

PROVECTUS PHARMACEUTICALS INC
Form DEF 14A
April 30, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

SCHEDULE 14A
(Rule 14a-10)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-12

PROVECTUS PHARMACEUTICALS, INC.
(Name of Registrant as Specified in Its Charter)

Not Applicable
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by Registration Statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

(3) Filing party:

(4) Date filed:

7327 Oak Ridge Highway
Knoxville, TN 37931

phone 866/594-5999
fax 866/998-0005

Dear Stockholder:

You are cordially invited to attend the 2010 annual meeting of stockholders, which will be held on Thursday, June 17, 2010 at 3:00 p.m. Eastern Time at the offices of Baker, Donelson, Bearman, Caldwell & Berkowitz, PC located at 265 Brookview Centre Way, Suite 600, Knoxville, Tennessee 37919.

The Notice and Proxy Statement on the following pages contain details concerning the business to come before the meeting.

Regardless of whether you plan to attend the 2010 annual meeting in person, please complete, sign and date the enclosed proxy card and return it promptly in the accompanying postage-paid envelope. I look forward to personally meeting all stockholders who are able to attend.

/s/Peter R. Culpepper
Peter R. Culpepper
Chief Financial Officer, Chief Operating Officer and Secretary

YOUR VOTE IS IMPORTANT

TO ENSURE THAT YOU ARE REPRESENTED AT THE 2010 ANNUAL MEETING OF STOCKHOLDERS, PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE, REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE 2010 ANNUAL MEETING OF STOCKHOLDERS IN PERSON. NO ADDITIONAL POSTAGE IS NECESSARY IF THE PROXY IS MAILED IN THE UNITED STATES. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED AT THE MEETING.

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NOTICE OF 2010 ANNUAL MEETING OF
STOCKHOLDERS
TO BE HELD ON JUNE 17, 2010

To the Stockholders of Provectus Pharmaceuticals, Inc.:

NOTICE IS HEREBY GIVEN that we will hold the 2010 annual meeting of stockholders of Provectus Pharmaceuticals, Inc. on Thursday, June 17, 2010 at 3:00 p.m. Eastern Time, at the offices of Baker, Donelson, Bearman, Caldwell & Berkowitz, PC located at 265 Brookview Centre Way, Suite 600, Knoxville, Tennessee 37919. The 2010 annual meeting is being held for the following purposes:

1. To elect five directors to serve on our Board of Directors for a one-year term;
2. To approve an amendment to our Amended and Restated 2002 Stock Plan, as amended, to increase the number of shares of our common stock reserved for issuance from 10,000,000 to 15,000,000; and
3. To ratify the selection of BDO Seidman, LLP as our independent auditor for 2010.

Stockholders also will transact any other business that properly comes before the 2010 annual meeting of stockholders.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" ALL THE PROPOSALS.

Only stockholders of record as of the close of business on April 23, 2010 will be entitled to notice of and to vote at the 2010 annual meeting of stockholders and any adjournment thereof.

Important Notice Regarding the Availability of Proxy Materials for the 2010 Annual Meeting of Stockholders to Be Held on June 17, 2010. The Proxy Statement is available at http://www.pvct.com/annual_reports.html.

By order of our Board of Directors,

R. Culpepper

/s/Peter

Peter

R. Culpepper

Secretary

April 30, 2010
Knoxville, Tennessee

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**PROXY STATEMENT FOR
2010 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 17, 2010**

We are delivering these proxy materials to solicit proxies on behalf of our Board of Directors of Provectus Pharmaceuticals, Inc., for the annual meeting of stockholders to be held on Thursday, June 17, 2010, beginning at 3:00 p.m. Eastern Time, at 265 Brookview Centre Way, Suite 600, Knoxville, Tennessee.

We are mailing this proxy statement, together with a form of proxy and our annual report on Form 10-K for the year ended December 31, 2009, beginning on April 30, 2010.

At the meeting, our stockholders will vote on proposals to (1) elect five directors to serve on our Board of Directors for a one-year term; (2) approve an amendment to our Amended and Restated 2002 Stock Plan, as amended, to increase the number of shares of our common stock reserved for issuance from 10,000,000 to 15,000,000; and (3) ratify the selection of BDO Seidman, LLP as our independent auditor for 2010. The proposals are set forth in the accompanying Notice of 2010 Annual Meeting of Stockholders and are described in more detail in this Proxy Statement. Stockholders also will transact any other business, not known or determined at the time of this proxy solicitation, that properly comes before the 2010 annual meeting of stockholders, although our Board of Directors knows of no such other business to be presented.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” ALL THE PROPOSALS.

When you submit your proxy by executing and returning the enclosed proxy card, you will authorize the proxy holders – Peter R. Culpepper and Linda M. Crouch-McCreadie – to vote as proxy all your shares of our common stock or our 8% convertible preferred stock and otherwise to act on your behalf at the 2010 annual meeting of stockholders and any adjournment thereof, in accordance with the instructions set forth therein. These persons also will have discretionary authority to vote your shares on any other business that properly comes before the meeting. They also may vote your shares to adjourn the meeting and will be authorized to vote your shares at any adjournment of the meeting.

YOUR VOTE IS IMPORTANT

TO ENSURE THAT YOU ARE REPRESENTED AT THE 2010 ANNUAL MEETING OF STOCKHOLDERS, PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE, REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE 2010 ANNUAL MEETING OF STOCKHOLDERS IN PERSON. NO ADDITIONAL POSTAGE IS NECESSARY IF THE PROXY IS MAILED IN THE UNITED STATES. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED AT THE MEETING.

QUESTIONS AND ANSWERS ABOUT THE 2010 ANNUAL MEETING OF STOCKHOLDERS

What is the purpose of the 2010 Annual Meeting?

At the 2010 annual meeting, stockholders will act upon the following matters:

1. To elect five directors to serve on our Board of Directors for a one-year term;
2. To approve an amendment to our Amended and Restated 2002 Stock Plan, as amended, to increase the number of shares of our common stock reserved for issuance from 10,000,000 to 15,000,000; and
3. To ratify the selection of BDO Seidman, LLP as our independent auditor for 2010.

Stockholders also will transact any other business that properly comes before the 2010 annual meeting.

Who is entitled to vote?

Only stockholders of record at the close of business on April 23, 2010, the record date for the 2010 annual meeting, are entitled to receive notice of the 2010 annual meeting and to vote the shares of our common stock and 8% convertible preferred stock that they held on that date at the 2010 annual meeting. Each outstanding share of our common stock, par value \$.001 per share, and of our 8% convertible preferred stock, par value \$.001 per share, entitles its holder to cast one vote on each matter to be voted on at the 2010 annual meeting. The shares of our common stock and 8% convertible preferred stock will vote together as a single class.

Am I entitled to vote if my shares are held in "street name"?

If you are the beneficial owner of shares held in "street name" by a brokerage firm, bank, or other nominee, such entity, as the record holder of the shares, is required to vote the shares in accordance with your instructions. If you do not give instructions to your nominee, it will nevertheless be entitled to vote your shares on "discretionary" items but will not be permitted to do so on "non-discretionary" items. Both Proposal 1 (election of directors) and Proposal 2 (approval of an amendment to our Amended and Restated 2002 Stock Plan) are non-discretionary items for which a nominee will not have discretion to vote in the absence of voting instructions from you. However, Proposal 3 (ratification of the selection of our independent auditor) is a discretionary item on which your nominee will be entitled to vote your shares even in the absence of instructions from you.

What constitutes a quorum?

The presence at the 2010 annual meeting, in person or by proxy, of the holders of a majority of the shares of our common stock and 8% convertible preferred stock outstanding on the record date will constitute a quorum. As of the record date, there were 78,010,255 outstanding shares of our common stock and 10,583,325 outstanding shares of our 8% convertible preferred stock, for a total of 88,593,580 shares of stock outstanding. Shares held by stockholders present at the 2010 annual meeting in person or represented by proxy who elect to abstain from voting nonetheless will be included in the calculation of the number of shares considered present at the 2010 annual meeting.

What happens if a quorum is not present at the 2010 annual meeting?

If a quorum is not present at the scheduled time of the meeting, the holders of a majority of the shares of our common stock and 8% convertible preferred stock present in person or represented by proxy

at the meeting may adjourn the meeting to another place, date, or time until a quorum is present. The place, date, and time of the adjourned meeting will be announced when the adjournment is taken, and no other notice will be given unless the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting.

How do I vote?

If you complete and properly sign the accompanying proxy card and return it to us, the proxy holders named on the proxy card will vote your shares as you direct. If you are a registered stockholder and attend the 2010 annual meeting, you may deliver your completed proxy card or vote in person at the 2010 annual meeting. If you hold your shares in a brokerage account or in "street name" and you wish to vote at the 2010 annual meeting, you will need to obtain a proxy from the broker or other nominee who holds your shares.

Can I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy card, you may change your vote at any time before the proxy is exercised by filing with the Secretary either a notice of revocation or a duly executed proxy card bearing a later date. If you are a "street name" stockholder, you must contact your broker or other nominee and follow its instructions if you wish to change your vote. The powers of the proxy holders will be suspended if you attend the 2010 annual meeting in person and so request, although your attendance at the 2010 annual meeting will not by itself revoke a previously granted proxy.

What are the Board's recommendations?

Our Board of Directors recommends that you vote:

1. "FOR" the election of the director nominees to serve on our Board of Directors for a one-year term;
2. "FOR" the approval of an amendment to our Amended and Restated 2002 Stock Plan, as amended, to increase the number of shares of our common stock reserved for issuance from 10,000,000 to 15,000,000; and
3. "FOR" the ratification of the selection of BDO Seidman, LLP as our independent auditor for 2010.

What happens if I do not specify how my shares are to be voted?

If you submit a proxy but do not indicate any voting instructions, your shares will be voted "FOR" each of the proposals.

Will any other business be conducted at the 2010 annual meeting?

As of the date hereof, our Board of Directors knows of no business that will be presented at the meeting other than the proposals described in this Proxy Statement. If any other business is properly brought before the 2010 annual meeting, the proxy holders will vote your shares in accordance with their best judgment.

What vote is required to approve each item?

1. The director nominees will be elected to serve on our Board of Directors for a term of one year if they receive a plurality of the votes on the shares of common stock and 8%

convertible preferred stock present in person or represented by proxy at the 2010 annual meeting and entitled to vote on the subject matter. This means that the director nominees will be elected if they receive more votes than any other person at the 2010 annual meeting. If you vote to “Withhold Authority” with respect to the election of one or more director nominees, your shares of common stock and 8% convertible preferred stock will not be voted with respect to the person or persons indicated, although they will be counted for the purpose of determining whether there is a quorum at the meeting.

2. The amendment to our Amended and Restated 2002 Stock Plan, as amended, to increase the number of shares of our common stock reserved for issuance from 10,000,000 to 15,000,000 will be approved if a majority of the shares of our common stock and 8% convertible preferred stock present in person or represented by proxy at the 2010 annual meeting and entitled to vote on the subject matter are voted in favor of the proposal.
3. The selection of BDO Seidman, LLP as our independent auditor for 2010 will be ratified if a majority of the shares of our common stock and 8% convertible preferred stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter are voted in favor of the proposal.

How will Abstentions and Broker Non-Votes be Treated?

You do not have the option of abstaining from voting on Proposal 1 (election of directors), but you may abstain from voting on Proposal 2 (approval of an amendment to our Amended and Restated 2002 Stock Plan) and Proposal 3 (ratification of the selection of our independent auditor). With respect to Proposal 1, because the directors are elected by a plurality vote, an abstention will have no effect on the outcome of the vote and, therefore, is not offered as a voting option on the proposal. In the case of an abstention on Proposal 2 or Proposal 3, your shares of common stock and 8% convertible preferred stock would be included in the number of shares of common stock and 8% convertible preferred stock considered present at the meeting for the purpose of determining whether there is a quorum. Because your shares of common stock and 8% convertible preferred stock would be voted but not in favor of Proposal 2 or Proposal 3, your abstention would have the same effect as a negative vote in determining the outcome of the vote on the proposal.

Broker non-votes occur when a brokerage firm, bank, or other nominee does not vote shares that it holds in “street name” on behalf of the beneficial owner because the beneficial owner has not provided voting instructions to the nominee with respect to a non-discretionary item. Both Proposal 1 (election of directors) and Proposal 2 (approval of an amendment to our Amended and Restated 2002 Stock Plan) are non-discretionary items for which a nominee will not have discretion to vote in the absence of voting instructions from you. However, Proposal 3 (ratification of the selection of our independent auditor) is a discretionary item on which your nominee will be entitled to vote your shares of common stock and 8% convertible preferred stock even in the absence of instructions from you. Accordingly, it is possible for there to be broker non-votes with respect to Proposal 1 and Proposal 2, but there will not be broker non-votes with regard to Proposal 3. In the case of a broker non-vote, your shares of common stock and 8% convertible preferred stock would be included in the number of shares of common stock and 8% convertible preferred stock considered present at the meeting for the purpose of determining whether there is a quorum. A broker non-vote, being shares of common stock and 8% convertible preferred stock not entitled to vote, would not have any effect on the outcome of the vote on Proposal 1 or Proposal 2.

STOCK OWNERSHIP

Directors, Executive Officers, and Other Stockholders

The following table provides information about the beneficial ownership of our common stock as of March 31, 2010, by each of our directors, each of our executive officers named in the “Summary Compensation Table” of this proxy statement, all of our directors and executive officers as a group, and each person whom we believe beneficially owns more than 5% of our outstanding common stock. Each outstanding share of our common stock entitles its holder to cast one vote on each matter to be voted on at the 2010 annual meeting, and holders of shares of our 8% convertible preferred stock are entitled to vote their shares of 8% convertible preferred stock on an as-converted basis with the holders of shares of our common stock. Holders of our 8% convertible preferred stock will be entitled to cast one vote on each matter to be voted at the 2010 annual meeting and will not vote as a separate class.

Name and Address(1)	Amount and Nature of Beneficial Ownership(2)	Percentage of Class(3)
Directors and Executive Officers:		
H. Craig Dees	3,847,859(4)	5.1%
Timothy C. Scott	3,805,966(5)	5.1%
Eric A. Wachter	4,455,685(6)	6.0%
Stuart Fuchs	1,146,418(7)	1.6%
Kelly M. McMasters	110,000(8)	*
All directors and executive officers as a group (6 persons)	(9) 15,540,928	19.1%
Other Stockholders:		
Dr. Donald E. Adams and Joan K. Adams 370 Crestmont Drive San Luis Obispo, CA 93401	5,494,928(10)	7.4%
Gryffindor Capital Partners I, L.L.C. 150 North Wacker Drive, Suite 800 Chicago, IL 60606	4,537,700(11)	6.0%

* Less than 1% of the outstanding shares of common stock.

(1) If no address is given, the named individual is an officer or director of Provectus Pharmaceuticals, Inc., whose business address is 7327 Oak Ridge Highway, Knoxville, TN 37931.

(2) Shares of our common stock that a person has the right to acquire within 60 days of March 31, 2010 are deemed outstanding for computing the percentage ownership of the person having the right to acquire such shares, but are

not deemed outstanding for computing the percentage ownership of any other person. Except as indicated by a note, each stockholder listed in the table has sole voting and investment power as to the shares owned by that person.

- (3) As of March 31, 2010, there were 72,791,241 shares of our common stock issued and outstanding.
- (4) Dr. Dees' beneficial ownership includes 2,393,750 shares of our common stock subject to options which are exercisable within 60 days.
- (5) Dr. Scott's beneficial ownership includes 55,996 shares of our common stock held by Scott Family Investment Limited Partnership, a limited partnership established for the benefit of Dr. Scott's family, and 2,450,000 shares of our common stock subject to options which are exercisable within 60 days.

- (6) Dr. Wachter's beneficial ownership includes 4,867 shares of our common stock held by the Eric A. Wachter 1998 Charitable Remainder Unitrust and 1,640,469 shares of our common stock subject to options which are exercisable within 60 days.
- (7) Mr. Fuchs' beneficial ownership includes 275,000 shares of our common stock subject to options which are exercisable within 60 days.
- (8) Dr. McMasters' beneficial ownership includes 100,000 shares of our common stock subject to options which are exercisable within 60 days. Dr. McMasters' beneficial ownership also includes 10,000 shares of our common stock underlying warrants.
- (9) Includes 8,633,843 shares of our common stock subject to options and warrants which are exercisable within 60 days.
- (10) Based on a Schedule 13G/A filed with the SEC by Donald E. Adams and Joan K. Adams on March 18, 2010, to our knowledge Dr. Adams and Ms. Adams beneficially own 5,494,928 shares of our common stock. Of the shares of our common stock beneficially owned, 2,527,096 are owned directly by Mr. Adams and are comprised of (i) 1,968,762 shares of our common stock; and (ii) 558,334 shares of our common stock issuable upon the exercise of a warrant expiring on December 31, 2010. Of the total number of shares of our common stock beneficially owned, 2,967,832 are owned directly by Joan K. Adams and are comprised of (i) 2,409,499 shares of our common stock; and (ii) 558,333 shares of our common stock issuable upon the exercise of a warrant expiring on December 31, 2010. Donald E. Adams and Joan K. Adams are husband and wife. Each Reporting Person disclaims beneficial ownership of the shares of our common stock owned directly by his or her spouse.
- (11) To our knowledge, Gryffindor Capital Partners I, L.L.C.'s beneficial ownership includes 1,646,034 shares of our common stock directly held and 2,891,666 shares of our common stock underlying warrants.

Section 16(a) Beneficial Ownership Reporting Compliance

The federal securities laws require our directors and executive officers and persons who beneficially own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of our securities. Based solely on our review of the copies of these forms received by us or representations from reporting persons, we believe that SEC beneficial ownership reporting requirements for 2009 were met.

INFORMATION ABOUT OUR BOARD OF DIRECTORS

How does our Board of Directors operate?

Our Board of Directors consists of five members, H. Craig Dees, Timothy C. Scott, Eric A. Wachter, Stuart Fuchs, and Kelly M. McMasters. Dr. Dees, who is our Chief Executive Officer, serves as chairman of our Board of Directors. Only one member of our Board of Directors, Dr. McMasters, is considered independent under the independence standards of the Nasdaq Stock Market.

Because our Board of Directors consists of only five members and our operations remain amenable to oversight by a limited number of directors, our Board of Directors has not delegated any of its functions to standing committees. Our entire Board of Directors acts as our audit committee, nominating committee, and compensation committee. Our Board of Directors has not adopted a nominating committee charter. Our audit committee charter is posted on our website at <http://www.pvct.com/AuditCommitteeCharter.html>, and our compensation committee charter is posted on our website at <http://www.pvct.com/CompensationCommitteeCharter.html>. The information on our website, however, is not a part of this Proxy Statement. Each member of our Board of Directors participates in the consideration of the compensation of our directors and executive officers. We believe that the leadership structure of our Board of Directors is appropriate given that we have only four employees. In addition, our entire Board of Directors is responsible for our risk oversight function due to the fact that we have only four employees, three of whom are members of our Board of Directors, and that our entire Board of Directors serves as our audit committee.

Only one member of our Board of Directors, Dr. McMasters, is considered independent for purposes of audit committee independence under the independence standards of the Nasdaq Stock Market and the SEC. We do not have an “audit committee financial expert,” as defined under the rules of the SEC. We believe that all members of our Board of Directors are qualified to serve as the committee and have the experience and knowledge to perform the duties required of the committee. We believe that it has been, and may continue to be, impractical to recruit a director who qualifies as an “audit committee financial expert” unless and until we are significantly larger.

How often did our Board of Directors meet in 2009?

Our Board of Directors met five times and took action by unanimous written consent 17 times during 2009. Each member of our Board of Directors attended more than 75% of the total number of meetings of our Board of Directors and its committees on which he served. Members of our Board of Directors are encouraged to attend the 2010 annual meeting of stockholders. A majority of the members of our Board of Directors attended the 2009 annual meeting of stockholders either in person or via telephone conference.

Director Nominations

Our entire Board of Directors acts as our nominating committee. Our Board of Directors has no set procedures or policy on the selection of nominees or evaluation of stockholder recommendations and will consider these issues on a case-by-case basis. Our Board of Directors will consider stockholder recommendations for director nominees that are properly received in accordance with our bylaws and the applicable rules and regulations of the Securities and Exchange Commission. Our Board of Directors screens all potential candidates in the same manner. Our Board of Directors’ review will typically be based on all information provided with respect to the potential candidate. Our Board of Directors has not established specific minimum qualifications that must be met by a nominee for a position on our Board of Directors or specific qualities and skills for a director. Our Board of Directors may consider the diversity of qualities and skills of a nominee, but our Board of Directors has no formal policy in this regard. For

more information, please see the section below entitled “ADDITIONAL INFORMATION.” Stockholders who wish to contact the members of our Board of Directors may do so by sending an e-mail addressed to them at info@pvct.com. Each current director and candidate for reelection in Proposal 1 (election of directors) brings a strong and unique set of experience, qualifications, attributes and skills in a variety of areas. Set forth below are the specific experience, qualifications, attributes and skills of the nominees for reelection to our Board of Directors that led to the conclusion that the nominee should serve as a member of our Board of Directors.

H. Craig Dees is has extensive experience researching, developing, and testing potential pharmaceutical products, including our products. He holds a Ph.D. in Molecular Virology, which we believe provides us with specialized knowledge in that field.

Timothy C. Scott also has extensive experience researching, developing, and testing potential pharmaceutical products, including our products. He holds a Ph.D. in Chemical Engineering, which we believe provides us with specialized knowledge in that field.

Eric A. Wachter has extensive experience researching, developing, and testing potential pharmaceutical products, including our products. He holds a Ph.D. in Chemistry, which we believe provides us with specialized knowledge in that field.

Stuart Fuchs has significant experience with venture capital in the biotech space, including providing strategic and financial advice to companies in the technology sector. Mr. Fuchs also served for 19 years as an investment banker with Goldman, Sachs & Co. After receiving a J.D. from Harvard Law School, he practiced law in New York. We believe that Mr. Fuchs provides valuable insight into the strategic and financial issues that we have encountered and will encounter in the future.

Kelly M. McMasters, M.D., Ph.D., has clinical expertise in treating skin cancer, including melanoma, and surgical oncology. He has served as principal investigator, co-principal investigator or local investigator in over 30 clinical trials, including serving as principal investigator in a multi-institutional study involving 3,500 patients. We believe Dr. McMasters’ expertise in treating skin cancer and melanoma and experience with clinical trials provide our Board of Directors valuable insight into the testing of our pharmaceutical products.

Report of our Board of Directors Acting as our Audit Committee

Our entire Board of Directors serves as our audit committee. Our Board of Directors in its capacity as our audit committee reviews our financial reporting process. In this context, our Board of Directors:

- has reviewed and discussed with management the audited financial statements for the year ended December 31, 2009;
- has discussed with BDO Seidman, LLP (BDO Seidman), our independent registered public accountants, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and
- has received the written disclosures and the letter from BDO Seidman required by PCAOB Rule 3526 (“Independence Discussions with Audit Committees”), as modified or supplemented, and has discussed with BDO Seidman the independent accountant’s independence.

Based on this review and the discussions referred to above, our Board of Directors determined that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2009, for filing with the Securities and Exchange Commission. Our Board of Directors also appointed BDO Seidman as our independent registered public accountants for 2009.

This report is submitted on behalf of the members of our Board of Directors acting as the audit committee and shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall it be incorporated by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this information by reference and shall not otherwise be deemed filed under these Acts:

H. Craig Dees
Timothy C. Scott
Eric A. Wachter
Stuart Fuchs
Kelly M. McMasters

EXECUTIVE COMPENSATION

The table below shows the compensation for services in all capacities we paid during the years ended December 31, 2009 and 2008 to our Chief Executive Officer and our other two most highly compensated executive officers (which we refer to as named executive officers):

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)(1)	All Other Compensation (\$)(2)	Total (\$)
H. Craig Dees CEO	2009	500,000	518,519	46,187	43,269	1,107,975
	2008	450,000	146,143	45,716	37,500	679,359
Timothy C. Scott President	2009	500,000	518,519	46,187	43,269	1,107,975
	2008	450,000	146,143	45,716	37,500	679,359
Eric A. Wachter EVP - Pharmaceuticals	2009	500,000	518,519	46,187	43,269	1,107,975
	2008	450,000	146,143	45,716	37,500	679,359

(1) The amounts in the Option Awards column represent grant date fair values computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation (FASB ASC Topic 718). The assumptions used in determining the values of option awards are provided in Note 5 to the Consolidated Financial Statements contained in our Form 10-K for the fiscal year ended December 31, 2009. Each named officer is also a director of us. Included is each named executive officer's compensation for service as a director of 50,000 stock options granted at an exercise price of \$1.04 on June 19, 2009 and \$1.00 on June 27, 2008, which was the fair market price on the date of issuance. The options vested immediately on the date of grant and expire ten years from the date of grant. For purposes of estimating the fair value of each stock option on the date of grant, we utilized the Black-Scholes option-pricing model which totaled \$46,187 in 2009 and \$45,716 in 2008 for the 50,000 options.

(2) Other compensation represents unused vacation that was paid out.

Base Salary & Employment Agreements

On July 1, 2009, we entered into executive employment agreements with each of H. Craig Dees, Ph.D., Timothy C. Scott, and Ph.D., Eric A. Wachter, Ph.D., to serve as our Chief Executive Officer, President, and Executive Vice President, respectively. Each agreement provides that such named executive officer will be employed for a one-year term with automatic one-year renewals unless previously terminated pursuant to the terms of the agreement or either party gives notice that the term will not be extended. Each named executive officer's initial base salary is \$500,000 per year and is subject to adjustment by our Board of Directors. Named executive officers are also entitled to participate in any incentive compensation plan or bonus plan adopted by us without diminution of any compensation or payment under the agreement. Named executive officers are entitled to reimbursement for all reasonable out-of-pocket expenses incurred during their performance of services under the agreements. Our named executive officers will be

entitled to the payments upon termination of their employment, with or without a change of control, as described under the heading “Potential Payments upon Termination or Change in Control” below. Prior to July 1, 2009, each of our named executive officers was a party to executive employment agreement with substantially similar terms as the agreements entered on July 1, 2009.

During 2009, we paid \$500,000 to each of named executive officers as annual base salary. The annual base salary of each of our named executive officers was increased from \$400,000 to \$500,000 effective July 1, 2008.

Bonus Awards

Our Board of Directors has adopted a longevity bonus policy to recognize service on our behalf when we reach significant milestones and to award year end bonuses at the discretion of our CEO. In 2009, we awarded bonuses for services rendered culminating with continued clinical trial development progress, especially due to the progression of the oncology and dermatology drug product candidates with completion of Phase 2 enrollment and other development in the clinic.

Defined Benefit Plan

Our four employees, including our named executive officers, participate in the Provectus Pharmaceuticals, Inc. Cash Balance Defined Benefit Plan (the "Defined Benefit Plan"), which was established in 2007. Under the Defined Benefit Plan, each employee has a hypothetical account which consists of a yearly pay credit based on a defined percentage of the employee's current salary and an interest credit defined as 5% of the beginning or the year hypothetical account balance. Each year, we make a contribution to fully fund the Defined Benefit Plan. The Defined Benefit Plan contributions vest immediately after three years of service. All four employees are fully vested.

Our investment objective is to achieve investment earnings similar to the 5% interest credit defined by the Defined Benefit Plan. To achieve this, our policy is to only invest in U.S. treasury bills and cash and cash equivalents.

Benefits are payable to our employees upon reaching age 55 and serving five participation years. No benefits have been paid under the Defined Benefit Plan.

Potential Payments upon Termination or Change in Control

Each of the employment agreements with our named executive officers generally provides that if the named executive officer's employment is terminated prior to a change in control (as defined in the agreement) (1) due to expiration or non-extension of the term by us; or (2) by us for any reason other than for cause (as defined in the agreement), then such named executive officer shall be entitled to receive payments under the agreement as if the agreement was still in effect through the end of the period in effect as of the date of such termination. If the named executive officer's employment (1) is terminated by us at any time for cause, (2) is terminated by the named executive officer prior to, and not coincident with, a change in control or (3) is terminated by named executive officer's death, disability or retirement prior to a change in control, the named executive officer (or his estate, as the case may be) shall be entitled to receive payments under the agreement through the last date of the month of such termination, a pro-rata portion of any incentive or bonus payment earned prior to such termination, any benefits to which he is entitled under the terms and conditions of the pertinent plans in effect at termination and any reasonable expenses incurred during the performance of services under the agreement.

Under each of the employment agreements with our named executive officers, in the event that coincident with or following a change in control, the named executive officer's employment is terminated or the agreement is not extended (1) by action of the named executive officer including his death, disability or retirement or (2) by action of us not for cause, the named executive officer (or his estate, as the case may be) shall be entitled to receive payments under the agreement through the last day of the month of such termination, a pro-rata portion of any incentive or bonus payment earned prior to such termination, any benefits to which he is entitled under the terms and conditions of the pertinent plans in

effect at termination and any reasonable expenses incurred during the performance of services under the agreement. In addition, we shall pay to the named executive officer (or his estate, as the case may be), within 30 days following the date of termination or on the effective date of the change in control (whichever occurs later), a lump sum payment in cash in an amount equal to 2.90 times the base salary paid in the preceding calendar year, or scheduled to be paid to such named executive officer during the year of such termination, whichever is greater, plus an additional amount sufficient to pay United States income tax on the lump sum amount paid.

The following table shows the base salary compensation the named executive officers would have received under their employment agreements had a change in control occurred as of December 31, 2009 and had the named executive officers been terminated or their employment agreements not been extended.

Name	Amount
H . C r a i g D e e s , Ph.D.	\$1,450,000
T i m o t h y C . S c o t t , Ph.D.	\$1,450,000
E r i c A . W a c h t e r , Ph.D.	\$1,450,000

Under the terms of our 2002 Stock Plan, as amended, prior to the occurrence of a change in control (as defined in the 2002 Stock Plan), and unless otherwise determined by our Board of Directors, any stock options outstanding on the date such change in control is determined to have occurred that are not yet exercisable and vested on such date shall become fully exercisable and vested. In addition, unless otherwise determined by our Board of Directors, prior to the occurrence of the change in control, all stock options that are vested and exercisable will be terminated in exchange for a cash payment equal to the change in control price reduced by the exercise price of such stock options. As of April 30, 2010, none of our named executive officers had outstanding unvested stock options.

Outstanding Equity Awards at 2009 Year-End

Name	Number of Shares of Common Stock Underlying Unexercised Options (#) Exercisable	Option Awards		
		Number of Shares of Common Stock Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
H. Craig Dees.				
.....				
.....				
.....	18,750	--	0.32	5/29/2013
	25,000	--	0.60	5/29/2013
	300,000	--	1.10	2/26/2014
	25,000	--	0.95	5/27/2014
	300,000	--	0.64	1/7/2015
	300,000	--	0.75	5/25/2015
	25,000	--	0.62	5/19/2015
	200,000	--	0.94	12/9/2015
	50,000	--	1.02	6/23/2016
	1,000,000	--	1.02	6/23/2016
	50,000	--	1.50	6/21/2017
	50,000	--	1.00	6/27/2018
	50,000	--	1.04	6/19/2019
Timothy C. Scott . .				
.....				
.....				
...	75,000	--	0.32	5/29/2013
	25,000	--	0.60	5/29/2013
	300,000	--	1.10	2/26/2014
	25,000	--	0.95	5/27/2014
	300,000	--	0.64	1/7/2015
	300,000	--	0.75	5/25/2015
	25,000	--	0.62	5/19/2015
	200,000	--	0.94	12/9/2015
	50,000	--	1.02	6/23/2016
	1,000,000	--	1.02	6/23/2016
	50,000	--	1.50	6/21/2017
	50,000	--	1.00	6/27/2018
	50,000	--	1.04	6/19/2019
Eric A. Wachter . . .	75,000	--	1.10	2/26/2014
.....				
.....				

...				
	25,000	--	0.95	5/27/2014
	105,469	--	0.64	1/7/2015
	300,000	--	0.75	5/25/2015
	985,000	--	1.02	6/23/2016
	50,000	--	1.50	6/21/2017
	50,000	--	1.00	6/27/2018
	50,000	--	1.04	6/19/2019

DIRECTOR COMPENSATION

Three of our five directors, Drs. Dees, Scott and Wachter, are also full-time employees. As discussed above under the heading “EXECUTIVE COMPENSATION,” they are compensated for their service in those roles. Other than the options described below, they are not separately compensated for their service as directors.

Neither Stuart Fuchs or Kelly McMasters received cash compensation for his service as a member of our Board of Directors, although each is reimbursed for expenses incurred in fulfilling his duties as a director, including attending meetings. In 2009, we paid Mr. Fuchs \$82,500 for consulting services performed, and issued 70,000 shares of common stock at a fair market value of \$70,000. In 2009, we paid Dr. McMasters \$30,000 for leading our Scientific Advisory Board. Both are further described below under the heading “PROPOSAL 1 – ELECTION OF DIRECTORS –Transactions with Director Nominees.”

On the date of each annual meeting of stockholders, each member of our Board of Directors receives options exercisable for shares of our common stock. In 2009, each of our directors received 50,000 options.

Director Compensation Table for 2009

Name(1)	Fees Earned or Paid in Cash (\$)	Option Awards \$(2)	All Other Compensation (\$)	Total (\$)
Stuart Fuchs	--	46,187	152,500(3)	198,687
Kelly M. McMasters	--	46,187	30,000(3)	76,187

(1) Our other three directors are also full-time employees whose compensation is discussed above under the heading “EXECUTIVE COMPENSATION.”

(2) A total of 50,000 stock options were granted to each of the above-named directors at an exercise price of \$1.04, which was the fair market price on the date of issuance. The options vested immediately on the date of grant, June 19, 2009 and expire on June 19, 2019. The amounts in the Option Awards column represent grant date fair values computed in accordance with FASB ASC Topic 718. The assumptions used in determining the values of option awards are provided in Note 5 to the Consolidated Financial Statements contained in our Form 10-K for the fiscal year ended December 31, 2009. For purposes of estimating the fair value of each stock option on the date of grant, we utilized the Black-Scholes option-pricing model.

As of December 31, 2009, Mr. Fuchs had a total of 275,000 stock options outstanding, and Mr. McMasters had a total of 110,000 stock options outstanding.

(3) We paid Mr. Fuchs \$82,500 for consulting services performed in 2009, and issued 70,000 shares of common stock at a fair market value of \$70,000. We paid Dr. McMasters \$30,000 for leading our Scientific Advisory Board.

PROPOSAL 1 -- ELECTION OF DIRECTORS

Director Nominees

The persons listed below have been nominated by our Board of Directors to serve as directors for a one-year term expiring at the annual meeting of stockholders occurring in 2011. Each nominee has consented to serve on our Board of Directors. If any nominee were to become unavailable to serve as a director, our Board of Directors may designate a substitute nominee. In that case, the persons named as proxies on the accompanying proxy card will vote for the substitute nominee designated by our Board of Directors.

H. Craig Dees, Ph.D., 58, has served as our Chief Executive Officer and as a member of our Board of Directors since we acquired Provectus Pharmaceuticals, Inc., a privately held Tennessee Corporation, on April 23, 2002. Before joining us, from 1997 to 2002 he served as senior member of the management team of Photogen Technologies, Inc., including serving as a member of our Board of Directors of Photogen from 1997 to 2000. Prior to joining Photogen, Dr. Dees served as a Group Leader at the Oak Ridge National Laboratory, and as a senior member of the management teams of LipoGen Inc., a medical diagnostic company which used genetic engineering technologies to manufacture and distribute diagnostic assay kits for auto-immune diseases, and TechAmerica Group Inc., now a part of Boehringer Ingelheim Vetmedica, Inc., the U.S. animal health subsidiary of Boehringer Ingelheim GmbH, an international chemical and pharmaceutical company headquartered in Germany. He earned a Ph.D. in Molecular Virology from the University of Wisconsin – Madison in 1984.

Timothy C. Scott, Ph.D., 52, has served as our President and as a member of our Board of Directors since we acquired PPI on April 23, 2002. Prior to joining us, Dr. Scott was as a senior member of the Photogen management team from 1997 to 2002, including serving as Photogen's Chief Operating Officer from 1999 to 2002, as a director of Photogen from 1997 to 2000, and as interim CEO for a period in 2000. Before joining Photogen, he served as senior management of Genase LLC, a developer of enzymes for fabric treatment, and held senior research and management positions at Oak Ridge National Laboratory. Dr. Scott earned a Ph.D. in Chemical Engineering from the University of Wisconsin – Madison in 1985.

Eric A. Wachter, Ph.D., 47, has served as our Executive Vice President – Pharmaceuticals and as a member of our Board of Directors since we acquired PPI on April 23, 2002. Prior to joining us, from 1997 to 2002 he was a senior member of the management team of Photogen, including serving as Secretary and a director of Photogen since 1997 and as Vice President and Secretary and a director of Photogen since 1999. Prior to joining Photogen, Dr. Wachter served as a senior research staff member with Oak Ridge National Laboratory. He earned a Ph.D. in Chemistry from the University of Wisconsin – Madison in 1988.

Stuart Fuchs, 63, has served as a member of our Board of Directors since January 23, 2003. He is a co-founder and has served as a managing principal of Gryffindor Capital Partners, LLC, since January 2000, a Chicago-based venture capital firm. Before joining Gryffindor, he was a founding stockholder of several biotech companies, including Angiogen LLC (since 1998), which develops combinations of drugs to stimulate in vivo production of factors that inhibit the growth of blood vessels in tumors, and Nace Pharma LLC (since 1996), which develops drugs that employ novel drug delivery technologies. Through Nace Resources Inc., a Delaware corporation providing strategic and financial advice to companies in the technology sector, Mr. Fuchs has formed or participated in groups of investors on behalf of several companies, including Abiant Inc., Celsion Corp. and Photogen. Before founding Nace Resources Inc., he served for 19 years as an investment banker with Goldman, Sachs & Co., where he co-managed the firm's public finance activities for the Midwest region. Before joining Goldman, Sachs & Co., Mr. Fuchs was a lawyer in private practice with Barrett Smith Schapiro & Simon in New York. Mr. Fuchs holds an A.B.

degree from Harvard College and a J.D. from Harvard Law School and is a member of the Association of the Bar of the City of New York.

Kelly M. McMasters, M.D., PhD., 49, has served as a member of our board of directors since June 9, 2008. Additionally, Dr. McMasters served as chairman of our scientific advisory board. Dr. McMasters received his undergraduate training at Colgate University prior to completing the MD/PhD program at the University of Medicine and Dentistry of New Jersey, Robert Wood Johnson Medical School and Rutgers University. He then completed the residency program in General Surgery at the University of Louisville, and a fellowship in Surgical Oncology at M.D. Anderson Cancer Center in Houston. He is currently the Sam and Lolita Weakley Professor of Surgical Oncology at the University of Louisville in Kentucky, a position he has held since 1996. Since 2005, he has chaired the Department of Surgery at the University of Louisville and also has been Chief of Surgery at University of Louisville Hospital. Since 2000, he has also been Director of the Multidisciplinary Melanoma Clinic of the James Graham Brown Cancer Center at the University of Louisville. His is an active member of the surgery staff at the University of Louisville Hospital, Norton Hospital and Jewish Hospital in Louisville. He is on the editorial boards of the Annals of Surgical Oncology, Cancer Therapy and the Journal of Clinical Oncology as well as an ad hoc reviewer for 9 other publications. He holds several honors, chief among them is "Physician of the Year" awarded by the Kentucky Chapter of the American Cancer Society. He is the author and principal investigator (PI) of the Sunbelt Melanoma Trial, a multi-institutional study involving 3500 patients from 79 institutions across North America and one of the largest prospective melanoma studies ever performed. He has been a PI, Co-PI or local PI in over thirty clinical trials ranging from Phase 1 to Phase 3. For the past 12 years he has also directed a basic and translational science laboratory studying adenovirus-mediated cancer gene therapy funded by the American Cancer Society and the National Institutes of Health (NIH).

Transactions with Director Nominees

During 2009, we paid one of our directors, Mr. Fuchs, \$82,500 for consulting services performed in 2009, and issued 70,000 shares of our common stock at a fair market value of \$70,000.

During 2009, we paid one of our directors, Dr. McMasters, \$30,000 for leading our Scientific Advisory Board. During 2008, we paid Dr. McMasters \$30,000 and warrants to purchase 10,000 shares of common stock for leading our Scientific Advisory Board.

Our Board of Directors recommends that the stockholders vote FOR each of the nominees for election to our Board of Directors named above.

PROPOSAL 2 – AMENDMENT TO AMENDED AND RESTATED 2002 STOCK PLAN

Description of the Amendment

Our Board of Directors is seeking our stockholders' approval of an amendment to our Amended and Restated 2002 Stock Plan, as amended (the "2002 Stock Plan") to increase the number of shares of our common stock reserved for issuance thereunder from 10,000,000 to 15,000,000. The 2002 Stock Plan originally was adopted by our Board of Directors and approved by our stockholders on May 29, 2003. The 2002 Stock Plan subsequently was amended upon approval of the stockholders on April 29, 2004, May 19, 2005, and June 22, 2006, in each instance to increase the number of shares of our common stock reserved for issuance thereunder.

Under the 2002 Stock Plan, we are authorized to grant equity-based awards in the form of options, stock appreciation rights, stock purchase rights and long-term performance awards to our and our subsidiaries' officers, directors, employees and consultants. The purpose of the 2002 Stock Plan is to enable us to provide an incentive to our officers, directors, employees and consultants whose present and potential contributions are important to our continued success, to afford these individuals the opportunity to acquire a proprietary interest in us, and to enable us to enlist and retain in our employment the best available talent for the successful conduct of our business.

Our Board of Directors unanimously recommends that stockholders vote "FOR" the approval and adoption of Proposal 2 to amend our 2002 Stock Plan.

Background

At present, we are authorized to grant equity-based awards under the 2002 Stock Plan for up to 10,000,000 shares of our common stock. As of December 31, 2009, there were outstanding options to purchase 8,623,843 shares of our common stock and 1,276,157 shares of our common stock had been issued pursuant to exercises of options. We have not issued any stock appreciation rights, stock purchase rights or long-term performance awards. As a result, as of December 31, 2009, there were 100,000 remaining shares of our common stock available for future awards under the 2002 Stock Plan.

Reasons for the Proposed Amendment

Based on our current compensation policies, our Board of Directors determined that an increase in the reserve of shares of our common stock is necessary in light of the fact that as of December 31, 2009, only 100,000 shares of our common stock are available for issuance under the 2002 Stock Plan. Our Board of Directors believes that we must offer a competitive equity compensation program if we are to continue to successfully attract and retain the most qualified candidates as officers, directors, employees and consultants. Our Board of Directors expects that the 2002 Stock Plan, as amended, will be an important factor in attracting and retaining the personnel essential to our success. Our Board of Directors believes that giving our officers, directors, employees and consultants the opportunity to acquire an equity interest will align the economic interest of these individuals with the economic interest of our other stockholders, thereby benefiting all of our stockholders. Our Board of Directors believes that the increased number of shares reserved for issuance under the 2002 Stock Plan will provide a sufficient number of shares for the foreseeable future. If the amendment to the 2002 Stock Plan is approved by our stockholders, the 2002 Stock Plan will remain unchanged in all other respects. The additional shares represent a 50% increase in the number of authorized shares of our common stock under the 2002 Stock Plan, but constitute only 6.9% of the 72,791,241 shares of our common stock that were outstanding on March 31, 2010.

Summary of 2002 Stock Plan

The following is a summary of the key provisions of the 2002 Stock Plan that is proposed to be amended and restated. The full text of the 2002 Stock Plan, as proposed to be amended and restated, is included as Appendix A to this proxy statement as it would read if Proposal 2 were to be approved by our stockholders. The summary below is qualified in its entirety by reference to the full text of the 2002 Stock Plan.

General. The 2002 Stock Plan authorizes us to grant the following types of equity-based awards: options to purchase our common stock that qualify as “incentive stock options” under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), options to purchase our common stock that do not qualify as incentive stock options under Section 422 of the Code, which are referred to as “non-qualified stock options,” stock appreciation rights (“SARs”), stock purchase rights and long-term performance awards.

Purpose. The purpose of the 2002 Stock Plan is to enable us to provide an incentive to officers, directors, employees and consultants whose present and potential contributions are important to our continued success, to afford these individuals the opportunity to acquire a proprietary interest in us, and to enable us to enlist and retain the best available talent for the successful conduct of our business.

Eligible Persons. Currently, our six officers, directors and employees are eligible to participate in the 2002 Stock Plan, as well as consultants to us and our subsidiaries. Under the terms of the 2002 Stock Plan, incentive stock options may be granted only to employees, including those who serve as officers and directors.

Shares Available for Issuance. At present, we are authorized to grant equity-based awards under the 2002 Stock Plan for up to 10,000,000 shares of our common stock. Our Board of Directors is seeking our stockholders’ approval of an amendment to the 2002 Stock Plan to increase the number of shares of our common stock reserved for issuance thereunder from 10,000,000 to 15,000,000 shares. If an award under the 2002 Stock Plan is forfeited or terminated for any reason, the shares of our common stock that were subject to the award will again be available for future distribution under the 2002 Stock Plan. In addition, shares subject to SARs that are exercised for cash will again be available for distribution in connection with future grants of awards under the 2002 Stock Plan.

Administration. The 2002 Stock Plan may be administered by one or more administrators (the “Administrator”) if our Board of Directors deems division of administration necessary or desirable in order to comply with applicable law. Because our Board of Directors has not appointed any committees and because we have so few employees, at present our Board of Directors is acting as the Administrator of the 2002 Stock Plan. The Administrator has the authority to determine the employees, consultants and non-employee directors who may receive awards under the 2002 Stock Plan (the “Participants”) and to determine the type, size and terms of each award, to modify the terms of awards, to determine when awards will be granted and paid, and to make all other determinations which it deems necessary or desirable in the interpretation and administration of the Plan.

Types of Equity-Based Awards

Options. Options are rights to purchase a specified number of shares of our common stock at a price fixed by the Administrator. Each option must be represented by an award agreement that identifies the option as either an “incentive stock option” within the meaning of Section 422 of the Code or “non-qualified option,” which does not satisfy the conditions of Section 422 of the Code. The award agreement also must specify the number of shares of our common stock that may be issued upon exercise of the options and set forth the exercise price of the options. The exercise price for options that qualify as

incentive stock options may not be less than 100% of the fair market value as of the date of grant. The option exercise price may be satisfied in cash, by check or a promissory note, by exchanging shares of our common stock owned by the Participant, or a combination of these methods. Options have a maximum term of ten years from the date of grant. To date options that we have granted generally have a ten-year term and become exercisable in four equal, annual installments beginning on the date of grant. The Administrator has broad discretion to determine the terms and conditions upon which options may be exercised, and the Administrator may determine to include additional terms in the award agreements.

Stock Appreciation Rights. SARs may be granted in connection with a previously or contemporaneously granted stock option or independently. SARs are rights to receive cash or shares of our common stock, or a combination thereof, as the Administrator may determine. The Administrator may provide in the SAR agreement circumstances under which SARs will become immediately exercisable and may accelerate the exercisability of any SAR at any time. To date, we have not issued any SARs under the 2002 Stock Plan.

SARs granted in connection with a stock option are exercisable only when and to the extent that the related stock option is exercisable and expire on the date on which the related stock option expires. If a SAR granted in connection with a stock option is exercised, the related stock option ceases to be exercisable. The amount of the payment for SARs granted in connection with stock options is equal to the excess of (i) the fair market value on the date of exercise of the common stock covered by the surrendered portion of the related stock option over (ii) the exercise price of the stock option covered by the surrendered portion of the related stock option.

SARs granted independently of stock options are exercisable as specified in the award agreement. The amount of the payment for SARs granted independently of stock options is equal to the excess of (i) the fair market value of the common stock covered by the exercised portion of the SAR as of the date of such exercise over (ii) the fair market value of the common stock covered by the exercised portion of the SAR as of the last market trading date prior to the date on which the SAR was granted.

Stock Purchase Rights. Stock purchase rights are rights to purchase a specified number of shares of our common stock which may be restricted in accordance with the terms of the award agreement. The terms of stock purchase rights, including the restrictions and conditions of the offer, the number of shares of our common stock that the offeree will be entitled to purchase, the price to be paid, and the time period in which the offeree must accept the offer, will be set forth in writing. Stock purchase rights must be exercised within thirty days from the date the stock purchase right is granted, unless the Administrator specifies a shorter period. After a Participant exercises a stock purchase right, he or she will have the rights equivalent to those of a stockholder, including the right to vote such shares and to receive dividends and other distributions thereon, subject to the restrictions set forth in the 2002 Stock Plan and in the award agreement. If shares of our common stock are issued as "restricted stock," they will be legended and may not be sold, transferred, or disposed of until the restrictions have lapsed. The Administrator has broad discretion as to the specific terms and conditions of each award, including applicable rights upon certain terminations of employment and restrictions on the transferability of stock purchased pursuant to stock purchase rights. To date, we have not issued any stock purchase rights under the 2002 Stock Plan.

Long-Term Performance Awards. Long-term performance awards entitle the grantee to future payments based upon the achievement of employment or pre-established long-term performance factors. The award agreement for a long-term performance award will establish maximum and minimum performance targets to be achieved and the period in which the targets must be achieved. Thereafter, the Participant will be entitled to a payment in cash or shares of our common stock upon the achievement of the performance targets within the performance periods. The Administrator has discretion to determine the Participants to whom long-term performance awards are to be made, the times in which such awards

are to be made, the size of such awards, and all other conditions of such awards, including any restriction, deferral periods, or performance requirements. To date, we have not issued any long-term performance awards under the 2002 Stock Plan.

Adjustments upon Change of Capitalization, Dissolution, Merger, Asset Sale or Change of Control

Changes in Capitalization. Subject to any required action by our stockholders, the number of shares of our common stock covered by outstanding stock options, SARs, stock purchase rights or long-term performance awards, and the number of shares of our common stock which have been authorized for issuance under the 2002 Stock Plan but as to which no award has been granted or which have been returned to the 2002 Stock Plan upon cancellation or expiration of an award, as well as the price per share of our common stock covered by each such outstanding award, will be proportionately adjusted for any increase or decrease in the number of issued shares of our common stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the our common stock, or any other increase or decrease in the number of issued shares of our common stock effected without receipt of consideration by us.

Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of us, to the extent that stock options, SARs, stock purchase rights or long-term performance awards have not been previously exercised, they will terminate immediately prior to the consummation of such proposed action. Our Board of Directors may declare that any such award shall terminate as of a date fixed by our Board of Directors and give each Participant the right to exercise his or her award, including awards that would not otherwise be exercisable.

Merger or Asset Sale. Subject to the treatment of awards upon a change in control discussed below, in the event of a merger of us with or into another corporation, or the sale of substantially all of our assets, each outstanding award will be assumed or an equivalent award will be substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation does not agree to assume the award or to substitute an equivalent award, the Administrator will, in lieu of such assumption or substitution, provide for the Participant to have the right to exercise the award, awards that would not otherwise be exercisable.

Change in Control. In the event of a change in control (as defined in the 2002 Stock Plan) of us, except as otherwise determined by our Board of Directors, (i) prior to the occurrence of the change in control, any outstanding awards on the date of such change in control that are not yet exercisable and vested on such date will become fully exercisable and vested, and (ii) prior to the occurrence of the change in control, all outstanding awards to the extent they are exercisable and vested, including accelerated awards will be terminated in exchange for a cash payment equal to the change in control price (as defined in the 2002 Stock Plan), reduced by the exercise price, if any, of such awards.

Transferability

Awards may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant.

Amendment and Termination

Our Board of Directors may amend, alter, suspend or terminate the 2002 Stock Plan at any time. Any amendment to the 2002 Stock Plan must be approved by our stockholders to the extent such approval is required by the terms of the 2002 Stock Plan, the rules and regulations of the Securities and Exchange Commission, or the rules and regulations of any exchange upon which our stock is listed, if any.

However, no amendment, alteration, suspension or termination of the 2002 Stock Plan may impair the rights of any Participant, unless mutually agreed in writing by the Participant and the Administrator.

Federal Income Tax Consequences

The following is a summary of the material anticipated United States federal income tax consequences of the 2002 Stock Plan to us and the Participants. The summary is based on current federal income tax law, which is subject to change, and does not address state, local, or foreign tax consequences or considerations.

Stock Options. The grant of a stock option that does not have a readily ascertainable value will not result in taxable income at the time of the grant for either us or the Participant. Upon exercising an incentive stock option, the Participant will have no taxable income (except that the alternative minimum tax may apply) and we will receive no deduction. Upon exercising a nonqualified stock option, the Participant will recognize ordinary income in the amount by which the fair market value of our common stock at the time of exercise exceeds the option exercise price, and we will be entitled to a deduction for the same amount. The Participant's income is subject to withholding tax as wages.

The tax treatment of the Participant upon a disposition of shares of our common stock acquired through the exercise of an option is dependent upon the length of time that the shares have been held and on whether such shares were acquired by exercising an incentive stock option or a nonqualified stock option. If an employee exercises an incentive stock option and holds the shares for two years from the date of grant and one year after exercise, then any gain or loss realized based on the exercise price of the option will be treated as long-term capital gain or loss. Shares obtained upon exercise of an incentive stock option that are sold without satisfying these holding periods will be treated as shares received from the exercise of a nonqualified stock option. Generally, upon the sale of shares obtained by exercising a nonqualified stock option, the Participant will treat the gain realized on the sale as a capital gain. Generally, there will be no tax consequence to us in connection with the disposition of shares of our common stock acquired under a stock option, except that we may be entitled to a deduction in the case of a disposition of shares acquired upon exercise of an incentive stock option before the applicable holding periods have been satisfied.

Stock Appreciation Rights. The grant of a SAR will not result in taxable income to the Participant at the time of the award. Upon exercising the SAR, the Participant will recognize ordinary income in the amount by which the fair market value of the common stock or the amount of cash, as the case may be, exceeds the SAR exercise price, if any. We will be entitled to a deduction for the same amount. The Participant's income is subject to withholding tax as wages. Upon a disposition of shares of common stock acquired through the exercise of the SAR, the Participant may recognize capital gain or loss, the character of which is dependent upon the length of time that the shares have been held. Generally, there will be no tax consequences to us in connection with the disposition of shares of common stock acquired under a SAR.

Stock Purchase Rights. The federal income tax consequences of awards of stock purchase rights will depend on the facts and circumstances of each award, and in particular, the nature of the restrictions imposed with respect to the common stock which is the subject of the award. In general, if the common stock is subject to a substantial risk of forfeiture, i.e., limited in terms of transferability, a taxable event occurs only when the risk of forfeiture ceases. At that time, the Participant will realize ordinary income to the extent of the excess of the fair market value of the common stock on the date the risk ceases over the amount that the Participant paid for the shares, if any, and we will be entitled to a deduction in the same amount. Prior to the lapse of restrictions on the restricted stock, any dividends on such shares will be paid currently and will be treated as ordinary compensation income to the Participant, subject to withholding. Subsequent to the determination and satisfaction of the ordinary income tax consequences, any further

gain or loss realized on the subsequent disposition of such stock will be a long- or short-term capital gain or loss depending upon the applicable holding period.

Alternatively, within thirty days after transfer of the restricted stock, a Participant may make an election under Section 83(b) of the Code, which would allow the Participant to include in income in the year that the restricted common stock is awarded an amount equal to the fair market value of the restricted stock on the date of such award determined as if the restricted common stock were not subject to restrictions. The employer is then entitled to a compensation-paid deduction in the same amount. The election is required to be written and delivered to the employer within that thirty-day period. The Participant is also required to confirm the election with the filing of the Participant's federal income tax return for the year in which the award is made. Failure to satisfy either of these requirements may invalidate the intended election. In the event of a valid Section 83(b) election, the Participant will not recognize income at the time that the restrictions actually lapse. In addition, any appreciation or depreciation in the value of the stock and any dividends paid on the stock after a valid Section 83(b) election are not deductible by the employer as compensation paid. For purposes of determining the period of time that the Participant holds the restricted stock, the holding period begins on the award date when a Participant makes a Section 83(b) election. Further, any dividends received after the Section 83(b) election is made will constitute ordinary dividend income to the Participant and will not be deductible by the employer. If the restricted stock subject to the Section 83(b) election is subsequently forfeited, however, the Participant is not entitled to a deduction or tax refund.

Long-Term Performance Awards. A Participant will realize ordinary compensation income upon receipt of a long-term performance award equaling the amount of cash or the current market value of the common stock received. Wage withholding rules will apply. We will be entitled to a deduction at the time of payment in an amount equal to such income. Upon subsequent disposition of any shares of common stock received, any gain or loss will be a long- or short-term gain or loss, depending upon the applicable holding period.

Equity Compensation Plan Information

The table below sets forth certain information regarding shares available as of December 31, 2009 for issuance under our equity compensation plans. As of March 31, 2010, the closing price of our common stock on the OTCBB was \$1.49 per share.

Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	8,623,843	\$0.95	100,000

Equity compensation plans not approved by stockholders	0	\$	--	0
Total	8,623,843		\$0.95	100,000

PROPOSAL 3 – RATIFICATION OF SELECTION OF INDEPENDENT AUDITOR

General

Our Board of Directors has selected BDO Seidman as the independent auditor to perform the audit of our consolidated financial statements for 2010. BDO Seidman has audited our consolidated financial statements since 2002. BDO Seidman is a registered public accounting firm.

Our Board of Directors is asking the stockholders to ratify the selection of BDO Seidman as our independent auditor for 2010. Although not required by law or our bylaws, our Board of Directors is submitting the selection of BDO Seidman to the stockholders for ratification as a matter of good corporate practice. Even if the selection is ratified, our Board of Directors, in its discretion, may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of us and our stockholders.

Representatives of BDO Seidman are expected to be present at the annual meeting. They will have an opportunity to make a statement if they desire and will be available to respond to appropriate questions from our stockholders.

Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE SELECTION OF BDO SEIDMAN, LLP AS OUR INDEPENDENT AUDITOR FOR 2010. Each proxy solicited on behalf of our Board of Directors will be voted FOR the ratification of the selection of BDO Seidman as our independent auditor for 2010 unless the stockholder instructs otherwise in the proxy. If the stockholders do not ratify the selection, the matter will be reconsidered by our Board of Directors.

Audit and Non-Audit Services

Our Board of Directors is directly responsible for the appointment, compensation, and oversight of our independent auditor. It is the policy of our Board of Directors to pre-approve all audit and non-audit services provided by our independent registered public accountants. Our Board of Directors has considered whether the provision by BDO Seidman of services of the varieties described below is compatible with maintaining the independence of BDO Seidman, LLP. In view of the fact that BDO Seidman provides no services to us other than audit services, our Board of Directors believes that such services do not jeopardize the independence of BDO Seidman.

The table below sets forth the aggregate fees we paid to BDO Seidman for audit and non-audit services provided to us in 2009 and 2008.

Fees	2009	2008
Audit Fees	\$124,000	\$118,000
Audit-Related Fees	-	-
Tax Fees:	-	-
All Other Fees	-	-
Total	\$124,000	\$118,000

In the above table, in accordance with the SEC's definitions and rules, "audit fees" are fees for professional services for the audit of a company's financial statements included in the annual report on Form 10-K, for the review of a company's financial statements included in the quarterly reports on Form 10-Q, and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements; "audit-related fees" are fees for assurance and related services that are reasonably related to the performance of the audit or review of a company's financial statements; "tax fees" are fees for tax compliance, tax advice, and tax planning; and "all other fees" are fees for any services not included in the first three categories.

OTHER INFORMATION CONCERNING MANAGEMENT