securities, Inc.

**5. Stock-Based Compensation**

One employee of the Company exercised 185,000 options at an exercise price of \$1.02 per share of common stock for \$188,700 during the three months ended March 31, 2015. Another employee of the Company exercised 76,764 options at an exercise price of \$0.64 per share of common stock for \$49,129 during the three months ended March 31, 2015. Another employee of the Company exercised 33,334 options at an exercise price of \$0.75 per share of common stock for \$25,000 and 29,786 options at an exercise price of \$0.94 per share of common stock for \$27,999 during the three months ended March 31, 2015. One employee of the Company forfeited 300,000 stock options on January 7, 2015. One employee of the Company exercised 25,000 options at an exercise price of \$0.95 per share of common stock for \$23,750, 14,248 options at an exercise price of \$0.75 per share of common stock for \$10,686 and 600,000 options at an exercise price of \$0.93 per share of common stock for \$558,000 during the three months ended March 31, 2014. Another employee of the Company exercised 300,000 options at an exercise price of \$1.10 per share of common stock for \$330,000 during the three months ended March 31, 2014. Another employee of the Company exercised 189,624 options at an exercise price of \$1.10 per share of common stock for \$208,586 during the three months ended March 31, 2014. One employee of the Company forfeited 300,000 stock options on February 26, 2014.

## 6. Fair Value of Financial Instruments

The FASB's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The fair value of certain of the Company's financial instruments, including cash and cash equivalents and accounts payable, approximates the carrying value due to the relatively short maturity of such instruments. The fair value of derivative instruments is determined by management with the assistance of an independent third party.

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valuation specialist. The warrant liability is a derivative instrument and is classified as Level 3. The Company used the Monte-Carlo Simulation model to estimate the fair value of the warrants. Significant assumptions used are as follows:

|   | <b>March 31, 2015</b> |
|---|-----------------------|
| <b>2011 Warrants:</b>                                 |                       |
| Weighted average term                                 | 0.8 years             |
| Probability the warrant exercise price would be reset | 5%                    |
| Volatility  | 126.71%               |
| Risk free interest rate                               | 0.20%                 |

At March 31, 2015, there are no remaining 2013 and 2010 warrants and, therefore, no associated warrant liability.

The warrant liability measured at fair value on a recurring basis is as follows:

|  | <b>Total</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|--|--------------|----------------|----------------|----------------|
| <b>Derivative instruments:</b>         |              |                |                |                |
| Warrant liability at March 31, 2015    | \$ 52,534    | \$             | \$             | \$ 52,534      |
| Warrant liability at December 31, 2014 | \$ 146,560   | \$             | \$             | \$ 146,560     |

A reconciliation of the warranty liability measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2015 to March 31, 2015 follows:

|  |                  |
|--|------------------|
| Balance at January 1, 2015                         | \$ 146,560       |
| Issuance of warrants                               |                  |
| Net gain included in earnings from the revaluation | (94,026)         |
| Exercise of warrants                               |                  |
| <b>Balance at March 31, 2015</b>                   | <b>\$ 52,534</b> |

**7. Litigation***Kleba Shareholder Derivative Lawsuit*

On January 2, 2013, Glenn Kleba, derivatively on behalf of the Company, filed a shareholder derivative complaint in the Circuit Court for the State of Tennessee, Knox County (the Court), against H. Craig Dees, Timothy C. Scott, Eric A. Wachter, and Peter R. Culpepper (collectively, the Executives), Stuart Fuchs, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, together with the Executives, the Individual Defendants), and against the Company as a nominal defendant (the Shareholder Derivative Lawsuit). The Shareholder Derivative Lawsuit alleged (i) breach of fiduciary duties, (ii) waste of corporate assets, and (iii) unjust enrichment, all three claims based on Mr. Kleba's allegations that the defendants authorized and/or accepted stock option awards in violation of the terms of the Company's 2002 Stock Plan (the Plan) by issuing stock options in excess of the amounts authorized under the Plan and delegated to defendant H. Craig Dees the sole authority to grant himself and the other Executives cash bonuses that Mr. Kleba alleges to be excessive.



In April 2013, the Company's Board of Directors appointed a special litigation committee to investigate the allegations of the Shareholder Derivative Complaint and make a determination as to how the matter should be resolved. The special litigation committee conducted its investigation, and proceedings in the case were stayed pending the conclusion of the committee's investigation. The Company has established a reserve of \$100,000 for potential liabilities because such is the amount of the self-insured retention of its insurance policy. On February 21, 2014, an Amended Shareholder Derivative Complaint was filed which added Don B. Dale ( Mr. Dale ) as a plaintiff.

On March 6, 2014, the Company filed a Joint Notice of Settlement (the Notice of Settlement ) in the Shareholder Derivative Lawsuit. In addition to the Company, the parties to the Notice of Settlement are Mr. Kleba, Mr. Dale and the Individual Defendants.

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On June 6, 2014, the Company, in its capacity as a nominal defendant, entered into a Stipulated Settlement Agreement and Mutual Release (the Settlement) in the Shareholder Derivative Lawsuit. In addition to the Company and the Individual Defendants, Plaintiffs Glenn Kleba and Don B. Dale are parties to the Settlement.

By entering into the Settlement, the settling parties have resolved the derivative claims to their mutual satisfaction. The Individual Defendants have not admitted the validity of any claims or allegations and the settling plaintiffs have not admitted that any claims or allegations lack merit or foundation. Under the terms of the Settlement, (i) the Executives each agreed (A) to re-pay to the Company \$2.24 Million of the cash bonuses they each received in 2010 and 2011, which amount equals 70% of such bonuses or an estimate of the after-tax net proceeds to each Executive; provided, however, that subject to certain terms and conditions set forth in the Settlement, the Executives are entitled to a 2:1 credit such that total actual repayment may be \$1.12 Million each; (B) to reimburse the Company for 25% of the actual costs, net of recovery from any other source, incurred by the Company as a result of the Shareholder Derivative Lawsuit; and (C) to grant to the Company a first priority security interest in 1,000,000 shares of the Company's common stock owned by each such Executive to serve as collateral for the amounts due to the Company under the Settlement; (ii) Drs. Dees and Scott and Mr. Culpepper agreed to retain incentive stock options for 100,000 shares but shall forfeit 50% of the nonqualified stock options granted to each such Executive in both 2010 and 2011. The Settlement also requires that each of the Executives enter into new employment agreements with the Company, which were entered into on April 28, 2014, and that the Company adhere to certain corporate governance principles and processes in the future. Under the Settlement, Messrs. Fuchs and Smith and Dr. McMasters have each agreed to pay the Company \$25,000 in cash, subject to reduction by such amount that the Company's insurance carrier pays to the Company on behalf of such defendant pursuant to such defendant's directors and officers liability insurance policy. The Settlement also provides for an award to plaintiffs' counsel of attorneys' fees and reimbursement of expenses in connection with their role in this litigation, subject to Court approval.

On July 24, 2014, the Court approved the terms of the proposed Settlement and awarded \$911,000 to plaintiffs' counsel for attorneys' fees and reimbursement of expenses in connection with their role in the Shareholder Derivative Lawsuit. The payment to plaintiff's counsel was made by the Company during October 2014 and is recorded as other current assets at December 31, 2014. The Company is seeking reimbursement of the full amount from insurance and if the full amount is not received from insurance, the amount remaining will be reimbursed to the Company from the Individual Defendants.

On October 3, 2014, the Settlement was effective and stock options for Drs. Dees and Scott and Mr. Culpepper were rescinded, totaling 2,800,000. \$266,667 was repaid by the Executives as of March 31, 2015. The cash settlement amounts will be repaid to the Company over a period of five years with the first payment due in total by October 2015 and the final payment is expected to be received by October 3, 2019.

### *Class Action Lawsuits*

On May 27, 2014, Cary Farrah and James H. Harrison, Jr., individually and on behalf of all others similarly situated (the Farrah Case), and on May 29, 2014, each of Paul Jason Chaney, individually and on behalf of all others similarly situated (the Chaney Case), and Jayson Dauphinee, individually and on behalf of all others similarly situated (the Dauphinee Case) (the plaintiffs in the Farrah Case, the Chaney Case and the Dauphinee Case collectively referred to as the Plaintiffs), each filed a class action lawsuit in the United States District Court for the Middle District of Tennessee against the Company, H. Craig Dees, Timothy C. Scott and Peter R. Culpepper (the Defendants) alleging violations by the Defendants of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. Specifically, the Plaintiffs in each of the Farrah Case, the Chaney Case and the Dauphinee Case allege that the Defendants are liable for making false statements and failing to disclose adverse facts known to them about the Company, in connection with the Company's application to the FDA for Breakthrough Therapy Designation (BTBTD) of

the Company's melanoma drug, PV-10, in the Spring of 2014, and the FDA's subsequent denial of the Company's application for BTM. The Company intends to defend vigorously against all claims in these complaints. However, in view of the inherent uncertainties of litigation and the early stage of this litigation, the outcome of these cases cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated. No amounts have been recorded in the consolidated financial statements as the outcome of these cases cannot be predicted and the amount of any potential loss is not estimable at this time.

On July 9, 2014, the Plaintiffs and the Defendants filed joint motions in the Farrah Case, the Chaney Case and the Dauphinee Case to consolidate the cases and transfer them to United States District Court for the Eastern District of Tennessee. By order dated July 16, 2014, the United States District Court for the Middle District of Tennessee entered an order consolidating the Farrah Case, the Chaney Case and the Dauphinee Case (collectively and, as consolidated, the Securities Litigation) and transferred the Securities Litigation to the United States District Court for the Eastern District of Tennessee.

On November 26, 2014, the United States District Court for the Eastern District of Tennessee (the Court) entered an order appointing Fawwaz Hamati as the Lead Plaintiff in the Securities Litigation, with the Law Firm of Glancy Binkow & Goldberg, LLP as counsel to Lead Plaintiff. On February 3, 2015, the Court entered an order compelling the Lead Plaintiff to file a consolidated amended complaint within 60 days of entry of the order.

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On April 6, 2015, the Lead Plaintiff filed a Consolidated Amended Class Action Complaint (the Consolidated Complaint ) in the Class Action Case, alleging that Provectus and the other individual defendants made knowingly false representations about the likelihood that PV-10 would be approved as a candidate for BTM, and that such representations caused injury to Lead Plaintiff and other shareholders. The Consolidated Complaint also added Eric Wachter as a named defendant. Pursuant to order of the Court, Provectus must respond to the Consolidated Complaint no later than June 5, 2015.

The Company intends to defend vigorously against all claims in the Consolidated Complaint. However, in view of the inherent uncertainties of litigation and the early stage of this litigation, the outcome of the Class Action Case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated. No amounts have been recorded in the consolidated financial statements as the outcome of the Class Action Case cannot be predicted and the amount of any potential loss is not estimable at this time.

### *Hurtado Shareholder Derivative Lawsuit*

On June 4, 2014, Karla Hurtado, derivatively on behalf of the Company, filed a shareholder derivative complaint in the United States District Court for the Middle District of Tennessee against H. Craig Dees, Timothy C. Scott, Jan E. Koe, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, the Individual Defendants ), and against the Company as a nominal defendant (the Hurtado Shareholder Derivative Lawsuit ). The Hurtado Shareholder Derivative Lawsuit alleges (i) breach of fiduciary duties and (ii) abuse of control, both claims based on Ms. Hurtado's allegations that the Individual Defendants (a) recklessly permitted the Company to make false and misleading disclosures and (b) failed to implement adequate controls and procedures to ensure the accuracy of the Company's disclosures.

On July 25, 2014, the United States District Court for the Middle District of Tennessee entered an order transferring the case to the United States District Court for the Eastern District of Tennessee and, in light of the pending Securities Litigation, relieving the Individual Defendants from responding to the complaint in the Hurtado Shareholder Derivative Lawsuit pending further order from the United States District Court for the Eastern District of Tennessee. On April 9, 2015, the United States District Court for the Eastern District of Tennessee entered an Order staying the Hurtado Shareholder Derivative Lawsuit pending a ruling on the Motion to Dismiss to be filed by Provectus in the Class Action Case.

As a nominal defendant, no relief is sought against the Company itself in the Hurtado Shareholder Derivative Lawsuit.

### *Montiminy Shareholder Derivative Lawsuit*

On October 24, 2014, Paul Montiminy brought a shareholder derivative complaint on behalf of the Company in the United States District Court for the Eastern District of Tennessee (the Montiminy Shareholder Derivative Lawsuit ) against H. Craig Dees, Timothy C. Scott, Jan E. Koe, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, the Individual Defendants ). Like the Hurtado Shareholder Derivative Lawsuit, the Montiminy Shareholder Derivative Lawsuit alleges (i) breach of fiduciary duties and (ii) gross mismanagement of the assets and business of the Company, both claims based on Mr. Montiminy's allegations that the Individual Defendants recklessly permitted the Company to make certain false and misleading disclosures regarding the likelihood that the Company's melanoma drug, PV-10, would qualify for BTM. As a practical matter, the factual allegations and requested relief in the Montiminy Shareholder Derivative Lawsuit are substantively the same as those in the Hurtado Shareholder Derivative Lawsuit.

On December 29, 2014, the United States District Court for the Eastern District of Tennessee (the Court ) entered an order consolidating the Hurtado Shareholder Derivative Lawsuit and the Montiminy Derivative Lawsuit. On

February 25, 2015, the parties submitted a proposed agreed order staying the Hurtado and Montiminy Shareholder Derivative Lawsuits until the Court issues a ruling on the anticipated motion to dismiss the amended consolidated complaint to be filed in the Securities Litigation. On April 9, 2015, the United States District Court for the Eastern District of Tennessee entered an Order staying the Hurtado and Montiminy Shareholder Derivative Lawsuits pending a ruling on the Motion to Dismiss to be filed by Provectus in the Class Action Case.

As in the Hurtado Shareholder Derivative Lawsuit, no relief is sought against the Company itself; the action is against the Individual Defendants only.

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*Foley Shareholder Derivative Lawsuit*

On October 28, 2014, Chris Foley, derivatively on behalf of the Company, filed a shareholder derivative complaint in the Chancery Court of Knox County, Tennessee against H. Craig Dees, Timothy C. Scott, Jan E. Koe, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, the Individual Defendants ), and against the Company as a nominal defendant (the Foley Shareholder Derivative Lawsuit ). The Foley Shareholder Derivative Lawsuit was brought by the same attorney as the Montiminy Shareholder Derivative Lawsuit, Paul Kent Bramlett of Bramlett Law Offices. Other than the difference in the named plaintiff, the complaints in the Foley Shareholder Derivative Lawsuit and the Montiminy Shareholder Derivative Lawsuit are identical. On March 6, 2015, the Chancery Court of Knox County, Tennessee entered an Order staying the Foley Derivative Lawsuit until the United States District Court for the Eastern District of Tennessee issues a ruling on the anticipated motion to dismiss the amended consolidated complaint to be filed in the Class Action Case.

As in the Hurtado and Montiminy Shareholder Derivative Lawsuits, no relief is sought against the Company itself; the action is against the Individual Defendants only.

**8. Subsequent Events**

The Company has evaluated subsequent events through the date of the filing of these financial statements.

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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the accompanying unaudited financial statements, our Annual Report on Form 10-K for the year ended December 31, 2014 ( 2014 Form 10-K ), which includes additional information about our critical accounting policies and practices and risk factors, and Item 1A of Part II of this report. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

#### **Plan of Operation**

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

Our current plans include continuing to operate with our four employees during the immediate future, as well as four primary consultants and various vendor relationships totaling 55 full-time equivalents, and anticipate adding additional personnel if necessary in the next 12 months. Our current plans also include minimal purchases of new property, plant and equipment, and increased research and development for additional clinical trials as necessary and appropriate, including rapid recruitment for our phase 3 trial of PV-10 to treat locally advanced cutaneous melanoma as well as other randomized studies of PV-10 and PH-10.

We believe that our prescription drug candidates PV-10 and PH-10 provide us with two therapeutic products in multiple indications, which have been shown in clinical trials to be safe to treat serious cancers and diseases of the skin, respectively. Also, important immunologic data with PV-10 has been corroborated and characterized by institutions such as Moffitt Cancer Center in Tampa, Florida. We continue to develop clinical trials for these products to show their safety and efficacy, which we believe will continue to be shown based on data in previous studies, and which we hope will result in one or more license transactions with pharmaceutical and/or biotech partners. Together with our non-core technologies, which we intend to sell or license in the future, we believe this combination represents the foundation for maximizing stockholder value this year and beyond.

#### **Results of Operations**

##### **Comparison of Three Months Ended March 31, 2015 and March 31, 2014**

###### *Revenues*

We had no revenue during the three months ended March 31, 2015 and 2014.

###### *Research and Development*

Research and development costs of \$2,280,706 for the three months ended March 31, 2015 included payroll of \$420,909, consulting and contract labor of \$1,517,649, legal of \$33,273, insurance of \$36,001, lab supplies and pharmaceutical preparations of \$250,396, rent and utilities of \$19,289, and depreciation expense of \$3,189. Research and development costs of \$1,157,883 for the three months ended March 31, 2014 included payroll of \$492,258, consulting and contract labor of \$234,258, legal of \$26,471, insurance of \$54,803, lab supplies and pharmaceutical

preparations of \$326,410, rent and utilities of \$21,967, and depreciation expense of \$1,716. The overall increase in research and development costs is due primarily to an increase of approximately \$1.2 million in consulting and contract labor due to the phase 3 study of PV-10 in locally advanced cutaneous melanoma and the phase 2 study of PH-10 mechanism of action, both of which commenced in the quarter ended March 31, 2015.

*General and Administrative*

General and administrative expenses decreased by \$883,959 in the three months ended March 31, 2015 to \$2,171,985 from \$3,055,944 for the three months ended March 31, 2014. General and administrative expenses were very similar for both periods; however, approximately \$900,000 in decreased expense is due to lower stock prices during the three months ended March 31, 2015 versus the three months ended March 31, 2014. This resulted in lower noncash share-based expenses related to stock and warrants issued for services, in addition to the substantial reduction in the number of warrants issued for services.

*Investment Income*

Investment income was insignificant in both the three months ended March 31, 2015 and 2014.



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### *Gain/Loss on change in fair value of warrant liability*

The change in fair value of warrant liability decreased by \$2,381,059 in the three months ended March 31, 2015 to a gain of \$94,026 from a loss of \$2,287,033 for the three months ended March 31, 2014. This activity results from accounting for the warrant liability described in Footnotes 4(c), 4(d) and 4(e) to the financial statements.

## **Liquidity and Capital Resources**

Our cash and cash equivalents were \$14,170,733 at March 31, 2015, compared with \$17,391,601 at December 31, 2014. The decrease of approximately \$3.2 million was due primarily to the \$4.2 million in cash used to fund our operating activities for the quarter offset by \$1 million in cash received from warrant and stock option exercises and reduced net proceeds from the sale of our common stock in the quarter ended March 31, 2015. The sale of common stock was reduced since we are seeking to minimize dilution to our existing stockholders where practicable by limiting the issuance of our equity securities.

By managing variable cash expenses due to minimal fixed costs, we believe our cash and cash equivalents on hand at March 31, 2015, in addition to the cash we expect to receive subsequent to the quarter ended March 31, 2015 from private placements of our securities and the repayment of bonuses pursuant to the settlement of the Kleba Shareholder Derivative Lawsuit (see Part II, Item 1, Legal Proceedings below), will be sufficient to meet our current and planned operating needs well into 2016 without consideration being given to additional cash inflows that might occur from the exercise of existing warrants or future sales of equity securities. Additionally, we may, in our sole discretion, direct Alpha Capital Anstalt ( Investor ) to purchase up to an additional \$30,000,000 of our common stock per an existing agreement with Investor. In addition, on April 30, 2014, we entered into a Controlled Equity Offering<sup>SM</sup> Sales Agreement with Cantor Fitzgerald & Co., as sales agent ( Cantor ), under which we may issue and sell shares of our common stock having an aggregate offering price of up to \$50,000,000 from time to time through Cantor, acting as sales agent.

Therefore, our ability to continue as a going concern is reasonably assured due to our cash and cash equivalents on hand at March 31, 2015. Given our current rate of expenditures and our ability to curtail or defer certain controllable expenditures, we do not anticipate needing to raise additional capital to further develop PV-10 on our own to treat locally advanced cutaneous melanoma, cancers of the liver, recurrent breast cancer, bladder cancer, lung cancer, pancreatic cancer, and other indications because we plan to strategically monetize PV-10 through appropriate regional license transactions, license PH-10 for psoriasis and other related indications described as inflammatory dermatoses, and also complete the spin-out of Pure-ific Corporation and the other non-core subsidiaries.

We believe that our financial position and corporate governance are such that we will continue to meet the relevant listing requirements of NYSE MKT, although there can be no assurance that we will continue to be listed on NYSE MKT. We believe our efforts to obtain regulatory clarity will be helpful to facilitate transactions with potential partners. Additionally, we expect that the existing and forthcoming clinical and nonclinical mechanism of action data for both PV-10 and PH-10 will further aid in both regulatory clarity and transactions with potential partners. The Company's current cash position is sufficient to meet our obligations. In total, we have adequate funds to operate without a further injection of capital well into 2016. We believe the existing cash position of the Company is sufficient to fund our operations through obtaining interim data and potentially complete data from the planned phase 3 melanoma study as well as other planned programs including generating key liver data, and clinical mechanism of action data for both PV-10 and PH-10.

We have provided data on a confidential basis to both potential global and geographic partners for both PV-10 for oncology, and PH-10 for dermatology, via a secure electronic data room. We are encouraged by the number of

companies doing due diligence on our technologies. For instance, we are discussing transactions with potential partners in China, India, Brazil and Russia. We recently announced a Memorandum of Understanding (MOU) with Sinopharm-China State Institute of Pharmaceutical Industry ( Sinopharm-CSIPI ), the leader among all pharmaceutical research institutes in China, and Sinopharm A-THINK Pharmaceutical Co., Ltd. ( Sinopharm A-THINK ), the only injectable anti-tumor drug research and development, manufacture and distribution integrated platform within Sinopharm Group. We also have begun to consider co-development transactions with one or more pharmaceutical or biotech companies to combine PV-10 with immunology agents such as those referred to as immune checkpoint inhibitors or systemic immunotherapies. Our recently announced joint patent allowance with Pfizer supports these efforts.

Whenever we obtain an MOU, definitive agreement or similar indication of interest from a potential partner, we will issue a press release and file a Current Report on Form 8-K with the Securities and Exchange Commission to notify the market. Furthermore, the strategy of the Company for the benefit of stockholders is a series of partnerships followed by an acquisition of the Company along the lines of Celgene-Abraxis, although there can be no assurance that such partnerships or acquisition will occur. An interim transaction could be a co-development deal like Roche-NewLink, Bristol-Celldex or AstraZeneca-Incyte. The Company is not in discussions regarding the sale of its business and there can be no assurance, however, that the Company will be able to monetize PV-10 or PH-10 in the manner described herein.

We have signed an advisory agreement with China's TriRiver Capital to help identify distribution and joint venture partners for PV-10 in China. This agreement is intended to enhance our reach into China and will bolster our efforts in developing partnering opportunities in various countries in Asia including China, India, Russia and Japan, where we have held numerous detailed

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discussions with pharmaceutical companies over the last year, and now also in Brazil. We are already seeing the results of efforts to enter into partnerships from the activity in our electronic data room. The Company is not in discussions regarding the sale of its business and there can be no assurance, however, that the Company will be able to monetize PV-10 or PH-10 in the manner described herein.

The primary financial objective of the Company is to strategically monetize the core value of PV-10 and PH-10 through the various transactions discussed elsewhere in this report. Ultimately, the Company wants to leverage value creation through the sale of the business or a merger that may include upfront cash, acquirer stock, and/or a contingency value right (CVR) as part of the total consideration. A CVR represents the right for its holder to receive certain defined payments upon the achievement of a specified milestone and would be designed to facilitate potential upside for the Company's shareholders on a post-transaction basis. A CVR could trade on an exchange. The Company is not in discussions regarding the sale of its business and there can be no assurance, however, that the Company will be able to monetize PV-10 or PH-10 in the manner described herein.

We believe our continued development of PV-10 with existing funds should yield proof-of-concept evidence to support expected best-in-class clinical benefit to treat a wide range of solid tumor indications due to its unique immuno-chemoablation mechanism of action known as ablative immunotherapy or oncolytic immunotherapy. The primary ablative mechanism of PV-10 is followed by a secondary immunomodulatory mechanism. Likewise, we believe our development of PH-10 with existing funds should yield proof-of-concept evidence to support expected best-in-class clinical benefit to treat a wide range of inflammatory dermatoses due to its unique non-steroidal anti-inflammatory mechanism of action.

However, we cannot assure you that we will be successful in licensing either PV-10 or PH-10, any equity transaction, or selling a majority stake of the OTC and other non-core assets via a spin-out transaction and licensing our existing non-core products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless plan to seek additional funds to meet our long-term requirements in 2016 and beyond, even though we do not anticipate needing additional capital to develop PV-10 on our own to treat locally advanced cutaneous melanoma. We anticipate that these funds will otherwise come from the proceeds of private placements, the exercise of existing warrants and outstanding stock options, 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 stockholders.

## **Critical Accounting Policies**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no material changes to the items that we disclosed as our critical accounting policies under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2014 Form 10-K.

*Contractual Obligations*   *Leases*

We lease office and laboratory space in Knoxville, Tennessee, on an annual basis, renewable for one year at our option. We have a lease commitment of \$0 as of March 31, 2015.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We had no holdings of financial or commodity instruments as of March 31, 2015, other than cash and cash equivalents, short-term deposits, money market funds, and interest bearing investments in U.S. governmental debt securities. We have accounted for certain warrants issued in March and April 2010, January 2011 and February 2013 as liabilities at their fair value upon issuance, which are remeasured at each period end with the change in fair value recorded in the statement of operations. See notes 4 and 6 of the interim financial statements contained in this Quarterly Report on Form 10-Q.

All of our business is transacted in U.S. dollars and, accordingly, foreign exchange rate fluctuations have not had a significant impact on us, and they are not expected to have a significant impact on us in the foreseeable future.

### **ITEM 4. CONTROLS AND PROCEDURES.**

(a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2015, the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective.

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

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

Except as described below, we are not involved in any legal proceedings nor are we party to any pending claims that we believe could reasonably be expected to have a material adverse effect on our business, financial condition, or results of operations.

*Kleba Shareholder Derivative Lawsuit*

On January 2, 2013, Glenn Kleba, derivatively on behalf of the Company, filed a shareholder derivative complaint in the Circuit Court for the State of Tennessee, Knox County (the Court), against H. Craig Dees, Timothy C. Scott, Eric A. Wachter, and Peter R. Culpepper (collectively, the Executives), Stuart Fuchs, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, together with the Executives, the Individual Defendants), and against the Company as a nominal defendant (the Shareholder Derivative Lawsuit). The Shareholder Derivative Lawsuit alleged (i) breach of fiduciary duties, (ii) waste of corporate assets, and (iii) unjust enrichment, all three claims based on Mr. Kleba's allegations that the defendants authorized and/or accepted stock option awards in violation of the terms of the Company's 2002 Stock Plan (the Plan) by issuing stock options in excess of the amounts authorized under the Plan and delegated to defendant H. Craig Dees the sole authority to grant himself and the other Executives cash bonuses that Mr. Kleba alleges to be excessive.

In April 2013, the Company's Board of Directors appointed a special litigation committee to investigate the allegations of the Shareholder Derivative Complaint and make a determination as to how the matter should be resolved. The special litigation committee conducted its investigation, and proceedings in the case were stayed pending the conclusion of the committee's investigation. The Company has established a reserve of \$100,000 for potential liabilities because such is the amount of the self-insured retention of its insurance policy. On February 21, 2014, an Amended Shareholder Derivative Complaint was filed which added Don B. Dale (Mr. Dale) as a plaintiff.

On March 6, 2014, the Company filed a Joint Notice of Settlement (the Notice of Settlement) in the Shareholder Derivative Lawsuit. In addition to the Company, the parties to the Notice of Settlement are Mr. Kleba, Mr. Dale and the Individual Defendants.

On June 6, 2014, the Company, in its capacity as a nominal defendant, entered into a Stipulated Settlement Agreement and Mutual Release (the Settlement) in the Shareholder Derivative Lawsuit. In addition to the Company and the Individual Defendants, Plaintiffs Glenn Kleba and Don B. Dale are parties to the Settlement.

By entering into the Settlement, the settling parties have resolved the derivative claims to their mutual satisfaction. The Individual Defendants have not admitted the validity of any claims or allegations and the settling plaintiffs have not admitted that any claims or allegations lack merit or foundation. Under the terms of the Settlement, (i) the Executives each agreed (A) to re-pay to the Company \$2.24 Million of the cash bonuses they each received in 2010 and 2011, which amount equals 70% of such bonuses or an estimate of the after-tax net proceeds to each Executive; provided, however, that subject to certain terms and conditions set forth in the Settlement, the Executives are entitled to a 2:1 credit such that total actual repayment may be \$1.12 Million each; (B) to reimburse the Company for 25% of the actual costs, net of recovery from any other source, incurred by the Company as a result of the Shareholder Derivative Lawsuit; and (C) to grant to the Company a first priority security interest in 1,000,000 shares of the Company's common stock owned by each such Executive to serve as collateral for the amounts due to the Company under the Settlement; (ii) Drs. Dees and Scott and Mr. Culpepper agreed to retain incentive stock options for 100,000 shares but shall forfeit 50% of the nonqualified stock options granted to each such Executive in both 2010 and 2011.

The Settlement also requires that each of the Executives enter into new employment agreements with the Company, which were entered into on April 28, 2014, and that the Company adhere to certain corporate governance principles and processes in the future. Under the Settlement, Messrs. Fuchs and Smith and Dr. McMasters have each agreed to pay the Company \$25,000 in cash, subject to reduction by such amount that the Company's insurance carrier pays to the Company on behalf of such defendant pursuant to such defendant's directors and officers liability insurance policy. The Settlement also provides for an award to plaintiffs' counsel of attorneys' fees and reimbursement of expenses in connection with their role in this litigation, subject to Court approval.

On July 24, 2014, the Court approved the terms of the proposed Settlement and awarded \$911,000 to plaintiffs' counsel for attorneys' fees and reimbursement of expenses in connection with their role in the Shareholder Derivative Lawsuit. The payment to plaintiff's counsel was made by the Company during October 2014 and is recorded as other current assets at December 31, 2014. The Company is seeking reimbursement of the full amount from insurance and if the full amount is not received from insurance, the amount remaining will be reimbursed to the Company from the Individual Defendants.

On October 3, 2014, the Settlement was effective and stock options for Drs. Dees and Scott and Mr. Culpepper were rescinded, totaling 2,800,000. \$266,667 was repaid by the Executives as of March 31, 2015. The cash settlement amounts will be repaid to the Company over a period of five years with the first payment due in total by October 2015 and the final payment is expected to be received by October 3, 2019.

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### *Class Action Lawsuits*

On May 27, 2014, Cary Farrah and James H. Harrison, Jr., individually and on behalf of all others similarly situated (the Farrah Case ), and on May 29, 2014, each of Paul Jason Chaney, individually and on behalf of all others similarly situated (the Chaney Case ), and Jayson Dauphinee, individually and on behalf of all others similarly situated (the Dauphinee Case ) (the plaintiffs in the Farrah Case, the Chaney Case and the Dauphinee Case collectively referred to as the Plaintiffs ), each filed a class action lawsuit in the United States District Court for the Middle District of Tennessee against the Company, H. Craig Dees, Timothy C. Scott and Peter R. Culpepper (the Defendants ) alleging violations by the Defendants of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. Specifically, the Plaintiffs in each of the Farrah Case, the Chaney Case and the Dauphinee Case allege that the Defendants are liable for making false statements and failing to disclose adverse facts known to them about the Company, in connection with the Company s application to the FDA for Breakthrough Therapy Designation ( BTD ) of the Company s melanoma drug, PV-10, in the Spring of 2014, and the FDA s subsequent denial of the Company s application for BTD. The Company intends to defend vigorously against all claims in these complaints. However, in view of the inherent uncertainties of litigation and the early stage of this litigation, the outcome of these cases cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated. No amounts have been recorded in the consolidated financial statements as the outcome of these cases cannot be predicted and the amount of any potential loss is not estimable at this time.

On July 9, 2014, the Plaintiffs and the Defendants filed joint motions in the Farrah Case, the Chaney Case and the Dauphinee Case to consolidate the cases and transfer them to United States District Court for the Eastern District of Tennessee. By order dated July 16, 2014, the United States District Court for the Middle District of Tennessee entered an order consolidating the Farrah Case, the Chaney Case and the Dauphinee Case (collectively and, as consolidated, the Securities Litigation ) and transferred the Securities Litigation to the United States District Court for the Eastern District of Tennessee.

On November 26, 2014, the United States District Court for the Eastern District of Tennessee (the Court ) entered an order appointing Fawwaz Hamati as the Lead Plaintiff in the Securities Litigation, with the Law Firm of Glancy Binkow & Goldberg, LLP as counsel to Lead Plaintiff. On February 3, 2015, the Court entered an order compelling the Lead Plaintiff to file a consolidated amended complaint within 60 days of entry of the order.

On April 6, 2015, the Lead Plaintiff filed a Consolidated Amended Class Action Complaint (the Consolidated Complaint ) in the Class Action Case, alleging that Provectus and the other individual defendants made knowingly false representations about the likelihood that PV-10 would be approved as a candidate for BTD, and that such representations caused injury to Lead Plaintiff and other shareholders. The Consolidated Complaint also added Eric Wachter as a named defendant. Pursuant to order of the Court, Provectus must respond to the Consolidated Complaint no later than June 5, 2015.

The Company intends to defend vigorously against all claims in the Consolidated Complaint. However, in view of the inherent uncertainties of litigation and the early stage of this litigation, the outcome of the Class Action Case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated. No amounts have been recorded in the consolidated financial statements as the outcome of the Class Action Case cannot be predicted and the amount of any potential loss is not estimable at this time.

### *Hurtado Shareholder Derivative Lawsuit*

On June 4, 2014, Karla Hurtado, derivatively on behalf of the Company, filed a shareholder derivative complaint in the United States District Court for the Middle District of Tennessee against H. Craig Dees, Timothy C. Scott, Jan E.



Koe, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, the Individual Defendants ), and against the Company as a nominal defendant (the Hurtado Shareholder Derivative Lawsuit ). The Hurtado Shareholder Derivative Lawsuit alleges (i) breach of fiduciary duties and (ii) abuse of control, both claims based on Ms. Hurtado s allegations that the Individual Defendants (a) recklessly permitted the Company to make false and misleading disclosures and (b) failed to implement adequate controls and procedures to ensure the accuracy of the Company s disclosures.

On July 25, 2014, the United States District Court for the Middle District of Tennessee entered an order transferring the case to the United States District Court for the Eastern District of Tennessee and, in light of the pending Securities Litigation, relieving the Individual Defendants from responding to the complaint in the Hurtado Shareholder Derivative Lawsuit pending further order from the United States District Court for the Eastern District of Tennessee. On April 9, 2015, the United States District Court for the Eastern District of Tennessee entered an Order staying the Hurtado Shareholder Derivative Lawsuit pending a ruling on the Motion to Dismiss to be filed by Provectus in the Class Action Case.

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As a nominal defendant, no relief is sought against the Company itself in the Hurtado Shareholder Derivative Lawsuit.

### *Montiminy Shareholder Derivative Lawsuit*

On October 24, 2014, Paul Montiminy brought a shareholder derivative complaint on behalf of the Company in the United States District Court for the Eastern District of Tennessee (the Montiminy Shareholder Derivative Lawsuit ) against H. Craig Dees, Timothy C. Scott, Jan E. Koe, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, the Individual Defendants ). Like the Hurtado Shareholder Derivative Lawsuit, the Montiminy Shareholder Derivative Lawsuit alleges (i) breach of fiduciary duties and (ii) gross mismanagement of the assets and business of the Company, both claims based on Mr. Montiminy's allegations that the Individual Defendants recklessly permitted the Company to make certain false and misleading disclosures regarding the likelihood that the Company's melanoma drug, PV-10, would qualify for BTM. As a practical matter, the factual allegations and requested relief in the Montiminy Shareholder Derivative Lawsuit are substantively the same as those in the Hurtado Shareholder Derivative Lawsuit.

On December 29, 2014, the United States District Court for the Eastern District of Tennessee (the Court ) entered an order consolidating the Hurtado Shareholder Derivative Lawsuit and the Montiminy Derivative Lawsuit. On February 25, 2015, the parties submitted a proposed agreed order staying the Hurtado and Montiminy Shareholder Derivative Lawsuits until the Court issues a ruling on the anticipated motion to dismiss the amended consolidated complaint to be filed in the Securities Litigation. On April 9, 2015, the United States District Court for the Eastern District of Tennessee entered an Order staying the Hurtado and Montiminy Shareholder Derivative Lawsuits pending a ruling on the Motion to Dismiss to be filed by Provectus in the Class Action Case.

As in the Hurtado Shareholder Derivative Lawsuit, no relief is sought against the Company itself; the action is against the Individual Defendants only.

### *Foley Shareholder Derivative Lawsuit*

On October 28, 2014, Chris Foley, derivatively on behalf of the Company, filed a shareholder derivative complaint in the Chancery Court of Knox County, Tennessee against H. Craig Dees, Timothy C. Scott, Jan E. Koe, Kelly M. McMasters, and Alfred E. Smith, IV (collectively, the Individual Defendants ), and against the Company as a nominal defendant (the Foley Shareholder Derivative Lawsuit ). The Foley Shareholder Derivative Lawsuit was brought by the same attorney as the Montiminy Shareholder Derivative Lawsuit, Paul Kent Bramlett of Bramlett Law Offices. Other than the difference in the named plaintiff, the complaints in the Foley Shareholder Derivative Lawsuit and the Montiminy Shareholder Derivative Lawsuit are identical. On March 6, 2015, the Chancery Court of Knox County, Tennessee entered an Order staying the Foley Derivative Lawsuit until the United States District Court for the Eastern District of Tennessee issues a ruling on the anticipated motion to dismiss the amended consolidated complaint to be filed in the Class Action Case.

As in the Hurtado and Montiminy Shareholder Derivative Lawsuits, no relief is sought against the Company itself; the action is against the Individual Defendants only.

## **ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

During the three months ended March 31, 2015, the Company issued 3,000 warrants to consultants in exchange for services. The Company intends to use any net proceeds from the exercises of these warrants for working capital, FDA trials, securing licensing partnerships, and general corporate purposes.

During the three months ended March 31, 2015, the Company completed a private offering of common stock and warrants to accredited investors for gross proceeds of \$776,000. The Company received subscriptions, in the aggregate, for 776,000 shares of common stock and five year warrants to purchase 388,000 shares of common stock. Investors received five year fully vested warrants to purchase up to 50% of the number of shares purchased by the investors in the offering. The warrants have an exercise price of \$1.25 per share. The purchase price for each share of common stock together with the warrants is \$1.00. The Company plans to use the proceeds for working capital and other general corporate purposes. Network 1 Financial Securities, Inc. served as placement agent for the offering. In connection with the offering, the Company paid \$100,880 and issued five year fully vested warrants to purchase 77,600 shares of common stock with an exercise price of \$1.25 to Network 1 Financial Securities, Inc., which represents 10% of the total number of shares of common stock subscribed for by investors solicited by Network 1 Financial Securities, Inc.

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The issuances of the securities were exempt from the registration requirements of the Securities Act of 1933 (the Securities Act ) by virtue of Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

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**ITEM 6. EXHIBITS**

**Exhibit**

| <b>No.</b> | <b>Description</b>   |
|------------|--|
| 31.1**     | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 Certification).                                     |
| 31.2**     | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 Certification).                                     |
| 32**       | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (Section 906 Certification). |
| 101**      | Interactive Data Files.*   |

\* The documents formatted in XBRL (Extensible Business Reporting Language) and attached as Exhibit 101 to this report are deemed not filed as part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act, are deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise are not subject to liability under these sections.

\*\* Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROVECTUS BIOPHARMACEUTICALS, INC.

May 7, 2015

By: /s/ Peter R. Culpepper  
Peter R. Culpepper  
On behalf of the registrant and as Chief Financial  
Officer and Chief Operating Officer (Principal  
Financial Officer)

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**EXHIBIT INDEX**

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