PROVECTUS PHARMACEUTICALS INC
Form 10KSB
March 31, 2005

United States Securities And Exchange Commission
Washington, DC 20549

FORM 10-KSB

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004; OR

[ ] 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: 0-9410

Provectus Pharmaceuticals, Inc.
(Name of Small Business Issuer in Its Charter)

Nevada	90-0031917
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7327 Oak Ridge Highway, Suite A, Knoxville, Tennessee	37931
(Address of Principal Executive Offices)	(Zip Code)

865/769-4011
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:
None

(Title of Class)

Securities registered under Section 12(g) of the Exchange Act:
Common shares, par value $.001 per share

(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The issuer's revenues for the most recent fiscal year were $21,072. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of March 17, 2005, was $15,947,003 (computed

on the basis of $0.97 per share).

The number of shares outstanding of the issuer's stock, $0.001 par value per share, as of March 17, 2005 was 16,440,209.

Documents incorporated by reference in Part III hereof: Proxy Statement for 2005 Annual Meeting of Stockholders

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

Provectus Pharmaceuticals, Inc.
Annual Report on Form 10-KSB

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PART I

Item 1. Description of Business.

History

Provectus Pharmaceuticals, Inc., formerly known as "Provectus

Pharmaceutical, Inc." and "SPM Group, Inc.," was incorporated under Colorado law on May 1, 1978. SPM Group ceased operations in 1991, and became a development-stage company effective January 1, 1992, with the new corporate purpose of seeking out acquisitions of properties, businesses, or merger candidates, without limitation as to the nature of the business operations or geographic location of the acquisition candidate.

On April 1, 2002, SPM Group changed its name to "Provectus Pharmaceutical, Inc." and reincorporated in Nevada in preparation for a transaction with Provectus Pharmaceuticals, Inc., a privately-held Tennessee corporation, which we refer to as "PPI." On April 23, 2002, an Agreement and Plan of Reorganization between Provectus Pharmaceutical and PPI was approved by the written consent of a majority of the outstanding shares of Provectus Pharmaceutical. As a result, holders of 6,680,000 shares of common stock of Provectus Pharmaceutical exchanged their shares for all of the issued and outstanding shares of PPI. As part of the acquisition, Provectus Pharmaceutical changed its name to "Provectus Pharmaceuticals, Inc." and PPI became a wholly owned subsidiary of Provectus. For accounting purposes, we treat this transaction as a recapitalization of PPI.

On November 19, 2002, we acquired Valley Pharmaceuticals, Inc., a privately-held Tennessee corporation formerly known as Photogen, Inc., by merging our subsidiary PPI with and into Valley and naming the surviving corporation "Xantech Pharmaceuticals, Inc." Valley had minimal operations and had no revenues prior to the transaction with the Company. By acquiring Valley, we acquired our most important intellectual property, including issued U.S. patents and patentable inventions, with which we intend to develop:

- prescription drugs, medical and other devices (including laser devices) and over-the-counter pharmaceutical products in the fields of dermatology and oncology; and

- technologies for the preparation of human and animal vaccines, diagnosis of infectious diseases and enhanced production of genetically engineered drugs.

Prior to the acquisition of Valley, we were considered to be, and continue to be, in the development stage and had not generated any revenues from the assets we acquired.

On December 5, 2002, we acquired the assets of Pure-ific L.L.C., a Utah limited liability company, and created a wholly owned subsidiary, Pure-ific Corporation, to operate that business. We acquired the product formulations for Pure-ific personal sanitizing sprays, along with the "Pure-ific" trademarks. We intend to continue product development and begin to market a line of personal sanitizing sprays and related products to be sold over the counter under the "Pure-ific" brand name.

Description Of Business

Overview

Provectus, and its five wholly owned subsidiaries:

- Xantech Pharmaceuticals, Inc.

- Pure-ific Corporation

- Provectus Biotech, Inc.

- Provectus Devicetech, Inc.

- Provectus Pharmatech, Inc.

(which we refer to as our subsidiaries) develop, license and market and plan to sell products in three sectors of the healthcare industry:

- Over-the-counter products, which we refer to in this report as "OTC products;"

- Prescription drugs; and

- Medical device systems

We manage Provectus and our subsidiaries on an integrated basis and when we refer to "we" or "us" or "the Company" in this Annual Report on Form 10-KSB, we refer to all six corporations considered as a single unit. Our principal executive offices are located at 7327 Oak Ridge Highway, Suite A, Knoxville, Tennessee 37931, telephone 865/769-4011.

Through discovery and use of state-of-the-art scientific and medical technologies, the founders of our pharmaceutical business have developed a portfolio of patented, patentable, and proprietary technologies that support multiple products in the prescription drug, medical device and OTC products categories (including patented technologies for: (a) treatment of cancer; (b) novel therapeutic medical devices; (c) enhancing contrast in medical imaging; (d) improving signal processing during biomedical imaging; and (e) enhancing production of biotechnology products). Our prescription drug products encompass the areas of dermatology and oncology and involve several types of small molecule-based drugs. Our medical device systems include therapeutic and cosmetic lasers, while our OTC products address markets primarily involving skincare applications. Because our prescription drug candidates and medical device systems are in the early stages of development, they are not yet on the market and there is no assurance that they will advance to the point of commercialization.

Our first commercially available products are directed into the OTC market, as these products pose minimal or no regulatory compliance barriers to market introduction. For example, the active pharmaceutical ingredient (API) in our ethical products is already approved for other medical uses by the FDA and has a long history of safety for use in humans. This use of known APIs for novel uses and in novel formulations minimizes potential adverse concerns from the FDA, since considerable safety data on the API is available (either in the public domain or via license or other agreements with third parties holding such information). In similar fashion, our OTC products are based on established APIs and, when possible, utilize formulations (such as aerosol or cream formulations) that have an established precedent. (For more information on compliance issues, see "Federal Regulation of Therapeutic Products" below.) In this fashion, we believe that we can diminish the risk of regulatory bars to the introduction of safe, consumer-friendly products and minimize the time required to begin generating revenues from product sales. At the same time, we continue to develop higher-margin prescription pharmaceuticals and medical devices, which have longer development and regulatory approval cycles.

Over-the-Counter Pharmaceuticals

Our OTC products are designed to be safer and more specific than competing products. Our technologies offer practical solutions for a number of intractable maladies, using ingredients that have limited or no side effects compared with existing products. To develop our OTC products, we typically use compounds with potent antibacterial and antifungal activity as building blocks and combine these building blocks with anti-inflammatory and moisture-absorbing agents. Products with these properties can be used for treatment of a large number of

skin afflictions, including:

- hand irritation associated with use of disposable gloves
- eczema
- mild to moderate acne

Where appropriate, we have filed or will file patent applications and will seek other intellectual property protection to protect our unique formulations for relevant applications.

GloveAid

Personnel in many occupations and industries now use disposable gloves daily in the performance of their jobs, including:

- Airport security personnel;
- Food handling and preparation personnel;

- Sanitation workers;
- Postal and package delivery handlers and sorters;
- Laboratory researchers;
- Health care workers such as hospital and blood bank personnel; and
- Police, fire and emergency response personnel.

Accompanying the increased use of disposable gloves is a mounting incidence of chronic skin irritation. To address this market, we have developed GloveAid, a hand cream with both antiperspirant and antibacterial properties, to increase the comfort of users' hands during and after the wearing of disposable gloves. During 2003, we ran a pilot scale run at the manufacturer of GloveAid.

The chronic skin irritation that accompanies the long-term use of disposable gloves has been characterized as an allergic-like reaction to the glove materials. Currently, physicians treat the condition using steroids and other immunosuppressive therapies. To avoid possible regulatory bars, we are marketing GloveAid as a means to increase users' comfort, not as a long-term therapy for treatment of chronic skin irritation. However, as we obtain data regarding people who have existing chronic skin irritation, we may seek regulatory approval of GloveAid to permit us to market it as a therapy for chronic skin problems associated with wearing of disposable gloves. If we decide to obtain this regulatory approval, we anticipate that our projected sales of GloveAid would increase significantly. Obtaining this approval would require the completion of glove viability tests required by the United States Food and Drug Administration, which we refer to as the "FDA," and responding to the FDA's comments relating to these tests. We estimate regulatory approval would cost approximately $300,000 and would take from two to three years to obtain.

Pure-ific

Our Pure-ific line of products includes two quick-drying sprays, Pure-ific and Pure-ific Kids, that immediately kill up to 99.9% of germs on skin and prevent regrowth for 6 hours. We have determined the effectiveness of Pure-ific based on our internal testing and testing performed by Paratus Laboratories H.B., an independent research lab. Pure-ific products help prevent the spread of germs and thus complement our other OTC products designed to treat irritated skin or skin conditions such as acne, eczema, dandruff and fungal infections. Our Pure-ific sprays have been designed with convenience in mind and are targeted towards mothers, travelers, and anyone concerned about the spread of sickness-causing germs. During 2003 and 2004, we identified and engaged sales and brokerage forces for Pure-ific. We emphasized getting sales in independent

pharmacies and mass (chain store) markets. The supply chain for Pure-ific was established with the ability to support large-scale sales and a starting inventory was manufactured and stored in a contract warehouse/fulfillment center. In addition, a website for Pure-ific was developed with the ability for supporting on-line sales of the antibacterial hand spray. We intend to continue developing our distribution network for these products and expect to expand the Pure-ific product line to include additional applications.

Dermatology

A number of dermatological conditions, including psoriasis, eczema, and acne, result from a superficial infection which triggers an overwhelming immune response. We anticipate developing OTC products similar to the GloveAid line for the treatment of mild to moderate cases of psoriasis, eczema, and acne. Wherever possible, we intend to formulate these products to minimize or avoid significant regulatory bars that might adversely impact time to market.

Prescription Drugs

We are developing a number of prescription drugs which we expect will provide minimally invasive treatment of chronic severe skin afflictions such as psoriasis, eczema, and acne; and several life-threatening cancers such as those of the liver, breast and prostate. We believe that our products will be safer and more specific than currently existing products. Use of topical or other direct delivery formulations allows these potent products to be conveniently and effectively delivered only to diseased tissues, thereby enhancing both safety and effectiveness. The ease of use and superior performance of these products may eventually lead to extension into OTC applications currently serviced by

less safe, more expensive alternatives. All of these products are in the pre-clinical or clinical trial stage.

Dermatology

Our most advanced prescription drug candidate for treatment of topical diseases on the skin is Xantryl, a topical gel. PV-10, the active ingredient in Xantryl, is "photoactive": it reacts to light of certain wavelengths, increasing its therapeutic effects. PV-10 also concentrates in diseased or damaged tissue but quickly dissipates from healthy tissue. By developing a "photodynamic" treatment regimen (one which combines a photoactive substance with activation by a source emitting a particular wavelength of light) around these two properties of PV-10, we can deliver a higher therapeutic effect at lower dosages of active ingredient, thus minimizing potential side effects including damage to nearby healthy tissues. PV-10 is especially responsive to green light, which is strongly absorbed by the skin and thus only penetrates the body to a depth of about three to five millimeters. For this reason, we have developed Xantryl combined with green-light activation for topical use in surface applications where serious damage could result if medicinal effects were to occur in deeper tissues.

Acute psoriasis. Psoriasis is a common chronic disorder of the skin characterized by dry scaling patches, called "plaques," for which current treatments are few and those that are available have potentially serious side effects. According to Roenigk and Maibach (Psoriasis, Third Edition, 1998), there are approximately five million people in the United States who suffer from psoriasis, with an estimated 160,000 to 250,000 new psoriasis cases each year. There is no known cure for the disease at this time. According to the National Psoriasis Foundation, the majority of psoriasis sufferers, those with mild to moderate cases, are treated with topical steroids that can have unpleasant side

effects; none of the other treatments for moderate cases of psoriasis have proven completely effective. The 25-30% of psoriasis patients who suffer from more severe cases generally are treated with more intensive drug therapies or PUVA, a light-based therapy that combines the drug Psoralen with exposure to ultraviolet A light. While PUVA is one of the more effective treatments, it increases a patient's risk of skin cancer.

We believe that Xantryl activated with green light offers a superior treatment for acute psoriasis because it selectively treats diseased tissue with negligible potential for side effects in healthy tissue; moreover, the therapy has shown promise in comprehensive Phase 1 clinical trials. The objective of a Phase 1 clinical trial is to determine if there are safety concerns with the therapy. In these studies, involving more than 50 test subjects, Xantryl was applied topically to psoriatic plaques and then illuminated with green light. In our first study, a single-dose treatment yielded an average reduction in plaque thickness of 59% after 30 days, with further response noted at the final follow-up examination 90 days later. Further, no pain, significant side effects, or evidence of "rebound" (increased severity of a psoriatic plaque after the initial reduction in thickness) were observed in any treated areas. This degree of positive therapeutic response is comparable to that achieved with potent steroids and other anti-inflammatory agents, but without the serious side effects associated with such agents. We are continuing the required Food and Drug Administration reporting to support the active Investigational New Drug application for Xantryl's Phase 2 clinical trials on psoriasis. The required reporting includes the publication of results regarding the multiple treatment scenario of the active ingredient in Xantryl. We expect to conduct Phase 2 studies in the near future, in which we expect to assess the potential for remission of the disease using a regimen of weekly treatments similar to those used for PUVA.

Actinic Keratosis. According to Schwartz and Stoll (Fitzpatrick's Dermatology in General Medicine, 1999), actinic keratosis, or "AK" (also called solar keratosis or senile keratosis), is the most common pre-cancerous skin lesion among fair-skinned people and is estimated to occur in over 50% of elderly fair-skinned persons living in sunny climates. These experts note that nearly half of the approximately five million cases of skin cancer in the U.S. may have begun as AK. The standard treatments for AK (primarily comprising excision, cryotherapy, and ablation with topical 5-fluorouracil) are often painful and frequently yield unacceptable cosmetic outcomes due to scarring. Building on our experience with psoriasis, we are assessing use of Xantryl with

green-light activation as a possible improvement in treatment of early and more advanced stages of AK. We completed an initial Phase 1 clinical trial of the therapy for this indication in 2001 with the predecessor company that was acquired in 2002. This study, involving 24 subjects, examined the safety profile of a single treatment using topical Xantryl with green light photoactivation; no significant safety concerns were identified. We are assessing the data from the study as a possible basis for further clinical development of Xantryl for AK.

Severe Acne. According to Berson et al. (Cutis. 72 (2003) 5-13), acne vulgaris affects approximately 17 million individuals in the U.S., causing pain, disfigurement, and social isolation. Moderate to severe forms of the disease have proven responsive to several photodynamic regimens, and we anticipate that Xantryl can be used as an advanced treatment for this disease. Pre-clinical studies show that the active ingredient in Xantryl readily kills bacteria associated with acne. This finding, coupled with our clinical experience in psoriasis and actinic keratosis, suggests that therapy with Xantryl will exhibit no significant side effects and will afford improved performance relative to other therapeutic alternatives. If correct, this would be a major advance over

currently available products for severe acne.

As noted above, we are researching multiple uses for Xantryl with green-light activation. Multiple-indication use by a common pool of physicians - dermatologists, in this case - should reduce market resistance to this new therapy.

Oncology

Oncology is another major market where our planned products may afford competitive advantage compared to currently available options. We are developing Provecta, a sterile injectible form of PV-10, for direct injection into tumors. Because PV-10 is retained in diseased or damaged tissue but quickly dissipates from healthy tissue, we believe we can develop therapies that confine treatment to cancerous tissue and reduce collateral impact on healthy tissue. During 2003 and 2004, we have been working toward completion of the extensive scientific and medical materials necessary for filing an Investigational New Drug (IND) application for Provecta in anticipation of beginning Phase 1 clinical trials for breast and liver cancer. This IND was filed and cleared by the RDA in 2004 and sets the stage for Phase 1 clinical trials.

Liver Cancer. The current standard of care for liver cancer is ablative therapy (which seeks to reduce a tumor by poisoning, freezing, heating, or irradiating it) using either a localized injection of ethanol (alcohol), cryosurgery, radiofrequency ablation, or ionizing radiation such as X-rays. Where effective, these therapies have many side effects; selecting therapies with fewer side effects tends to reduce overall effectiveness. Combined, ablative therapies have a five-year survival rate of 33% - meaning that only 33% of those liver cancer patients whose cancers are treated using these therapies survive for five years after their initial diagnoses. In pre-clinical studies we have found that direct injection of Provecta into liver tumors quickly ablates treated tumors, and can trigger an anti-tumor immune response leading to eradication of residual tumor tissue and distant tumors. Because of the natural regenerative properties of the liver and the highly localized nature of the treatment, this approach appears to produce no significant side effects. Based on these encouraging preclinical results, we are assessing strategies for initiation of clinical trials of Provecta for treatment of liver cancer.

Breast Cancer. Breast cancer afflicts over 200,000 U.S. citizens annually, leading to over 40,000 deaths. Surgical resection, chemotherapy, radiation therapy, and immunotherapy comprise the standard treatments for the majority of cases, resulting in serious side effects that in many cases are permanent. Moreover, current treatments are relatively ineffective against metastases, which in many cases are the eventual cause of patient mortality. Pre-clinical studies using human breast tumors implanted in mice have shown that direct injection of Provecta into these tumors ablates the tumors, and, as in the case of liver tumors, may elicit an anti-tumor immune response that eradicates distant metastases. Since fine-needle biopsy is a routine procedure for diagnosis of breast cancer, and since the needle used to conduct the biopsy also could be used to direct an injection of Provecta into the tumor, localized destruction of suspected tumors through direct injection of Provecta clearly has the potential of becoming a primary treatment. We are evaluating options for initiating clinical studies of direct injection of Provecta into breast tumors, and expect to formulate final plans based on results from clinical studies of

our indication for Provecta in liver cancer.

Prostate Cancer. Cancer of the prostate afflicts approximately 190,000 U.S. men annually, leading to over 30,000 deaths. As with breast cancer, surgical resection, chemotherapy, radiation therapy, and immunotherapy comprise the

standard treatments for the majority of cases, and can result in serious, permanent side effects. We believe that direct injection of Provecta into prostate tumors may selectively ablate such tumors, and, as in the case of liver and breast tumors, may also elicit an anti-tumor immune response capable of eradicating distant metastases. Since trans-urethral ultrasound, guided fine-needle biopsy and immunotherapy, along with brachytherapy implantation, are becoming routine procedures for diagnosis and treatment of these cancers, we believe that localized destruction of suspected tumors through direct injection of Provecta can become a primary treatment. We are evaluating options for initiating clinical studies of direct injection of Provecta into prostate tumors, and expect to formulate final plans based on results from clinical studies of our indications for Provecta in the treatment of liver and breast cancer.

Medical Devices

We are developing medical devices to address two major markets:

- cosmetic treatments, such as reduction of wrinkles and elimination of spider veins and other cosmetic blemishes; and
- therapeutic uses, including photoactivation of Xantryl other prescription drugs and non-surgical destruction of certain skin cancers.

We expect to develop medical devices through partnerships with third-party device manufacturers or, if appropriate opportunities arise, through acquisition of one or more device manufacturers.

Photoactivation. Our clinical tests of Xantryl for dermatology have, up to the present, utilized a number of commercially available lasers for activation of the drug. This approach has several advantages, including the leveraging of an extensive base of installed devices present throughout the pool of potential physician-adopters for Xantryl; access to such a base could play an integral role in early market capture. However, since the use of such lasers, which were designed for occasional use in other types of dermatologic treatment, is potentially too cumbersome and costly for routine treatment of the large population of patients with psoriasis, we have begun investigating potential use of other types of photoactivation hardware, such as light booths. The use of such booths is consistent with current care standards in the dermatology field, and may provide a cost-effective means for addressing the needs of patients and physicians alike. We anticipate that such photoactivation hardware would be developed, manufactured, and supported in conjunction with one or more third-party device manufacturer.

Melanoma. A high priority in our medical devices field is the development of a laser-based product for treatment of melanoma. We continue to conduct extensive research on ocular melanoma at the Massachusetts Eye and Ear Infirmary (a teaching affiliate of Harvard Medical School) using a new laser treatment that may offer significant advantage over current treatment options. A single quick non-invasive treatment of ocular melanoma tumors in a rabbit model resulted in elimination of over 90% of tumors, and may afford significant advantage over invasive alternatives, such as surgical excision, enucleation, or radiotherapy implantation. Ocular melanoma is rare, with approximately 2,000 new cases annually in the U.S. However, we believed that our extremely successful results could be extrapolated to treatment of primary melanomas of the skin, which have an incidence of over 52,000 new cases annually in the U.S. and a 13% five-year survival rate after metastasis of the tumor. We have performed similar laser treatments on large (averaging approximately 3 millimeters thick) cutaneous melanoma tumors implanted in mice, and have been able to eradicate over 90% of these pigmented skin tumors with a single treatment. Moreover, we have shown that this treatment stimulates an anti-tumor immune response that may lead to improved outcome at both the treatment site and at sites of distant metastasis. From these results, we believe that a device for laser treatment of

primary melanomas of the skin and eye is nearly ready for human studies. We anticipate partnering with a medical device manufacturer to bring it to market

in reliance on a 510(k) notification. For more information about the 510(k) notification process, see "Federal Regulation of Therapeutic Products" below.

Research and Development

We continue to actively develop projects that are product directed and are attempting to conserve available capital and achieve full capitalization of our company through equity and convertible debt offerings, generation of product revenues, and other means. All ongoing research and development activities are directed toward supporting our OTC product launches, our current product development and maintaining our intellectual property portfolio.

Production

We have determined that the most efficient use of our capital in producing OTC products is to contract production with experienced entities having previous success in economically producing such products. We have ongoing relationships with two OTC product manufacturers, EXAL, Inc. and 220 Laboratories, Inc., and several other OTC service vendors that will manufacture, package, warehouse and ship our OTC products. We do not have written agreements with any of our manufacturers or vendors.

Sales

Our first commercially available products are directed into the OTC market, as these products pose minimal or no regulatory compliance barriers to market introduction. In this fashion, we believe that we can diminish the risk of regulatory bars to the introduction of products and minimize the time required to begin generating revenues from product sales. At the same time, we continue to develop higher-margin prescription pharmaceuticals and medical devices, which have longer development and regulatory approval cycles.

We are commencing limited sales of Pure-ific, our antibacterial hand spray. We sold small amounts of this product during 2004. We will continue to seek additional markets for our products through existing distributorships that market and distribute medical products, ethical pharmaceuticals, and OTC products for the professional and consumer marketplaces.

In addition to developing and selling products ourselves, we are negotiating actively with a number of potential licensees for several of our intellectual properties, including patents and related technologies. To date, we have not yet entered into any licensing agreements; however, we anticipate consummating one or more such licenses in the future.

Intellectual Property

Patents

We hold a number of U.S. patents covering the technologies we have developed and are continuing to develop for the production of prescription drugs, medical devices and OTC pharmaceuticals, including those identified in the following table:

U.S. Patent No.	Title	Issue Date	E
5,829,448	Method for improved selectivity in photo-activation of molecular agents	November 3, 1998	Oc
5,832,931	Method for improved selectivity in photo-activation and detection of molecular diagnostic agents	November 10, 1998	Oc
5,998,597	Method for improved selectivity in photo-activation of molecular agents	December 7, 1999	Oc

U.S. Patent No.	Title	Issue Date	Ex
6,042,603	Method for improved selectivity in photo-activation of molecular agents	March 28, 2000	Oc
6,331,286	Methods for high energy phototherapeutics	December 18, 2001	De
6,451,597	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	September 17, 2002	Ap
6,468,777	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	October 22, 2002	Ap
6,493,570	Method for improved imaging and photodynamic therapy	December 10, 2002	De
6,495,360	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	December 17, 2002	Ap
6,519,076	Methods and apparatus for optical imaging	February 11, 2003	Oc
6,525,862	Methods and apparatus for optical imaging	February 25, 2003	Oc
6,541,223	Method for enhanced protein stabilization and for production of cell lines useful for production of such stabilized proteins	April 1, 2003	Ap

We continue to pursue patent applications on numerous other developments we believe to be patentable. We consider our issued patents, our pending patent applications and any patentable inventions which we may develop to be extremely valuable assets of our business.

Trademarks

We own the following trademarks used in this document: Xantryl(TM), Provecta(TM), GloveAid(TM), and Pure-ific(TM) (including Pure-ific(TM) and

Pure-ific(TM) Kids). We also own the registered trademark PulseView(R). Trademark rights are perpetual provided that we continue to keep the mark in use. We consider these marks, and the associated name recognition, to be valuable to our business.

Material Transfer Agreement

We have entered into a Material Transfer Agreement dated as of July 31, 2003 with Schering-Plough Animal Health Corporation, which we refer to as "SPAH", the animal-health subsidiary of Schering-Plough Corporation, a major international pharmaceutical company. We refer to this agreement in this report as the "Material Transfer Agreement." Under the Material Transfer Agreement, we will provide SPAH with access to some of our patented technologies to permit SPAH to evaluate those technologies for use in animal-health applications. If SPAH determines that it can commercialize our technologies, then the Material Transfer Agreement obligates us and SPAH to enter into a license agreement providing for us to license those technologies to SPAH in exchange for progress payments upon the achievement of goals. The Material Transfer Agreement covers four U.S. patents that cover biological material manufacturing technologies (i.e., biotech related). The Material Transfer Agreement continues indefinitely, unless SPAH terminates it by giving us notice or determines that it does not wish to secure from us a license for our technologies. The Material Transfer Agreement can also be terminated by either of us in the event the other party breaches the agreement and does not cure the breach within 30 days of notice from the other party. We can give you no assurance that SPAH will determine that it can commercialize our technologies or that the goals required for us to obtain progress payments from SPAH will be achieved.

Competition

In general, the pharmaceutical industry is intensely competitive, characterized by rapid advances in products and technology. A number of companies have developed and continue to develop products that address the areas we have targeted. Some of these companies are major pharmaceutical companies that are international in scope and very large in size, while others are niche players that may be less familiar but have been successful in one or more areas we are targeting. Existing or future pharmaceutical, device, or other competitors may develop products that accomplish similar functions to our technologies in ways that are less expensive, receive faster regulatory approval, or receive greater market acceptance than our products. Many of our competitors have been in existence for considerably longer than we have, have greater capital resources, broader internal structure for research, development, manufacturing and marketing, and are in many ways further along in their respective product cycles.

At present, our most direct competitors are smaller companies that are exploiting niches similar to ours. In the field of photodynamic therapy, one competitor, QLT, Inc., has received FDA approval for use of its agent Photofrin(R) for treatment of several niche cancer indications, and has a second product, Visudyne(R), approved for treatment of certain forms of macular degeneration. Another competitor in this field, Dusa Pharmaceuticals, Inc. recently received FDA approval of its photodynamic product Levulan(R) Kerastik(R) for treatment of actinic keratosis. We believe that QLT and Dusa, among other competitors, have established a working commercial model in dermatology and oncology, and that we can benefit from this model by offering products that, when compared to our competitors' products, afford superior safety and performance, greatly reduced side effects, improved ease of use, and lower cost, compared to those of our competitors.

While it is possible that eventually we may compete directly with major pharmaceutical companies, we believe it is more likely that we will enter into joint development, marketing, or other licensure arrangements with such competitors.

We also have a number of market areas in common with traditional skincare cosmetics companies, but in contrast to these companies, our products are based on unique, proprietary formulations and approaches. For example, we are unaware of any products in our targeted OTC skincare markets that our similar to our GloveAid and Pure-ific products. Further, proprietary protection of our products may help limit or prevent market erosion until our patents expire. Federal Regulation of Therapeutic Products

All of the prescription drugs and medical devices we currently contemplate developing will require approval by the FDA prior to sales within the United States and by comparable foreign agencies prior to sales outside the United States. The FDA and comparable regulatory agencies impose substantial requirements on the manufacturing and marketing of pharmaceutical products and medical devices. These agencies and other entities extensively regulate, among other things, research and development activities and the testing, manufacturing, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of our proposed products. While we attempt to minimize and avoid significant regulatory bars when formulating our products, some degree of regulation from these regulatory agencies is unavoidable. Some of the things we do to attempt to minimize and avoid significant regulatory bars include the following:

- Using chemicals and combinations already allowed by the FDA;
- Carefully making product performance claims to avoid the need for regulatory approval;
- Using drugs that have been previously approved by the FDA and that have a long history of safe use;
- Using chemical compounds with known safety profiles; and

- In many cases, developing OTC products which face less regulation than prescription pharmaceutical products.

The regulatory process required by the FDA, through which our drug or device products must pass successfully before they may be marketed in the U.S., generally involves the following:

- Preclinical laboratory and animal testing;
- Submission of an application that must become effective before clinical trials may begin;
- Adequate and well-controlled human clinical trials to establish the safety and efficacy of the product for its intended indication; and
- FDA approval of the application to market a given product for a given indication.

For pharmaceutical products, preclinical tests include laboratory evaluation of the product, its chemistry, formulation and stability, as well as animal studies to assess the potential safety and efficacy of the product. Where

appropriate (for example, for human disease indications for which there exist inadequate animal models), we will attempt to obtain preliminary data concerning safety and efficacy of proposed products using carefully designed human pilot studies. We will require sponsored work to be conducted in compliance with pertinent local and international regulatory requirements, including those providing for Institutional Review Board approval, national governing agency approval and patient informed consent, using protocols consistent with ethical principles stated in the Declaration of Helsinki and other internationally recognized standards. We expect any pilot studies to be conducted outside the United States; but if any are conducted in the United States, they will comply with applicable FDA regulations. Data obtained through pilot studies will allow us to make more informed decisions concerning possible expansion into traditional FDA-regulated clinical trials.

If the FDA is satisfied with the results and data from preclinical tests, it will authorize human clinical trials. Human clinical trials typically are conducted in three sequential phases which may overlap. Each of the three phases involves testing and study of specific aspects of the effects of the pharmaceutical on human subjects, including testing for safety, dosage tolerance, side effects, absorption, metabolism, distribution, excretion and clinical efficacy.

Phase 1 clinical trials include the initial introduction of an investigational new drug into humans. These studies are closely monitored and may be conducted in patients, but are usually conducted in healthy volunteer subjects. These studies are designed to determine the metabolic and pharmacologic actions of the drug in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence on effectiveness. While the FDA can cause us to end clinical trials at any phase due to safety concerns, Phase 1 clinical trials are primarily concerned with safety issues. We also attempt to obtain sufficient information about the drug's pharmacokinetics and pharmacological effects during Phase 1 clinical trial to permit the design of well-controlled, scientifically valid, Phase 2 studies.

Phase 1 studies also evaluate drug metabolism, structure-activity relationships, and the mechanism of action in humans. These studies also determine which investigational drugs are used as research tools to explore biological phenomena or disease processes. The total number of subjects included in Phase 1 studies varies with the drug, but is generally in the range of twenty to eighty.

Phase 2 clinical trials include the early controlled clinical studies conducted to obtain some preliminary data on the effectiveness of the drug for a particular indication or indications in patients with the disease or condition. This phase of testing also helps determine the common short-term side effects and risks associated with the drug. Phase 2 studies are typically well-controlled, closely monitored, and conducted in a relatively small number of patients, usually involving several hundred people.

Phase 3 studies are expanded controlled and uncontrolled trials. They are

performed after preliminary evidence suggesting effectiveness of the drug has been obtained in Phase 2, and are intended to gather the additional information about effectiveness and safety that is needed to evaluate the overall benefit-risk relationship of the drug. Phase 3 studies also provide an adequate basis for extrapolating the results to the general population and transmitting that information in the physician labeling. Phase 3 studies usually include several hundred to several thousand people.

Applicable medical devices can be cleared for commercial distribution through a notification to the FDA under Section 510(k) of the applicable statute. The 510(k) notification must demonstrate to the FDA that the device is as safe and effective and substantially equivalent to a legally marketed or classified device that is currently in interstate commerce. Such devices may not require detailed testing. Certain high-risk devices that sustain human life, are of substantial importance in preventing impairment of human health, or that present a potential unreasonable risk of illness or injury, are subject to a more comprehensive FDA approval process initiated by filing a premarket approval, also known as a "PMA," application (for devices) or accelerated approval (for drugs).

We have established a core clinical development team and have been working with outside FDA consultants to assist us in developing product-specific development and approval strategies, preparing the required submittals, guiding us through the regulatory process, and providing input to the design and site selection of human clinical studies. Historically, obtaining FDA approval for photodynamic therapies has been a challenge. Wherever possible, we intend to utilize lasers or other activating systems that have been previously approved by the FDA to mitigate the risk that our therapies will not be approved by the FDA. The FDA has considerable experience with lasers by virtue of having reviewed and acted upon many 510(k) and premarket approval filings submitted to it for various photodynamic and non-photodynamic therapy laser applications, including a large number of cosmetic laser treatment systems used by dermatologists.

The testing and approval process requires substantial time, effort, and financial resources, and we may not obtain FDA approval on a timely basis, if at all. Success in preclinical or early-stage clinical trials does not assure success in later stage clinical trials. The FDA or the research institution sponsoring the trials may suspend clinical trials or may not permit trials to advance from one phase to another at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Once issued, the FDA may withdraw a product approval if we do not comply with pertinent regulatory requirements and standards or if problems occur after the product reaches the market. If the FDA grants approval of a product, the approval may impose limitations, including limits on the indicated uses for which we may market a product. In addition, the FDA may require additional testing and surveillance programs to monitor the safety and/or effectiveness of approved products that have been commercialized, and the agency has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs. Further, later discovery of previously unknown problems with a product may result in restrictions on the product, including its withdrawal from the market.

Marketing our products abroad will require similar regulatory approvals by equivalent national authorities and is subject to similar risks. To expedite development, we may pursue some or all of our initial clinical testing and approval activities outside the United States, and in particular in those nations where our products may have substantial medical and commercial relevance. In some such cases any resulting products may be brought to the U.S. after substantial offshore experience is gained. Accordingly, we intend to pursue any such development in a manner consistent with U.S. standards so that the resultant development data is maximally applicable for potential FDA approval.

OTC products are subject to regulation by the FDA and similar regulatory agencies but the regulations relating to these products are much less stringent than those relating to prescription drugs and medical devices. The types of OTC products developed and sold by us only require that we follow cosmetic rules relating to labeling and the claims that we make about our product. The process for obtaining approval of prescription drugs with the FDA does not apply to the OTC products which we sell. The FDA can, however, require us to stop selling our

product if we fail to comply with the rules applicable to our OTC products.

Personnel

Executive Officers

As of March 17, 2005, our executive officers are:

H. Craig Dees, Ph.D., 53, Chief Executive Officer. Dr. Dees has served as our Chief Executive Officer and as a member of our Board of Directors since we acquired PPI 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 the 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 (ORNL), 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 Ingelhem GmbH, an international chemical and pharmaceutical company headquartered in Germany. He has developed numerous products in a broad range of areas, including ethical vaccines, human diagnostics, cosmetics and OTC pharmaceuticals, and has set several regulatory precedents in licensing and developing biotechnology-derived products. For example, Dr. Dees developed and commercialized the world's first live viral vaccine produced by recombinant DNA technologies and licensed the first recombinant antigen human diagnostic assay using a FDA Class II licensure. While at TechAmerica he developed and obtained USDA approval for the first in vitro assay for releasing "killed" viral vaccines. Dr. Dees also has licensed successfully a number of proprietary cosmetic products and formulated strategic planning for developing cosmetic companies. He earned a Ph.D. in Molecular Virology from the University of Wisconsin - Madison in 1984.

Timothy C. Scott, Ph.D., 47, President. Dr. Scott 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 ORNL. Dr. Scott has been involved in developing numerous high-tech innovations in a broad range of areas, including separations science, biotechnology, biomedical, and advanced materials. He has licensed several of his innovations to the oil and gas and biotechnology industries. As Director of the Bioprocessing R&D Center at ORNL, Dr. Scott achieved a national presence in the area of use of advanced biotechnology for the production of energy, fuels, and chemicals. He earned a Ph.D. in Chemical Engineering from the University of Wisconsin - Madison in 1985.

Eric A. Wachter, Ph.D., 42, Vice President - Pharmaceuticals. Dr. Wachter has served as our 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 ORNL. Starting during his affiliation with Photogen, Dr. Wachter has been extensively involved in pre-clinical development and clinical testing of pharmaceuticals and medical device systems, as well as with coordination and filing of patents. He earned a Ph.D. in Chemistry from the University of Wisconsin - Madison in 1988.

Peter R. Culpepper, CPA, MBA, 45, Chief Financial Officer. Mr. Culpepper was appointed to serve as our Chief Financial Officer in February 2004. Previously, Mr. Culpepper served as Chief Financial Officer for Felix Culpepper International, Inc. from 2001 to 2004; was a Registered Representative with AXA Advisors, LLC from 2002 to 2003; has served as Chief Accounting Officer and Corporate Controller for Neptec, Inc. from 2000 to 2001; has served in various Senior Director positions with Metromedia Affiliated Companies from 1998 to 2000; has served in various Senior Director and other financial positions with Paging Network, Inc. from 1993 to 1998; and has served in a variety of financial roles in public accounting and industry from 1982 to 1993. He earned an MBA in Finance from the University of Maryland - College Park in 1992. He earned an

undergraduate degree from the College of William and Mary - Williamsburg, Virginia in 1982. He is a licensed Certified Public Accountant in both Tennessee and Maryland and is a faculty member with the University of Phoenix.

Employees

We currently employ four persons, all of whom are full-time employees.

Available Information

Provectus Pharmaceuticals, Inc. is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the "Exchange Act." To comply with those requirements, we file annual reports, quarterly reports, periodic reports and other reports and statements with the Securities and Exchange Commission, which we refer to as the "SEC." You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room, at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov, from which you can access electronic copies of materials we file with the SEC.

Our Internet address is http://www.pvct.com. We have made available, through a link to the SEC's Web site, electronic copies of the materials we file with the SEC (including our annual reports on Form 10-KSB, our quarterly reports on Form 10-QSB, our current reports on Form 8-K, the Section 16 reports filed by our executive officers, directors and 10% shareholders and amendments to those reports). To receive paper copies of our SEC materials, please contact us by U.S. mail, telephone, facsimile or electronic mail at the following address:

Provectus Pharmaceuticals, Inc.
Attention: President
7327 Oak Ridge Highway, Suite A
Knoxville, TN 37931
Telephone: 865/769-4011
Facsimile: 865/769-4013
Electronic mail: info@pvct.com

Item 2. Description of Property.

We currently lease approximately 4,000 square feet of space outside of Knoxville, Tennessee for our corporate office and operations. Our monthly rental charge for these offices is approximately $2,800 per month, and the lease is renewed on a month-to-month basis. We believe that these offices generally are adequate for our needs currently and in the immediate future.

Item 3. Legal Proceedings.

From time to time, we are party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. At present, 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.

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

During the three months ended December 31, 2004, we did not submit any matters to a vote of our stockholders.

Part II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market Information and Holders

Quotations for our common stock are reported on the OTC Bulletin Board under the symbol "PVCT." The following table sets forth the range of high and low bid information for the periods indicated since January 1, 2002:

	High	Low
2003		
First Quarter (January 1 to March 31)	$0.60	$0.26
Second Quarter (April 1 to June 30)	$1.01	$0.21
Third Quarter (July 1 to September 30)	$0.60	$0.20
Fourth Quarter (October 1 to December 31)	$2.00	$0.22
2004		
First Quarter (January 1 to March 31)	$1.70	$0.80
Second Quarter (April 1 to June 30)	$1.51	$0.85
Third Quarter (July 1 to September 30)	$1.68	$0.52
Fourth Quarter (October 1 to December 31)	$0.82	$0.47

The closing price for our common stock on March 17, 2005 was $0.97. High and low quotation information was obtained from data provided by Yahoo! Inc. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not reflect actual transactions.

As of March 17, 2005, we had 1,822 shareholders of record of our common stock.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently plan to retain future earnings, if any, to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. We may incur indebtedness in the future which may prohibit or effectively restrict the payment of dividends, although we have no

current plans to do so. Any future determination to pay cash dividends will be at the discretion of our board of directors.

Recent Sales of Unregistered Securities

During the year ended December 31, 2004, we did not sell any securities which were not registered under the Securities Act of 1933, as amended, which we refer to as the "Securities Act," except on November 16, 2004, the Company completed a private placement transaction with 14 accredited investors, pursuant to which we sold 530,166 shares of our common stock at a purchase price of $0.75 per share, for an aggregate purchase price of $397,625 pursuant to Securities Purchase Agreements with each investor. In connection with the sale of the common stock, we also issued warrants (the "Warrants") to the investors to purchase up to 795,249 shares of our common stock at an exercise price of $1.00 per share. We paid $39764 to Venture Catalyst, LLC as placement agent for this transaction. We believe that this offering was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") by reason of Rule 506

of Regulation D and Section 4(2) of the Securities Act, based upon the fact that the offer and issuance of the common stock and warrants satisfied all the terms and conditions of Rules 501 and 502 of the Securities Act, the investors are financially sophisticated and had access to complete information concerning us and acquired the securities for investment and not with a view to the distribution thereof. Proceeds will be used for general corporate purposes.

Pursuant to an agreement dated November 26, 2004 between us and Gryffindor, we issued Gryffindor a Second Amended and Restated Senior Secured Convertible Note dated November 26, 2004 in the amended principal amount of $1,185,959. The amended note bears interest at 8% per annum, payable quarterly in arrears, is due and payable in full on November 26, 2005, and amends and restated the amended note in its entirety. As with the prior notes, our obligations under the amended note are secured by a first priority security interest in all of our assets, including the assets held by our Xantech and Pure-ific subsidiaries. Subject to certain exceptions, the amended note is convertible into shares of our common stock beginning on the November 26, 2004; the principal amount of the note is convertible at the rate of one share of common stock for each $0.73655655 of principal converted, while accrued but unpaid interest on the note is convertible at the rate of one share of common stock for each $0.55 of accrued but unpaid interest converted. We relied on an exemption from registration pursuant to Section 4(2) of the Securities Act, based on the issuance of the amended note, and the issuance of the shares of common stock issuable upon conversion of the amended note, to a limited number of purchasers in a transaction not involving any general solicitation or general advertising.

Item 6. Management's Discussion and Analysis or Plan of Operation.

The following discussion is intended to assist in the understanding and assessment of significant changes and trends related to our results of operations and our financial condition together with our consolidated subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-KSB. Historical results and percentage relationships set forth in the statement of operations, including trends which might appear, are not necessarily indicative of future operations.

CAPITAL STRUCTURE

Our ability to continue as a going concern has become reasonably assured due to our financing in June, July, and November 2004, as well as March 2005. However, our ongoing operations continue to be dependent upon our ability to raise capital.

We plan to implement our integrated business plan, including execution of the next phases in clinical development of our pharmaceutical products and full resumption of research programs for new research initiatives.

We intend to proceed as rapidly as possible with the development of OTC products that can be sold with a minimum of regulatory compliance and with the further development of revenue sources through licensing of our existing intellectual property portfolio. Although we believe that there is a reasonable basis for our expectation that we will become profitable due to revenues from OTC product sales, we cannot assure you that we will be able to achieve, or maintain, a level of profitability sufficient to meet our operating expenses.

Our current plans include continuing to operate with our four employees during the immediate future, but we anticipate adding some part-time employees during the next year. Our current plans also include minimal purchases of new property, plant and equipment, and significantly increased research and development.

PLAN OF OPERATION

With the reorganization of Provectus and PPI and the acquisition and integration into the company of Valley and Pure-ific, we believe we have obtained a unique combination of OTC products and core intellectual properties. This combination represents the foundation for an operating company that we believe will provide both profitability and long-term growth. In 2005, through careful control of expenditures, increasing sales of OTC products, and issuance of debt and equity, we plan to build on that foundation to increase shareholder value.

In the short term, we intend to develop our business by marketing, manufacturing, and distributing our existing OTC products, principally GloveAid and Pure-ific. In the longer term, we expect to continue the process of developing, testing and obtaining the approval of the U. S. Food and Drug Administration of prescription drugs and medical devices. Additionally, we intend to restart our research programs that will identify additional conditions that our intellectual properties may be used to treat and additional treatments for those and other conditions.

We are in the planning phase for the major research and development projects, and therefore do not have estimated completion dates, completion costs and capital requirements for these projects. The reason we do not have this information available is because we have not completed our planning process. Since there is no defined schedule for completing these development projects, there are no defined consequences if they are not completed timely. Research and development costs comprising the total of $1,291,817 for 2004 included depreciation expense of $121,811, consulting of $493,305, lab expense of $10,958, insurance of $74,059, legal expense of $127,775, office and other expense of $3,751, payroll of $431,068, rent and utilities of $20,533, and taxes and fees of $8,557. The research and development costs comprising a total of $724,924 for 2003 included depreciation expense of $218,082 ($10,233 of depreciation expense is recorded in general and administrative), consulting of $49,198, lab expense of $12,800, insurance of $10,153, legal expense of $130,271, office and other expense of $2,008, payroll of $252,042, rent and utilities of $38,057, and taxes and fees of $12,313.

CASH FLOW

As of March 30, 2005, we held approximately $1,600,000 in cash in escrow for our benefit. We anticipate these funds will be released from the escrow shortly. At our current cash expenditure rate, this amount will be sufficient to meet our needs for the forseeable future. We already have begun to increase our expenditure rate by accelerating some of our research programs for new research initiatives; in addition, we are seeking to improve our cash flow by increasing sales of OTC products. However, we cannot assure you that we will be successful in increasing sales of OTC products. Moreover, even if we are successful in improving our current cash flow position, we nonetheless will require additional funds to meet our long-term needs. We anticipate these funds will come from the proceeds of private placements or public offerings of debt or equity securities.

CAPITAL RESOURCES

As noted above, our present cash flow is currently sufficient to meet our short-term operating needs for initial production and distribution of OTC products in order to achieve meaningful sales volumes. Excess cash will be used to finance the next phases in clinical development of our pharmaceutical products and resumption of our currently suspended research programs. We anticipate that the majority of the funds for our operating and development needs in 2005 will come from the proceeds of private placements or public offerings of debt or equity securities. While we believe that we have a reasonable basis for our expectation that we will be able to raise additional funds, we cannot assure you that we will be able to complete additional financing in a timely manner. In addition, any such financing may result in significant dilution to shareholders. For further information on funding sources, please see the notes to our financial statements included in this report.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Shared-Based Payment," which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. This revised standard will be effective for us beginning with the third quarter in 2005.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB 25 intrinsic value method and, as such, generally recognizes no compensation cost for Employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on the result of operations, although it will have no impact on the overall financial position. The impact of the modified prospective adoption of SFAS No. 123(R) cannot be estimated at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs: an amendment of ARB No. 43, Chapter 4," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151

is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the provisions of SFAS No. 151, when applied, will have a material impact on the finanical position or results of operations.

Item 7. Financial Statements.

Our consolidated financial statements, together with the report thereon of BDO Seidman LLP, independent accountants, are set forth on the pages of this Annual Report on Form 10-KSB indicated below.

Forward-Looking Statements

This Annual Report on Form 10-KSB contains forward-looking statements regarding, among other things, our anticipated financial and operating results. Forward-looking statements reflect our management's current assumptions, beliefs, and expectations. Words such as "anticipate," "believe, "estimate," "expect," "intend," "plan," and similar expressions are intended to identify forward-looking statements. While we believe that the expectations reflected in our forward-looking statements are reasonable, we can give no assurance that such expectations will prove correct. Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from the future results, performance, or achievements expressed in or implied by any forward-looking statement we make. Some of the relevant risks and uncertainties that could cause our actual performance to differ materially from the forward-looking statements contained in this report are discussed below under the heading "Risk Factors" and elsewhere in this Annual Report on Form 10-KSB. We caution investors that these discussions of important risks and uncertainties are not exclusive, and our business may be subject to other risks and uncertainties which are not detailed there.

Investors are cautioned not to place undue reliance on our forward-looking statements. We make forward-looking statements as of the date on which this Annual Report on Form 10-KSB is filed with the SEC, and we assume no obligation to update the forward-looking statements after the date hereof whether as a result of new information or events, changed circumstances, or otherwise, except as required by law.

Risk Factors

Our business is subject to various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this Annual Report on Form 10-KSB. Any of these risks could materially adversely affect our business, operating results and financial condition:

Our technologies are in early stages of development. We have generated minimal initial revenues from sales and operations in 2004, but we do not expect to generate sufficient revenues to enable us to be profitable for several calendar quarters. We require additional funding to continue initial production and distribution of OTC products in order to achieve meaningful sales volumes. In addition, we must raise substantial additional funds in order to fully

implement our integrated business plan, including execution of the next phases in clinical development of our pharmaceutical products and resumption of research programs currently suspended. We estimate that our existing capital resources will be sufficient to fund our current and planned operations.

Ultimately, we must achieve profitable operations if we are to be a viable entity. We intend to proceed as rapidly as possible with the development of OTC products that can be sold with a minimum of regulatory compliance and with the development of revenue sources through licensing of our existing intellectual property portfolio. We cannot assure you that we will be able to raise sufficient capital to sustain operations before we can commence revenue generation or that we will be able to achieve, or maintain, a level of profitability sufficient to meet our operating expenses.

Because of our limited operations and the fact that we are currently generating limited revenue, we may be unable to pay our debts when they become due.

As of December 31, 2004, we had $2,084,959 in debt, net of a debt discount of $411,210 and $43,671 of accrued interest on our balance sheet, consisting of $1,185,959 in principal and $9,224 in accrued but unpaid interest owed to Gryffindor pursuant to the Note; $750,000 in principal and $19,011 in accrued interest owed to the holders of our debentures which has been authorized to be paid on March 30, 2005 and $149,000 in principal and $15,436 in accrued interest owed to Dr. Wachter. The amounts due to Gryffindor are due in November 2005, the amounts due in equal installments to the holders of our debentures are due in July and October 2007, and the amounts due to Dr. Wachter are due in 2009. Because of the convertible nature of the debt owed to Gryffindor and to the holders of the convertible debentures, we may not have to repay this debt if the debt is converted into shares of our common stock. However, we can not assure you that this debt will be converted into common stock and we may have to repay this indebtedness. Our ability to satisfy our current debt service obligations and any additional obligations we might incur will depend upon our future financial and operating performance, which, in turn, is subject to prevailing economic conditions and financial, business, competitive, legislative and regulatory factors, many of which are beyond our control. We cannot assure you that our operating results, cash flow and capital resources will be sufficient for payment of our debt service and other obligations in the future.

We will need additional capital to conduct our operations and develop our products, and our ability to obtain the necessary funding is uncertain.

We estimate that our existing capital resources will be sufficient to fund our current and planned operations; however, we may need additional capital. We have based this estimate on assumptions that may prove to be wrong, and we cannot assure that estimates and assumptions will remain unchanged. For example, we are currently assuming that we will continue to operate without any significant staff or other resources expansion. We intend to acquire additional funding through public or private equity financings or other financing sources that may be available. Additional financing may not be available on acceptable terms, or at all. As discussed in more detail below, additional equity financing could result in significant dilution to shareholders. Further, in the event that

additional funds are obtained through licensing or other arrangements, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize ourselves. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our programs, any of which could have a material adverse effect on our business, and may impair the value of our patents and other intangible assets.

Existing shareholders may face dilution from our financing efforts.

We must raise additional capital from external sources to execute our business plan. We plan to issue debt securities, capital stock, or a combination of these securities. We may not be able to sell these securities, particularly under current market conditions. Even if we are successful in finding buyers for our securities, the buyers could demand high interest rates or require us to agree to onerous operating covenants, which could in turn harm our ability to operate our business by reducing our cash flow and restricting our operating activities. If we were to sell our capital stock, we might be forced to sell shares at a depressed market price, which could result in substantial dilution to our existing shareholders. In addition, any shares of capital stock we may issue may have rights, privileges, and preferences superior to those of our common shareholders.

The prescription drug and medical device products in our internal pipeline are at an early stage of development, and they may fail in subsequent development or commercialization.

We are continuing to pursue clinical development of our most advanced pharmaceutical drug products, Xantryl and Provecta, for use as treatments for specific conditions. These products and other pharmaceutical drug and medical device products that we are currently developing will require significant additional research, formulation and manufacture development, and pre-clinical and extensive clinical testing prior to regulatory licensure and commercialization. Pre-clinical and clinical studies of our pharmaceutical drug and medical device products under development may not demonstrate the safety and efficacy necessary to obtain regulatory approvals. Pharmaceutical and biotechnology companies have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in earlier trials. Pharmaceutical drug and medical device products that appear to be promising at early stages of development may not reach the market or be marketed successfully for a number of reasons, including the following:

- a product may be found to be ineffective or have harmful side effects during subsequent pre-clinical testing or clinical trials;
- a product may fail to receive necessary regulatory clearance;
- a product may be too difficult to manufacture on a large scale;
- a product may be too expensive to manufacture or market;
- a product may not achieve broad market acceptance;
- others may hold proprietary rights that will prevent a product from being marketed; or
- others may market equivalent or superior products.

We do not expect any pharmaceutical drug products or medical device products we are developing to be commercially available for at least several years, if at all. Our research and product development efforts may not be successfully completed and may not result in any successfully commercialized products. Further, after commercial introduction of a new product, discovery of problems through adverse event reporting could result in restrictions on the

product, including withdrawal from the market and, in certain cases, civil or criminal penalties.

Our OTC products are at an early stage of introduction, and we cannot be sure that they will be widely accepted in the marketplace or that we will have adequate capital to market and distribute these products which are an important factor in the future success of our business.

We recently have begun marketing GloveAid and Pure-ific, our first two OTC products, on a limited basis. We have recognized minimal revenue from these products, as the sales of these products have not been material. In order for these products to become commercially successful, we must increase significantly our distribution of them. Increasing distribution of these products requires, in turn, that we or distributors representing us increase marketing of these products. In view of our limited financial resources, we may be unable to afford

increases in our marketing of our OTC products sufficient to improve our distribution of our products. Even if we can and do increase our marketing of our OTC products, we cannot give you any assurances that we can successfully increase our distribution of our products.

If we do begin increasing our distribution of our OTC products, we must increase our production of these products in order to fill our distribution channels. Increased production will require additional financial resources that we do not have at present. Additionally, we may succeed in increasing production without succeeding in increasing sales, which could leave us with excess, possibly unsaleable, inventory.

If we are unable to successfully introduce, market and distribute these products, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Competition in the prescription drug, medical device and OTC pharmaceuticals markets is intense, and we may be unable to succeed if our competitors have more funding or better marketing.

The pharmaceutical and biotechnology industries are intensely competitive. Other pharmaceutical and biotechnology companies and research organizations currently engage in or have in the past engaged in research efforts related to treatment of dermatological conditions or cancers of the skin, liver and breast, which could lead to the development of products or therapies that could compete directly with the prescription drug, medical device and OTC products that we are seeking to develop and market.

Many companies are also developing alternative therapies to treat cancer and dermatological conditions and, in this regard, are out competitors. Many of the pharmaceutical companies developing and marketing these competing products have significantly greater financial resources and expertise than we do in:

- research and development;
- manufacturing;
- preclinical and clinical testing;
- obtaining regulatory approvals; and
- marketing.

Smaller companies may also prove to be significant competitors,

particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies and other public and private research organizations also may conduct research, seek patent protection and establish collaborative arrangements for research, clinical development and marketing of products similar to ours. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs.

In addition to the above factors, we expect to face competition in the following areas:

- product efficacy and safety;
- the timing and scope of regulatory consents;
- availability of resources;
- reimbursement coverage;
- price; and
- patent position, including potentially dominant patent positions of others.

As a result of the foregoing, our competitors may develop more effective or more affordable products or achieve earlier product commercialization than we do.

Product Competition. Additionally, since our currently marketed products are generally established and commonly sold, they are subject to competition from products with similar qualities.

Our OTC product Pure-ific competes in the market with other hand sanitizing products, including in particular, the following hand sanitizers:

- Purell (manufactured by GOJO Industries),
- Avagard D (manufactured by 3M) and
- a large number of generic and private-label equivalents to these market leaders.

Our OTC product GloveAid represents a new product category that has no direct competitors; however, other types of products, such as AloeTouch(R) disposable gloves (manufactured by Medline Industries) target the same market niche.

Since our prescription products Provecta and Xantryl have not yet been approved by the FDA or introduced to the marketplace, we cannot estimate what competition these products might face when they are finally introduced, if at all. We cannot assure you that these products will not face significant competition for other prescription drugs and generic equivalents.

If we are unable to secure or enforce patent rights, trademarks, trade secrets or other intellectual property our business could be harmed.

We may not be successful in securing or maintaining proprietary patent protection for our products or products and technologies we develop or license.

In addition, our competitors may develop products similar to ours using methods and technologies that are beyond the scope of our intellectual property protection, which could reduce our anticipated sales. While some of our products have proprietary patent protection, a challenge to these patents can be subject to expensive litigation. Litigation concerning patents, other forms of intellectual property and proprietary technology is becoming more widespread and can be protracted and expensive and can distract management and other personnel from performing their duties for us.

We also rely upon trade secrets, unpatented proprietary know-how and continuing technological innovation in order to develop a competitive position. We cannot assure you that others will not independently develop substantially equivalent proprietary technology and techniques or otherwise gain access to our trade secrets and technology, or that we can adequately protect our trade secrets and technology.

If we are unable to secure or enforce patent rights, trademarks, trade secrets or other intellectual property, our business, financial condition, results of operations and cash flows could be materially adversely affected. If we infringe on the intellectual property of others, our business could be harmed.

We could be sued for infringing patents or other intellectual property that purportedly cover products and/or methods of using such products held by persons other than us. Litigation arising from an alleged infringement could result in removal from the market, or a substantial delay in, or prevention of, the introduction of our products, any of which could have a material adverse effect on our business, financial condition, or results of operations and cash flows.

If we do not update and enhance our technologies, they will become obsolete.

The pharmaceutical market is characterized by rapid technological change, and our future success will depend on our ability to conduct successful research in our fields of expertise, to discover new technologies as a result of that research, to develop products based on our technologies, and to commercialize those products. While we believe that are current technology is adequate for our

present needs, if we fail to stay at the forefront of technological development, we will be unable to compete effectively. Our competitors are using substantial resources to develop new pharmaceutical technologies and to commercialize products based on those technologies. Accordingly, our technologies may be rendered obsolete by advances in existing technologies or the development of different technologies by one or more of our current or future competitors.

If we lose any of our key personnel, we may be unable to successfully execute our business plan.

Our business is presently managed by four key employees:

- H. Craig Dees, Ph.D., our Chief Executive Officer;
- Timothy C. Scott, Ph.D., our President;
- Eric A. Wachter, Ph.D. our Vice President - Pharmaceuticals; and
- Peter R. Culpepper, CPA, our Chief Financial Officer.

In addition to their responsibilities for management of our overall business strategy, Drs. Dees, Scott and Wachter are our chief researchers in the fields in which we are developing and planning to develop prescription drug,

medical device and OTC products. Also, as of December 31, 2004, we owe $156,377 in accrued but unpaid compensation to our employees. The loss of any of these key employees could have a material adverse effect on our operations, and our ability to execute our business plan might be negatively impacted. Any of these key employees may leave their employment with us if they choose to do so, and we cannot assure you that we would be able to hire similarly qualified executives if any of our key employees should choose to leave.

Because we have only four employees, our management may be unable to successfully manage our business.

In order to successfully execute our business plan, our management must succeed in all of the following critical areas:

- Researching diseases and possible therapies in the areas of dermatology and skin care, oncology, and biotechnology;
- Developing prescription drug, medical device and OTC products based on our research;
- Marketing and selling developed products;
- Obtaining additional capital to finance research, development, production and marketing of our products; and
- Managing our business as it grows.

As discussed above, we currently have only four employees, all of whom are full-time employees. The greatest burden of succeeding in the above areas therefore falls on Drs. Dees, Scott, Wachter, and Mr. Culpepper. Focusing on any one of these areas may divert their attention from our other areas of concern and could affect our ability to manage other aspects of our business. We cannot assure you that our management will be able to succeed in all of these areas or, even if we do so succeed, that our business will be successful as a result. We anticipate adding a part-time regulatory affairs officer, a part-time lab technician and a part-time office manager within the next year. While we have not historically had difficulty in attracting employees, our small size and limited operating history may make it difficult for us to attract and retain employees in the future which could further divert management's attention from the operation of our business.

Our common stock price can be volatile because of several factors, including a limited public float.

During the twelve-month period ended December 31, 2004, the sale price of our common stock fluctuated from $1.70 to $0.47 per share. We believe that our

common stock is subject to wide price fluctuations because of several factors, including:

- absence meaningful earnings and external financing,
- a relatively thin trading market for our common stock, which causes trades of small blocks of stock to have a significant impact on our stock price,
- general volatility of the stock markets and the market prices of other publicly traded companies, and
- investor sentiment regarding equity markets generally, including public perception of corporate ethics and governance and the accuracy and transparency of financial reporting.

Financings that may be available to us under current market conditions frequently involve sales at prices below the prices at which our common stock trades on the Over the Counter Electronic Bulletin Board, as well as the

issuance of warrants or convertible debt that require exercise or conversion prices that are calculated in the future at a discount to the then market price of our common stock.

Any agreement to sell, or convert debt or equity securities into, common stock at a future date and at a price based on the then current market price will provide an incentive to the investor or third parties to sell the common stock short to decrease the price and increase the number of shares they may receive in a future purchase, whether directly from us or in the market. For example, the initial conversion rate of the debentures issued during the third and fourth quarters of 2004 is equal to the lower of (i) 80% of the average market price of our common stock for the five (5) trading days ending on the effective date of the exercise to convert or (ii) $1.88 per share. If the average market price of our common stock is so low that it causes the conversion rate on the debentures to fall below approximately $0.73, and if the debenture holders enforce this provision of our agreement with them, we will have to issue more shares to the debenture holders upon conversion of the debentures and the anti-dilutive provisions contained in our agreements with Gryffindor will become operative. If these anti-dilutive provisions become operative, we may be required to issue a significant number of shares of common stock to Gryffindor. We will not receive any additional proceeds from Gryffindor for the issuance of these shares of common stock. Other financings that we may obtain may contain similar provisions, and the existence of anti-dilutive provisions in some of our existing financings may make it more difficult for us to obtain financing in the future. These types of transactions which cause the issuance of our common stock in connection with the exercise or conversion of securities may result in substantial dilution to the remaining holders of our common stock.

Financings that may be available to us frequently involve high selling costs.

Because of our limited operating history, low market capitalization, thin trading volume and other factors, we have historically had to pay high costs to

obtain financing and expect to continue to be required to pay high costs for any future financings in which we may participate. For example, our past sales of shares and our sale of the debentures have involved the payment of finder's fees or placement agent's fees. These types of fees are typically higher for small companies like us. Payment of fees of this type reduces the amount of cash that we receive from a financing transaction and makes it more difficult for us to obtain the amount of financing that need to maintain and expand our operations.

It is our general policy to retain any earnings for use in our operation.

We have never declared or paid cash dividends on our common stock. We currently intend to retain all of our future earnings, if any, for use in our business and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Our stock price is below $5.00 per share and is treated as a "Penny Stock" which places restrictions on broker-dealers recommending the stock for purchase.

Our common stock is defined as "penny stock" under the Exchange Act and its rules. The SEC has adopted regulations that define "penny stock" to include common stock that has a market price of less than $5.00 per share, subject to certain exceptions. These rules include the following requirements:

- broker-dealers must deliver, prior to the transaction a

disclosure schedule prepared by the SEC relating to the penny stock market;

- broker-dealers must disclose the commissions payable to the broker-dealer and its registered representative;
- broker-dealers must disclose current quotations for the securities;
- if a broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealers presumed control over the market; and
- a broker-dealer must furnish its customers with monthly statements disclosing recent price information for all penny stocks held in the customer's account and information on the limited market in penny stocks.

Additional sales practice requirements are imposed on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. If our common stock remains subject to these penny stock rules these disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. As a result, fewer broker-dealers may be willing to make a market in our stock, which could affect a shareholder's ability to sell their shares.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer have evaluated the effectiveness

of the design and operation of our "disclosure controls and procedures" (as that term is defined in Rule 13a-14(c) under the Exchange Act) as of the last day of the period covered by this Annual Report on Form 10-KSB. Based on that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective.

(b) Changes in Internal Controls. There was no change in our internal control over financial reporting identified in connection with the evaluation during our fourth fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Except as set forth below, the information called for by this item with respect to our executive officers as of March 30, 2005 is furnished in Part I of this report under the heading "Personnel--Executive Officers." The information called for by this item, to the extent it relates to our directors or to certain filing obligations of our directors and executive officers under the federal securities laws, is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Audit Committee Financial Expert

We do not currently have an "audit committee financial expert," as defined under the rules of the SEC. Because the board of directors consists of only four members and our operations remain amenable to oversight by a limited number of directors, the board has not delegated any of its functions to committees. The entire board of directors acts as our audit committee as permitted under Section 3(a)(58)(B) of the Exchange Act. We believe that all of the members of our board are qualified to serve as the committee and have the experience and knowledge to perform the duties required of the committee. We do not have any independent directors who would qualify as an audit committee financial expert, as defined. We believe that it has been, and may continue to be, impractical to recruit such a director unless and until we are significantly larger.

Code of Ethics

We have not adopted a formal Code of Ethics. Since our company only has four employees, we expect those employees to adhere to high standards of ethics without the need for a formal policy.

Item 10. Executive Compensation.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Item 12. Certain Relationships and Related Transactions.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Item 13. Exhibits

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

Item 14. Principal Accountant Fees and Services.

The information called for by this item is incorporated herein by reference to the Proxy Statement for our Annual Meeting of Stockholders to be held on May 19, 2005, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this annual report on From 10-KSB for the year ended December 31, 2004 to be signed on its behalf by the undersigned, thereunto duly authorized.

Provectus Pharmaceuticals, Inc.

By: /s/ H. Craig Dees

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

Date: March 30, 2005

Signature	Title	
/s/ H. Craig Dees H. Craig Dees, Ph.D.	Chief Executive Officer (principal executive officer) and Chairman of the Board	Ma
/s/ Peter R. Culpepper Peter R. Culpepper, CPA	Chief Financial Officer (principal financial officer and principal accounting officer)	Ma
/s/ Timothy C. Scott Timothy C. Scott, Ph.D.	President and Director	Ma
/s/ Eric A. Wachter Eric A. Wachter, Ph.D.	Vice President - Pharmaceuticals and Director	Ma
/s/ Stuart Fuchs Stuart Fuchs	Director	Ma

Report of Independent Registered Public Accounting Firm

Board of Directors
Provectus Pharmaceuticals, Inc.
Knoxville, Tennessee

We have audited the accompanying consolidated balance sheets of Provectus Pharmaceuticals, Inc., a development stage company as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity, and cash flows for the period from January 17, 2002 (inception) to December 31, 2004 and for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over finanical reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Provectus Pharmaceuticals, Inc. at December 31, 2004 and 2003, and the results of its operations and its cash flows for the period from January 17, 2002 (inception) to December 31, 2004 and for each of the two years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/BDO Seidman, LLP

Chicago, Illinois
February 11, 2005

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Provectus Pharmaceuticals, Inc.
(A Development-Stage Company)

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	
Assets		
Current Assets		
Cash	$ 10,774	$
Stock subscription receivable	-	
Inventory	94,142	
Prepaid expenses and other current assets	20,582	
Prepaid consulting expense	205,427	
Prepaid commitment fee, net of amortization of $38,326	272,540	
Total Current Assets	603,465	
Equipment and Furnishings, less accumulated depreciation of $366,571 and $244,760	-	
Patents, net of amortization of $1,420,537 and $749,417	10,294,908	
Deferred loan costs, net of amortization of $35,922 and $19,569	270,578	
Other Assets	27,000	
	$ 11,195,951	$
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable - trade	$ 154,214	$
Accrued compensation	156,377	
Accrued expenses	6,240	
Accrued interest	43,670	
Short-term convertible debt, net of debt discount of $-0- and $442,623	-	
Gryffindor convertible debt, net of debt discount of $95,157 and $57,052	1,090,802	
Total Current Liabilities	1,451,303	
Loan From Stockholder	149,000	
Cornell convertible debt, net of debt discount of $316,053 and $-0-	433,947	
Stockholders' Equity		
Common stock; par value $.001 per share; 100,000,000 shares authorized; 16,133,876 and 10,867,509 shares issued and outstanding, respectively	16,134	
Paid-in capital	23,711,540	
Deficit accumulated during the development stage	(14,565,973)	

Total Stockholders' Equity	9,161,701	
	$ 11,195,951	$

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2004	Year Ended December 31 2003
Revenues		
OTC Product Revenue	$ 18,728	$ -
Medical Device Revenue	13,125	-
Total revenues	31,853	-
Cost of Sales	10,781	-
Gross Profit	21,072	-
Operating Expenses		
Research and development	1,291,817	724,924
General and administrative	1,690,841	1,582,250
Amortization	671,120	671,120
Total operating loss	(3,632,706)	(2,978,294
Gain on sale of equipment	-	55,000
Net loss on extinguishment of debt	(101,412)	-
Interest expense	(610,407)	(232,019
Net Loss Applicable to Common Stockholders	$ (4,344,525)	$(3,155,313
Basic and Diluted Loss Per Common Share	(0.31)	(0.33
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	14,122,559	9,706,064

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		
	Number of Shares	Par Value	Paid-in Capital
%			ONT>
200			
%			
50			
%			
100,000			
16,667			
Zohar Ziv			
100			
%			
60			

%

40

%

200

%

250

%

450,000

375,000

Constance X. Rishwain

100

%

25

%

75

%

200

%

300

%

150,000

675,000

Colin G. Clark

100

%

25

%

75

%

200

%

250

%

125,000

468,750

The Committee set the 2008 targets at a high growth rate over the prior year for the company profit portion and for the MBO portion for the Named Executive Officers. The high growth rates were necessary to achieve a moderate diluted EPS growth, as we anticipated that our gross margins would decrease in 2008 compared to 2007. In 2007 and 2006, our gross margins were approximately 46% of sales, compared to approximately 42% in 2005, and we expected our gross margins to return to a lower level in 2008. The Committee determined that the

anticipated decrease in gross margins would make the diluted EPS target more difficult to obtain. The target amounts and relative weight of the company profit portion and MBO portion of executive annual non-equity incentive plan compensation may be varied by the Committee from year to year.

Company profit portion. Those executives that are responsible for brands and have influence over brand decisions are less heavily weighted on the company profit portion, as opposed to those executives that cannot be directly attributed to specific brands. In 2008, demand for our products increased substantially more than anticipated, and as a result, the Company, without taking into account the impairment related to the Teva and TSUBO brands, substantially exceeded the diluted EPS target, thus earning the maximum of the company profit portion at the discretion and approval of the Committee. The 2008 diluted EPS goal was set at the time the non-equity incentive plan goals were established at a threshold of $5.31, a target of $5.82, and the maximum performance amount was set at $6.32.

MBO portion. For 2008, MBOs were established at the beginning of the year as follows for each Named Executive Officer. Generally, there is no specific weight assigned to each MBO element, and

the Committee uses its discretion when evaluating the MBO portion earned for each of the Named Executive Officers.

Mr. Martinez's MBOs were based on achieving sales of $543 million, managing quarterly levels of domestic gross wholesale inventory to achieve the sales goals, and a backlog increase of 15% over prior year. He substantially exceeded all targets. The Committee determined to award Mr. Martinez compensation in excess of his target, because he successfully led the Company through the economic downturn during 2008, while still exceeding all of his goals. He also continued to position the Company to achieve our long-term growth and strategic objectives.

Mr. Hillebrandt's MBOs were based on quantitative measures of managing quarterly levels of domestic gross wholesale inventory to achieve sales goals, managing operating expenses to not exceed $130 million, and achieve a return on capital of 24% and on qualitative measures of timely SEC filings and maintain adequate internal control systems. In addition to these measures, periodically during the year, additional performance expectations were included as part of Mr. Hillebrandt's MBOs, including realigning the finance department to meet the demands of our long-term strategic objectives. Based on the needs of our finance department and the importance of these performance expectations to the Company, the completion of these additional performance expectations were given more weight in the assessment of Mr. Hillebrandt's attainment of his MBOs and therefore Mr. Hillebrandt earned less than the threshold.

Mr. Ziv's MBOs were based on achieving sales of $543 million, managing quarterly levels of domestic gross wholesale inventory to achieve the sales goals, and managing operating expenses to not exceed $130 million. He substantially exceeded the sales and inventory targets. While operating expenses did not meet his base level target, the target was substantially exceeded when adjusted for the higher sales levels. Mr. Ziv earned over the maximum because he substantially exceeded the sales and inventory targets and the adjusted operating expense target.

Ms. Rishwain's MBOs were based on achieving UGG and Simple brand sales of $440 million, managing quarterly levels of domestic gross wholesale inventory to achieve the sales goals, contribution income growth of approximately 15%, and a backlog increase of 15% over prior year. She substantially exceeded all targets. Ms. Rishwain earned over the maximum because she substantially exceeded all of her goals.

Mr. Clark's MBOs were based on achieving international sales of $81 million, contribution income growth of approximately 30%, and a backlog increase of 15% over prior year. He exceeded or substantially exceeded each MBO, thus earning over the maximum.

The Committee assesses the attainment of the MBOs based on business or other factors that may have affected the attainment of those objectives, thus awarding this portion of incentive compensation on measurable and also on a discretionary basis. In order to retain key executives and incentivize them to reach our growth goals, which we believe to be at the high end of our peers, the Committee generally sets the annual incentive plan compensation targets at the high end of target bonus opportunities paid to similarly situated executives of the companies in the Peer Group.

Performance-based Short-Term and Long-Term Equity Incentive Compensation. The 1993 Plan was terminated for new grants effective in May 2006, when the 2006 Plan was adopted by the stockholders. These plans authorize the Committee to make grants and awards such as stock options, stock appreciation rights ("SARs"), nonvested stock units ("NSUs") and restricted stock units ("RSUs").

Beginning in December 2004, the Board and the Committee determined to cease issuing stock options to directors, officers and employees of the Company. Officers and employees are now issued NSUs, which are stock units payable in shares upon satisfying specific performance and service-related vesting conditions, to continue to align the interests of the directors, officers and employees with those

of the stockholders at a lower cost than the previous stock option grants. This policy is reviewed by the Board and the Committee periodically and may be changed in the future.

Officers and key employees are eligible to receive NSUs annually, or as circumstances warrant, in an amount to be determined by the Board or the Committee. The amount of NSUs granted is primarily determined by the executive's level within the organization and the level of criticality of their positions to the organization. NSUs granted for fiscal 2007 performance were granted in December 2006. In February 2008, NSUs were granted with respect to fiscal 2008 performance. NSUs were also granted to the Chief Financial Officer upon his hiring in April 2008 for fiscal 2008 performance. Additionally, in March 2009, NSUs were granted for fiscal 2009 performance. The Committee sets these annual equity grants at approximately the 75th percentile of the Peer Group.

Specifically, the NSUs granted in 2008 were earned based on the achievement of the 2008 EPS goal and the 2009 NSUs will be earned if the 2009 EPS goal is met. The 2008 diluted EPS goal for NSUs was set at the time of the grant at a threshold of $5.57 and a target of $6.07. Once earned, the NSUs vest based on continued employment over approximately four years according to the following schedule: 25% on March 31, June 30, September 30, and December 31 of the fourth year from the grant year. This vesting schedule was determined to encourage officers and key employees to remain with the Company for the long-term. As discussed further under "Potential Payments Upon Termination or Change of Control" below, this vesting schedule may be accelerated if the executive's employment is terminated for various reasons or upon a change in control followed by a termination.

In May 2007, the Company's Board of Directors, upon recommendation of the Committee, adopted four new types of long-term incentive award agreements under the 2006 Plan for issuance to the Company's current and future senior executive officers. The new award types consist of SAR awards and RSU awards. These awards vest subject to the achievement of revenue and earnings goals, which assumes a high rate of growth for sales and gross profit, and long-term service conditions over a five-year period (Level 1 grants) and a ten-year period (Level 2 grants). Provided that these conditions are met, the Level 1 SAR and RSU awards vest 80% on December 31, 2010 and 20% on December 31, 2011, and the Level 2 SAR and RSU awards vest 80% on December 31, 2015 and 20% on December 31, 2016. These awards were designed to motivate the executive team to outperform the Company's peer group (otherwise the awards would not vest) as well as for retention purposes. In May 2007, the Committee granted SARs and RSUs to the Named Executive Officers. In approving 2007 grants, the Committee considered industry comparisons and competitive data as well as the responsibility levels of the executives relative to one another. No grants of these types of awards were made in 2008.

In addition, the Committee evaluates aggregate equity awards based on a Shareholder Value Transfer ("SVT") rate. SVT is the fair value of all equity awards granted during the year as a percentage of company market capitalization value. The Committee believes this measure is valuable because it allows the Company to compare the annual cost of its equity program versus peer companies. The Committee set the SVT rate in 2008 so that it would be approximately 1%, which is in line with the Peer Group median. Other factors considered in share-based award grants were total carried-interest for each executive, total potential dilution under all employee stock plans, annual share usage, executive allocation of annual equity pool, and the fair value of awards granted to each individual. The Committee assessed where the Company's Named Executive Officers ranked in all these areas among the Peer Group.

Perquisites and Other Personal Benefits. There is no specific policy on perquisites and other personal benefits awarded to the Named Executive Officers. The Company administers a 401(k) defined contribution plan that substantially all employees are eligible to participate in through tax-deferred contributions. The Company matches 50% of an employee's contribution up to the greater of $2,400 or 6% of their eligible compensation per year. In order to attract the appropriate candidates,

the Committee may approve relocation benefits, as deemed appropriate. In 2008, the only perquisites and other personal benefits approved by the Committee for the Named Executive Officers was (1) relocation assistance, which was awarded to Mr. Hillebrandt, in connection with his hiring in 2008, and (2) the continuation of a housing differential to Mr. Clark, which was agreed to at the time of his hiring in 2005.

Employment Contracts and Severance Arrangements. During 2008, each of the Named Executive Officers was party to employment agreements with the Company. Those agreements establish the terms and conditions for the employment relationship each executive has with the Company and specifies compensation, executive benefits, severance provisions, change in control provisions, and other conditions. The Committee periodically reviews the competitiveness of its severance and change in control arrangements when the employment agreements with the Named Executive Officers near the end of their stated terms.

Separation benefits described below provide benefits to ease a Named Executive Officer's transition due to an unexpected employment termination by the Company due to on-going changes in the Company's employment needs. The Named Executive Officers are eligible for the benefits and payments if their employment terminates for various reasons or as a result of a change in control of the Company. Separation benefits include cash payments and other benefits in an amount the Company believes is appropriate, taking into account the time it is expected to take a separated executive to find another job. The Company benefits by requiring a general release, and non-solicitation provisions in connection with the individual separation agreements.

The Company considers it likely that it will take more time for higher-level employees to find new employment commensurate with their prior experience, and therefore senior management generally are paid severance for a longer period. Additional payments may be approved by the Committee in some circumstances as a result of negotiation with executives, especially where the Company desires particular non-disparagement, cooperation with litigation, non-competition and non-solicitation terms.

The employment agreement for each executive specifically details various provisions for benefits and cash payments in the event of a separation during the normal course of business and in the event of a change in control. Generally, these agreements specify conditions and benefits within the following categories: death, disability, termination by the Company for cause; termination by executive without good reason; termination by the executive with good reason and termination by the Company without cause.

The Company's change in control provisions for the Named Executive Officers provide for severance benefits and the accelerated vesting of certain equity awards upon a termination of the executive's employment in connection with a change in control. There are no benefits triggered solely based on the occurrence of a change in control. However, upon a change in control, the performance conditions of the SARs and RSUs are deemed satisfied, but the awards remain subject to the service-based vesting conditions. These arrangements are intended to preserve morale and productivity and encourage retention in the face of the disruptive impact of a change in control of the Company. In addition, change in control benefits encourage the Named Executive Officers to remain focused on the business and interest of our stockholders when considering strategic alternatives. Based on a competitive analysis of the change in control arrangements maintained by the corporations in the Company's Peer Group, the Committee believes that these benefits are customary among the Company's Peer Group for executives in similar positions as the Named Executive Officers.

Please refer to the discussion on under "Potential Payments upon Termination or Change of Control" for a more detailed discussion of the severance and change in control arrangements.

Tax and Accounting Implications

Taxation and Deductibility of Executive Compensation

To the extent readily determinable, and as one of the factors in its consideration of compensation matters, the Committee considers the anticipated tax treatment to the Company and to the executives of various payments and benefits. Some types of compensation payments and their deductibility depend upon the timing of an executive's vesting of previously granted awards.

Under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), a public company generally will not be entitled to a deduction for non-performance-based compensation paid to certain executive officers to the extent such compensation exceeds $1.0 million. Special rules apply for performance-based compensation, including the approval of the performance goals by the stockholders of the Company. The Company has not adopted any formal policy with respect to Section 162(m) of the Code. However, the Committee generally structures compensation to be deductible and considers cost and value to the Company in making compensation decisions, which would result in non-deductibility. The Board has on occasion made decisions resulting in non-deductible compensation. The Committee and the Board believe that these payments were appropriate and in the best interests of the Company.

The Company believes that its non-equity incentive plan and its grants of NSUs, RSUs and SARs meet the exception for performance based compensation described in the previous paragraph.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, the Company began accounting for share-based awards in accordance with the requirements of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R").

COMPENSATION COMMITTEE REPORT

The Compensation and Management Development Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation and Management Development Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION AND MANAGEMENT
DEVELOPMENT COMMITTEE

John G. Perenchio, Chair
John M. Gibbons
Maureen Conners

The Report of the Compensation and Management Development Committee on Executive Compensation shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

SUMMARY COMPENSATION TABLE

The following table sets forth, for the years ended December 31, 2008, 2007, and 2006 all compensation paid or awarded to the Named Executive Officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)	Stock Appreciation Rights Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation ($)(3)	Total ($)
Angel R. Martinez	2008	$ 750,000	$ 300,000	$1,473,819	$	$ 1,927,963	$ 1,500,000	$	$ 5,951,782
Chief Executive Officer and	2007	500,000		809,971		687,609	1,400,000		3,397,580
President	2006	500,000		477,109			850,000		1,827,109
Thomas R. Hillebrandt(4)	2008	166,667		87,415			116,667	38,665(5)	409,414
Former Chief Financial Officer									
Zohar Ziv	2008	375,000	75,000	648,564		481,991	750,000		2,330,555
Chief Operating Officer	2007	300,000		311,261		171,902	840,000	20,338(6)	1,643,501
	2006	248,110		138,014			251,250	15,856(6)	653,230
Constance X. Rishwain	2008	300,000	225,000	498,670		481,991	600,000		2,105,661
President of the UGG and	2007	250,000		188,368	42,200	171,902	656,250		1,308,720
Simple Divisions	2006	225,000		70,250	66,520		421,875		783,645
Colin G. Clark	2008	250,000	93,750	433,970		481,991	500,000	24,000(7)	1,783,711
Senior Vice President of	2007	225,000		176,146		171,902	464,063	24,000(7)	1,061,111
International	2006	225,000		61,232			253,125	24,000(7)	563,357

(1) The amounts in these columns are calculated based on provisions of SFAS 123R. See note 7 of the consolidated financial statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards recognized during 2008.

(2) The amounts in this column reflect the cash awards to the named individuals under the Annual Incentive Plan, which is discussed in further detail under the heading "Annual Non-Equity Incentive Plan Compensation."

(3) The amounts in this column reflect, for each respective executive, a housing allowance for relocation paid by the Company to, or on behalf of, the executives, except as noted in footnotes (5) through (7) below.

(4) Mr. Hillebrandt resigned from the Company effective March 20, 2009.

(5) In addition to the item noted in footnote (3) above, the amount shown in the table above as "All Other Compensation" for Mr. Hillebrandt includes $25,000 for a sign-on bonus and $3,184 received as matching contributions paid by the Company pursuant to the 401(k) defined contribution plan, which is more fully described under the heading "Perquisites and Other Personal Benefits."

(6) In addition to the item noted in footnote (3) above, the amount shown in the table above as "All Other Compensation" for Mr. Ziv includes $6,750 and $1,200 for the years ended December 31, 2007 and 2006, respectively, received as matching contributions paid by the Company pursuant to the 401(k) defined contribution plan, which is more fully described under the heading "Perquisites and Other Personal Benefits."

(7) The amounts in this column reflect a housing differential paid by the Company to Mr. Clark.

GRANTS OF PLAN BASED AWARDS IN 2008

The following table sets forth all grants of plan-based awards made to the Named Executive Officers during the fiscal year ended December 31, 2008. For further discussion regarding the grants, see above under "Compensation Discussion and Analysis."

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			Grant Date Fair Value of Stock
Name	Grant Date	Threshold ($)	Target ($)	Maximum(1) ($)	Threshold (#)	Target (#)	Maximum (#)	Awards ($)
Angel R. Martinez	2/27/2008(3)	$ 337,500	$ 750,000	$ 1,500,000	6,000	12,000	12,000	1,526,400
Thomas R. Hillebrandt(4)	4/28/2008(3)	37,500	83,334	166,667	1,675	3,350	3,350	470,340
Zohar Ziv	2/27/2008(3)	168,750	375,000	750,000	4,000	8,000	8,000	1,017,600
Constance X. Rishwain	2/27/2008(3)	187,500	300,000	600,000	3,750	7,500	7,500	954,000
Colin G. Clark	2/27/2008(3)	156,250	250,000	500,000	3,000	6,000	6,000	763,200

(1) The amounts shown here are the designated maximum plan awards; however, in some cases, the actual amounts paid exceeded the maximum amounts designated. Refer to "*Annual Non-Equity Incentive Plan Compensation*" above for further discussion on actual amounts paid to Named Executive Officers.

(2) All grants are under the 2006 Plan.

(3) The number of NSUs awarded in the 2008 annual grant was primarily based on the executive's respective level within the Company and the level of criticality of his or her position. Mr. Hillebrandt's award was pro-rated based on his hire date. The amount of NSUs paid is based on achievement of Company performance objectives for fiscal 2008 and long-term service conditions.

(4) Mr. Hillebrandt resigned from the Company effective March 20, 2009, and consequently, a pro-rata portion of 698 NSUs vested and the remaining were forfeited after his resignation.

OUTSTANDING EQUITY AWARDS AT 2008 FISCAL YEAR END

The following table sets forth equity awards of the Named Executive Officers outstanding as of December 31, 2008.

	Stock Appreciation Rights (SAR) Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised SARs (#) Exercisable	Number of Securities Underlying Unexercised SARs (#) Unexercisable	Stock Price at Date of Grant ($)	SAR Expiration Date(1)	Number of Stock Awards That Have Not Vested(2) (#)	Market Value of Units of Stock that Have Not Vested(3) ($)
Angel R. Martinez		100,000	$ 80.20	5/9/2017	73,500(4)	$ 5,870,445
		100,000	80.20	5/9/2022		
Thomas R. Hillebrandt					3,350(5)	267,565
Zohar Ziv						
		25,000	80.20	5/9/2017	41,500(6)	3,314,605
		25,000	80.20	5/9/2022		
Constance X. Rishwain		25,000	80.20	5/9/2017	26,500(7)	2,116,555
		25,000	80.20	5/9/2022		
Colin G. Clark		25,000	80.20	5/9/2017	30,000(8)	2,396,100
		25,000	80.20	5/9/2022		

(1) All SARs were granted on May 9, 2007. SARs vest subject to long-term performance objectives and long-term service conditions. Provided that these conditions are met, Level 1 SAR awards vest 80% on December 31, 2010 and 20% on December 31, 2011. Level 2 SAR awards vest 80% on December 31, 2015 and 20% on December 31, 2016.

(2) All RSUs were granted on May 9, 2007. RSUs vest subject to long-term performance objectives and long-term service conditions. Provided that these conditions are met, Level 1 RSU awards vest 80% on December 31, 2010 and 20% on December 31, 2011. Level 2 RSU awards vest 80% on December 31, 2015 and 20% on December 31, 2016.

(3) The market value was based on the closing price of the Company's Common Stock on December 31, 2008 of $79.87.

(4) Consists of (i) 12,500 NSUs remaining of 50,000 NSUs granted on April 11, 2005, which shares vest in equal quarterly installments originally starting on June 30, 2008, (ii) 12,000 NSUs granted on December 2, 2005, which shares vest in equal quarterly installments starting March 31, 2009, (iii) 12,000 NSUs granted on December 21, 2006, which shares vest in equal quarterly installments starting March 31, 2010, (iv) 12,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2010 and 20% on December 31, 2011, (v) 12,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2015 and 20% on December 31, 2016, and (vi) 12,000 NSUs granted February 27, 2008 which shares vest in equal quarterly installments starting March 31, 2011.

(5) Consists of 3,350 NSUs granted on April 28, 2008, which shares vest in equal quarterly installments starting March 31, 2012. However, Mr. Hillebrandt resigned from the Company effective March 20, 2009, and consequently, a pro-rata portion of 698 NSUs vested and the remaining were forfeited after his resignation.

(6) Consists of (i) 14,500 NSUs granted on March 10, 2006, which shares vest in equal quarterly installments starting on March 31, 2009, (ii) 6,000 NSUs granted on June 23, 2006, which shares vest in equal quarterly installments starting on March 31, 2009, (iii) 6,000 NSUs granted on December 21, 2006, which shares vest in equal quarterly installments starting on March 31, 2010, (iv) 3,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2010 and 20%

on December 31, 2011, (v) 3,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2015 and 20% on December 31, 2016, and (vi) 8,000 NSUs granted on February 27, 2008, which shares vest in equal quarterly installments starting March 31, 2011.

(7)

Consists of (i) 6,000 NSUs granted on December 2, 2005, which shares vest in equal quarterly installments starting on March 31, 2009, (ii) 6,000 NSUs granted on December 21, 2006, which shares vest in equal quarterly installments starting on March 31, 2010, (iii) 3,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2010 and 20% on December 31, 2011, (iv) 3,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2015 and 20% on December 31, 2016, and (v) 7,500 NSUs granted February 27, 2008, which shares vest in equal quarterly installments starting March 31, 2011.

(8)

Consists of (i) 5,000 NSUs granted on September 16, 2005, which shares vest in equal quarterly installments starting on March 31, 2009, (ii) 6,000 NSUs granted on December 2, 2005, which shares vest in equal quarterly installments starting on March 31, 2009, (iii) 6,000 NSUs granted on December 21, 2006, which shares vest in equal quarterly installments starting on March 31, 2010, (iv) 3,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2010 and 20% on December 31, 2011, (v) 3,500 RSUs granted on May 9, 2007, which shares vest 80% on December 31, 2015 and 20% on December 31, 2016, and (vi) 6,000 NSUs granted February 27, 2008 which shares vest in equal quarterly installments starting March 31, 2011.

2008 OPTION EXERCISES AND STOCK VESTED

The following table provides information, for the Named Executive Officers, regarding stock option exercises and stock award vesting during 2008, including the number of shares acquired upon exercise or vesting and the value realized, before payment of any applicable withholding tax and broker commissions.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting	Value Realized on Vesting ($)
Angel R. Martinez		$	37,500	$4,039,375
Thomas R. Hillebrandt				
Zohar Ziv				
Constance X. Rishwain			3,180	342,605
Colin G. Clark				

NONQUALIFIED DEFERRED COMPENSATION

In 2008, the Board adopted a Deferred Stock Unit Compensation Plan, a Sub Plan under the Deckers Outdoor Corporation 2006 Equity Incentive Plan. A director or employee of the Company who holds an unvested Restricted Stock Award may elect to defer vesting of up to 100% of his or her unvested Restricted Stock Awards made in any calendar year. For each share of Common Stock held pursuant to a Restricted Stock Award that is deferred, the participant will receive one Deferred Stock Unit. Amounts deferred will be distributed, as more specifically described in the plan, at the time elected by the participant. A participant's Deferred Stock Units will be settled in shares of Common Stock, as more specifically described in the plan. In 2008, none of the Company's executive officers elected to participate in the Company's Deferred Stock Unit Compensation Plan.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

The Company has entered into employment agreements with each of the Named Executive Officers. The information below describes compensation and benefits that are payable or earned under these existing contractual arrangements and reflects all amendments to the employment agreements to date with the Named Executive Officers as of and through January 1, 2009.

As used in the following paragraphs, (1) Cause means (i) any willful breach of duty by the executive in the course of their employment or continued violation of written Company employment policies after written notice of such violation, (ii) violation of the Company's insider trading policies, (iii) conviction of a felony or any crime involving fraud, theft, embezzlement, dishonesty or moral turpitude, (iv) engaging in activities which materially defame the Company, engaging in conduct which is material injurious to the Company or its affiliates, or any of their respective customer or supplier relationships, financially or otherwise, or (v) the executive's gross negligence or incapacity to perform duties, excluding total disability, (2) Good Reason means the occurrence of a material breach of the employment agreement by the Company, which breach is not cured within 15 calendar days after written notice thereof is received by the Company, or in the event of a Change of Control, a reduction of total compensation, benefits, and perquisites, relocation greater than 50 miles, or a material change in position or duties, and (3) Change of Control means if there is a merger, consolidation, sale of all or a major portion of the assets of the Company (or a successor organization) or similar transaction or circumstance where any person or group (other than Douglas B. Otto) acquires or obtains the right to acquire, in one or more transactions, beneficial ownership of more than 50% of the outstanding shares of any class of voting stock of the Company (or a successor organization).

Angel R. Martinez, Chair of the Board, President and Chief Executive Officer

Effective April 11, 2005, the Company entered into an employment agreement with Angel R. Martinez which was amended on February 28, 2008 and August 6, 2008 and both amendments were effective as of January 1, 2008. The 2008 amendments to this agreement, among other items, extended the term, changed the base salary and severance payments, revised the form of release, and addressed Section 409A of the Internal Revenue Code (the "IRC"). Mr. Martinez's employment with the Company is "at will," but the term of his employment agreement, as amended, ends December 31, 2009.

If Mr. Martinez is terminated by the Company for Cause, or he terminates his own employment, other than for Good Reason, then Mr. Martinez will be entitled to payment of his accrued base salary, payment for his accrued vacation, reimbursement for certain expenses, receipt of accrued and vested benefits under the Company's plans or programs and other benefits required to be paid by law, payment of any accrued but unpaid incentive bonus for the prior fiscal year (excluding any incentive bonus for the year of termination) and the right to exercise all vested unexercised stock options and NSUs outstanding as of the termination date. If Mr. Martinez is terminated due to his death or total disability, then in addition to those rights described in the first sentence of this paragraph, Mr. Martinez will be entitled to full acceleration of 12,500 remaining NSUs from his initial grant of 50,000 NSUs, as 37,500 NSUs have previously vested, plus payment of a pro-rated portion of his incentive bonus for the current fiscal year based on actual length of service during the year of termination. If Mr. Martinez is terminated by the Company without Cause or Mr. Martinez terminates his own employment for Good Reason, then in addition to those rights described in the first two sentences of this paragraph, Mr. Martinez will be entitled to payment of his then effective base salary for one year following his termination, subject to Mr. Martinez signing a release, and receipt of health benefits for a period of one year following his termination or his attainment of alternative employment that provides health benefits, whichever is earlier. In addition, if Mr. Martinez is terminated by the Company without cause or pursuant to a constructive termination, if the threshold performance criteria of the NSUs awarded to Mr. Martinez under the 2006 Equity Incentive Plan have been satisfied,

Mr. Martinez will be entitled to accelerated vesting for a pro rata portion of the NSU award based on his length of service after the NSU grant, which will be settled in shares of the Company's common stock. If Mr. Martinez is terminated without Cause or if he terminates his own employment for Good Reason, in either case within two years of a Change of Control of the Company, then in addition to those rights described in the first two sentences of this paragraph and subject to his signing a release, Mr. Martinez will be entitled to payment of two times his then effective annual base salary plus the greater of (i) two times the targeted incentive bonus immediately prior to the termination or (ii) two times the average actual incentive bonus for the previous three years, receipt of health benefits for a period of two years following his termination or his attainment of alternative employment that provides health benefits, whichever is earlier, and full acceleration of the remaining 12,500 NSUs mentioned above. In addition, if Mr. Martinez is terminated within twelve months of a Change of Control, he will be entitled to full acceleration of any unvested NSUs, SARs and RSUs awarded under the 2006 Equity Incentive Plan. All payments made to Mr. Martinez as a result of termination following a Change of Control will be grossed up for the Internal Revenue Code section 280G excise tax penalty on "excess golden parachute payments."

Thomas R. Hillebrandt, Chief Financial Officer

Effective April 24, 2008, the Company entered into an employment agreement with Thomas R. Hillebrandt, which was amended on August 6, 2008. The amendment to this agreement, among other items, addressed Section 409A of the IRC and revised the form of release. Mr. Hillebrandt resigned from the Company effective as of March 20, 2009. Pursuant to this resignation, we agreed to treat Mr. Hillebrandt's resignation as a termination by Mr. Hillebrandt for Good Reason under his employment agreement. Upon Mr. Hillebrandt's departure from the Company and pursuant to his employment agreement, he received his accrued base salary, vacation payments and reimbursable expenses. In addition, pursuant to his employment agreement, Mr. Hillebrandt will receive $250,000, payable in equal amounts during the 12-month period following his resignation, a pro-rated portion of his 2009 incentive bonus based on actual length of service during 2009, health insurance benefits under our group health plans for 12 months following his resignation, and he may exercise his vested stock options and warrants pursuant to the terms and conditions of his employment agreement. In accordance with his Stock Unit Award Agreement, and because the Company attained the threshold performance criteria in 2008, a pro-rata portion of Mr. Hillebrandt's NSUs awarded under the 2006 Equity Incentive Plan vested effective upon his resignation, thus, based on his length of service after the NSU grant, he received 698 shares of Common Stock and the remainder of his NSUs were forfeited after his resignation. Mr. Hillebrandt provided a general release of claims against the Company, agreed to certain confidentiality obligations, and agreed to certain non-solicitation obligations. The Board believes that the separation amount was appropriate and in the best interests of the Company in exchange for certain covenants and the release provided by Mr. Hillebrandt.

Zohar Ziv, Chief Operating Officer

Effective March 6, 2006, the Company entered into an employment agreement with Zohar Ziv which was amended effective December 19, 2007 and amended on August 6, 2008 and effective January 1, 2008. The recent amendment to this agreement, among other items, addressed Section 409A of the IRC and revised the form of release. Mr. Ziv's employment agreement was amended in connection with his promotion from Chief Financial Officer and Executive Vice President of Finance and Administration to Chief Operating Officer. Effective upon the resignation of Mr. Hillebrandt, and as of the date of this Proxy Statement, Mr. Ziv also serves as the Company's Chief Financial Officer in an interim capacity. Mr. Ziv's employment with the Company is "at will," but the term of his employment agreement, as amended, ends December 31, 2009.

If Mr. Ziv is terminated by the Company for Cause, or if he terminates his own employment other than for Good Reason, Mr. Ziv or his beneficiaries will be entitled to payment of his accrued base salary, payment for his accrued vacation, reimbursement for certain expenses, receipt of accrued and vested benefits under the Company's plans or programs and other benefits required to be paid by law, payment of any accrued but unpaid incentive bonus for the prior fiscal year (excluding any incentive bonus for the year of termination) and the right to exercise all vested unexercised stock options outstanding as of the termination date. If Mr. Ziv is terminated due to his death or total disability, then in addition to those rights described in the first sentence of this paragraph, Mr. Ziv shall be entitled to exercise all vested unexercised stock options and RSUs outstanding as of his date of termination in accordance with the terms of the plans and agreements pursuant to which options or RSUs were issued to him plus payment of a pro-rated portion of his incentive bonus for the current fiscal year based on actual length of service during the year of termination. If Mr. Ziv is terminated by the Company without Cause or if he terminates his own employment for Good Reason, then in addition to those rights described in the first two sentences of this paragraph, and subject to Mr. Ziv signing a release, Mr. Ziv will be entitled to payment of his then effective base salary for one year following his termination, receipt of health benefits for a period of one year following his termination or his attainment of alternative employment that provides health benefits, whichever is earlier, and full acceleration of his initial grant of 14,500 NSUs. In addition, if Mr. Ziv is terminated by the Company without cause or pursuant to a constructive termination, if the threshold performance criteria of the NSUs awarded to Mr. Ziv under the 2006 Equity Incentive Plan have been satisfied, Mr. Ziv will be entitled to accelerated vesting for a pro rata portion of the NSU award based on satisfaction of the NSU performance criteria and his length of service after the NSU grant, which will be settled in shares of the Company's common stock. If Mr. Ziv is terminated by the Company without Cause or if he terminates his own employment for Good Reason, in either case within two years of a Change of Control of the Company, then in addition to those rights described in the first two sentences of this paragraph and subject to Mr. Ziv signing a release, Mr. Ziv will be entitled to payment of two times his then effective annual base salary plus the greater of (i) two times the targeted incentive bonus immediately prior to the termination or (ii) two times the average actual incentive bonus for the previous three years, receipt of health benefits for a period of one year following his termination or his attainment of alternative employment that provides health benefits, whichever is earlier. In addition, if Mr. Ziv is terminated within twelve months of a Change of Control, he will be entitled to full acceleration of any unvested NSUs, SARs and RSUs awarded under the 2006 Equity Incentive Plan. All payments made to Mr. Ziv as a result of termination following a Change of Control will be grossed up for the Internal Revenue Code section 280G excise tax penalty on "excess golden parachute payments."

Constance X. Rishwain, President of the UGG and Simple Divisions

Effective January 1, 2006, the Company entered into an employment agreement with Constance X. Rishwain which was amended on February 28, 2008 and August 6, 2008 and both amendments were effective as of January 1, 2008. The 2008 amendments to this agreement, among other items, extended the term, changed the base salary and severance payments, revised the form of release, and addressed Section 409A of the IRC. Ms. Rishwain's employment with the Company is "at will," but the term of her employment agreement as amended ends December 31, 2009.

If Ms. Rishwain is terminated by the Company for Cause or if she terminates her own employment, other than for Good Reason, then Ms. Rishwain will be entitled to payment of her accrued base salary, payment for her accrued vacation, reimbursement for certain expenses, receipt of accrued and vested benefits under the Company's plans or programs and other benefits required to be paid by law, payment of any accrued but unpaid incentive bonus for the prior fiscal year (excluding any incentive bonus for the year of termination) and the right to exercise all vested unexercised stock

options and warrants outstanding as of the termination date. If Ms. Rishwain is terminated by the Company due to her death or total disability, then in addition to those rights described in the first sentence of this paragraph, Ms. Rishwain shall be entitled to payment of the unpaid pro-rated portion of her incentive bonus for the current fiscal year based on actual length of service during the year of termination. If Ms. Rishwain is terminated by the Company without Cause or if she terminates her own employment for Good Reason, then in addition to those rights described in the first two sentences of this paragraph, Ms. Rishwain will be entitled to payment of her base salary for twelve months following her termination, subject to Ms. Rishwain signing a release, and receipt of health benefits for a period of twelve months following her termination or her attainment of alternative employment that provides health benefits, whichever is earlier. In addition, if Ms. Rishwain is terminated by the Company without cause or pursuant to a constructive termination, if the threshold performance criteria of the NSUs awarded to Ms. Rishwain under the 2006 Equity Incentive Plan have been satisfied, Ms. Rishwain will be entitled to accelerated vesting for a pro rata portion of the NSU award based on her length of service after the NSU grant, which will be settled in shares of the Company's common stock. If Ms. Rishwain, within two years of a Change of Control of the Company is terminated without Cause or if she terminates her own employment for Good Reason, then in addition to those rights described in the first two sentences of this paragraph and subject to her signing a release, Ms. Rishwain will be entitled to payment of one and one-half times her annual base salary plus the greater of (i) one and one-half times the targeted incentive bonus immediately prior to the termination or (ii) one and one-half times the average actual incentive bonus for the previous three years, receipt of health benefits for a period of eighteen months following her termination or her attainment of alternative employment that provides health benefits, whichever is earlier. In addition, if Ms. Rishwain is terminated within twelve months of a Change of Control, she will be entitled to full acceleration of any unvested NSUs, SARs and RSUs awarded under the 2006 Equity Incentive Plan. All payments made to Ms. Rishwain as a result of termination following a Change of Control will be grossed up for the Internal Revenue Code section 280G excise tax penalty on "excess golden parachute payments."

Colin G. Clark, Senior Vice President, International

Effective January 1, 2006, the Company entered into an employment agreement with Colin G. Clark which was amended on February 28, 2008 and August 6, 2008 and both amendments were effective as of January 1, 2008. The 2008 amendments to this agreement, among other items, extended the term, changed the base salary and severance payments, revised the form of release, and addressed Section 409A of the IRC. Mr. Clark's employment with the Company is "at will," but the term of his employment agreement as amended ends December 31, 2009.

If Mr. Clark is terminated by the Company for Cause or if he terminates his own employment, other than for Good Reasons, then Mr. Clark will be entitled to payment of his accrued base salary, payment for his accrued vacation, reimbursement for certain expenses, receipt of accrued and vested benefits under the Company's plans or programs and other benefits required to be paid by law, payment of any accrued but unpaid incentive bonus for the prior fiscal year (excluding any incentive bonus for the year of termination) and the right to exercise all vested unexercised stock options and warrants outstanding as of the termination date. If Mr. Clark is terminated by the Company due to his death or total disability, then in addition to those rights described in the first sentence of this paragraph, Mr. Clark shall be entitled to payment of the unpaid pro-rated portion of his incentive bonus for the current fiscal year based on actual length of service during the year of termination. If Mr. Clark is terminated by the Company without Cause or if he terminates his own employment for Good Reason, then in addition to those rights described in the first two sentences of this paragraph, Mr. Clark will be entitled to payment of his base salary for twelve months following his termination, subject to Mr. Clark signing a release, and receipt of health benefits for a period of twelve months following his termination or his attainment of alternative employment that provides health benefits,

whichever is earlier. In addition, if Mr. Clark is terminated by the Company without cause or pursuant to a constructive termination, if the threshold performance criteria of the NSUs awarded to Mr. Clark under the 2006 Equity Incentive Plan have been satisfied, Mr. Clark will be entitled to accelerated vesting for a pro rata portion of the NSU award based on his length of service after the NSU grant, which will be settled in shares of the Company's common stock. If within two years of a Change of Control of the Company Mr. Clark is terminated without Cause or if he terminates his own employment for Good Reason, then in addition to those rights described in the first two sentences of this paragraph, and subject to him signing a release, Mr. Clark will be entitled to payment of one and one-half times his annual base salary plus the greater of (i) one and one-half times the targeted incentive bonus immediately prior to the termination or (ii) one and one-half times the average actual incentive bonus for the previous three years, and receipt of health benefits for a period of eighteen months following his termination or his attainment of alternative employment that provides health benefits, whichever is earlier. In addition, if Mr. Clark is terminated within twelve months of a Change of Control, he will be entitled to full acceleration of any unvested NSUs, SARs and RSUs awarded under the 2006 Equity Incentive Plan. All payments made to Mr. Clark as a result of termination following a Change of Control will be grossed up for the Internal Revenue Code section 280G excise tax penalty on "excess golden parachute payments."

A summary of payments and benefits that would be provided by the Company in addition to amounts accrued for unpaid base salary, vacation pay, incentive bonus and reimbursable expenses, if the termination or change of control had occurred on December 31, 2008 (based on the closing price of the Company's Common Stock on December 31, 2008 of $79.87), given the Named Executive

Officers' compensation and service levels per their respective amended employment agreements is as follows:

Name	Type of Compensation or Benefit	Upon Termination: By the Company Without Cause or by Executive for Good Reason	For Death or Disability	Upon Change of Control
Angel R. Martinez	cash payments	$ 750,000	$	$ 4,200,000
	value of health benefits	18,857		37,714
	value of NSUs	1,237,985	998,375	1,956,815
	value of RSUs			1,996,750
	value of SARs			2,076,620
	value of excise tax gross-up			4,013,077
		2,006,842	998,375	14,280,976
Thomas R. Hillebrandt(1)	cash payments	250,000		562,500
	value of health benefits	18,857		28,286
	value of NSUs	66,891		267,565
	value of excise tax gross-up			324,009
		335,748		1,182,360
Zohar Ziv	cash payments	375,000		2,027,500
	value of health benefits	13,101		13,101
	value of NSUs	1,317,855	1,158,115	1,797,075
	value of RSUs			559,090
	value of SARs			519,155
	value of excise tax gross-up			1,782,733
		1,705,956	1,158,115	6,698,654
Constance X. Rishwain	cash payments	300,000		1,401,563
	value of health benefits	18,857		28,286
	value of NSUs	149,756		599,025
	value of RSUs			559,090
	value of SARs			519,155
	value of excise tax gross-up			
		468,613		3,107,119
Colin G. Clark	cash payments	250,000		1,030,469
	value of health benefits	13,101		19,652
	value of NSUs	119,805		479,220
	value of RSUs			559,090
	value of SARs			519,155
				1,193,255

	value of excise tax gross-up		
		382,906	3,800,841

No additional payments or benefits would be provided by the Company if the termination occurred by the Company for Cause or by the executive without Good Reason.

(1) As discussed above, Mr. Hillebrandt resigned from the Company effective March 20, 2009.

DIRECTOR COMPENSATION

In 2008, directors who are not employees of the Company or its subsidiaries ("Nonemployee Directors") received an annual retainer of $20,000 in cash and 1,600 shares of Common Stock, granted at a rate of 400 shares per quarter. The Nonemployee Directors that did not serve for the full year received a pro-rated annual retainer of $10,000 in cash. Nonemployee Directors also received $1,500 for each regularly scheduled meeting of the Board and each regularly scheduled committee meeting that they attended in person plus reimbursement of any expenses they may incur with respect to such meetings. In addition, the following positions were entitled to receive an additional annual retainer fee of $15,000 for the Lead Director, $15,000 for the Audit Committee Chair, and $7,500 each for the Committee Chair for the Compensation and Management Development Committee and the Corporate Governance and Nominating Committee. Directors who were employees of the Company or its subsidiaries served as directors without compensation.

	Year	Fees Earned ($)	Stock Awards(1) ($)	Total ($)
Gene E. Burleson(3) Director	2008	$ 22,750	$ 93,584(5)	$ 116,334
Douglas B. Otto(4) Chair of the Board	2008	N/A	N/A	N/A
Rex A. Licklider Director	2008	53,000	178,944(2)	231,944
John M. Gibbons Director	2008	53,000	178,944(2)	231,944
John G. Perenchio Director	2008	38,750	178,944(2)	217,694
Maureen Conners Director	2008	38,000	178,944(2)	216,944
Tore Steen Director	2008	35,000	178,944(2)	213,944
Ruth M. Owades Director	2008	17,500	140,776(6)	158,276
Karyn O. Barsa Director	2008	17,500	140,776(6)	158,276
Angel R. Martinez(7) Chair of the Board	2008	N/A	N/A	N/A

(1) As of December 31, 2008, Mr. Gibbons was the only director who held outstanding equity of 2,000 options vested and outstanding.

(2) Represents grants of 400 shares of Common Stock at a per share price of $120.60 on January 25, 2008, 400 shares of Common Stock at a per share price of $113.36 on April 2, 2008, 400 shares of Common Stock at a per share price of $118.26 on July 25, 2008, and 400 shares of Common Stock at a per share price of $95.14 on October 16, 2008.

(3) Mr. Burleson resigned his position as a director of the Company, effective May 29, 2008.

(4)

Mr. Otto resigned his position as a director of the Company, effective May 29, 2008. He did not receive any compensation as a director in 2008.

(5)

Represents grants of 400 shares of Common Stock at a per share price of $120.60 on January 25, 2008, and 400 shares of Common Stock at a per share price of $113.36 on April 2, 2008.

(6)

Represents 400 shares of Common Stock at a per share price of $138.54 on June 24, 2008, 400 shares of Common Stock at a per share price of $118.26 on July 25, 2008, and 400 shares of Common Stock at a per share price of $95.14 on October 16, 2008.

(7)

Mr. Martinez received compensation as President and Chief Executive Officer of the Company for 2008 as discussed above. He did not receive any compensation as a director in 2008.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information regarding shares of the Company's Common Stock that may be issued under the Company's equity compensation plans as of December 31, 2008.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(2)	Number of securities remaining available for future issuance(3)
Equity compensation plans approved by security holders	724,351	$ 76.63	1,361,760
Equity compensation plans not approved by security holders			
Total	724,351	$ 76.63	1,361,760

(1)

Includes outstanding options, unexercisable SARs, and unvested NSUs and RSUs. The nature of the NSU and RSU grants are described in the Compensation Discussion and Analysis.

(2)

The weighted-average exercise price of the options was $15.81 and the stock price at the date of grant of the SARs was $80.20. The weighted-average exercise price does not take into account the NSUs and RSUs.

(3)

Includes 2,000,000 authorized shares under the 2006 Plan less actual shares issued as well as shares reserved for outstanding SARs, NSUs and RSUs.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 31, 2009, certain information concerning the shares of Common Stock beneficially owned by (i) each person who is a Named Executive Officer in the Summary Compensation Table; (ii) each director and director nominee; (iii) all executive officers and directors as a group (thirteen persons); and (iv) each person known by the Company to be the beneficial owner of more than 5% of our Common Stock (other than directors, executive officers and depositaries) based upon the most recent SEC filings available.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)(3)(4)	Percent of Class(3)
Named Executive Officers		
Angel R. Martinez	26,874	*
Thomas R. Hillebrandt	698	*
Zohar Ziv	4,142	*
Constance X Rishwain	4,680	*
Colin G. Clark	2,750	*
Directors and Director Nominees		
Angel R. Martinez	26,874	*
Rex A. Licklider(5)	213,107	1.6%
John M. Gibbons(6)	13,829	*
John G. Perenchio	41,331	*
Maureen Conners	4,083	*
Tore Steen(7)	4,283	*
Ruth M. Owades	1,683	*
Karyn O. Barsa	1,683	*
All directors and executive officers as a group (thirteen persons)	325,107	2.5%
5% Stockholders		
Turner Investment Partners, Inc.(8)	1,422,414	10.8%
Stephen F. Mandel, Jr.(9)	1,093,072	8.3%
FMR, LLC(10)	890,052	6.8%
Barclays Global Investors UK Holdings, Ltd.(11)	835,141	6.4%
Apex Capital, LLC(12)	750,000	5.7%

* Percentage of shares beneficially owned does not exceed 1% of the class so owned.

(1) The address of each beneficial owner is 495-A South Fairview Avenue, Goleta, California 93117, unless otherwise noted.

(2) Unless otherwise noted, the Company believes that each individual or entity named has sole investment and voting power with respect to shares of Common Stock indicated as beneficially owned by them, subject to community property laws, where applicable.

(3) Pursuant to Rule 13d-3(d) (1) of the Exchange Act, shares not outstanding which are subject to options, warrants, rights or conversion privileges exercisable on or before the date that is 60 days after March 31, 2009 are deemed outstanding for the purpose of calculating the number and percentage owned by such person, but not deemed outstanding for the purpose of calculating the percentage owned by any other person listed.

(4) Includes 2,000 shares under stock options that are presently exercisable or are exercisable within 60 days from March 31, 2009 for John M. Gibbons.

(5)

Includes 213,107 shares held by the Licklider Living Trust as to which Mr. Licklider has joint voting and investment power.

(6)

Includes 11,829 shares held by the Gibbons Living Trust as to which Mr. Gibbons has joint voting and investment power.

(7)

Includes 2,800 shares which are pledged as security.

(8)

Includes 1,257,124 shares held by Turner Investment Partners, Inc., as to which the beneficial owners have sole voting power and 1,422,414 shares as to which the beneficial owners have sole dispositive power. This information is based solely on a Schedule 13G filed by the party on April 8, 2009 whose business address is 1205 Westlakes Drive, Suite 100, Berwyn, PA 19312.

(9)

Includes 1,093,072 shares held by Stephen F. Mandel, Jr., as to which the beneficial owners have shared voting power and 1,093,072 shares as to which the beneficial owners have shared dispositive power. This information is based solely on the information contained in a Schedule 13G filed with the SEC on March 2, 2009, whose business address is Two Greenwich Plaza, Greenwich, CT 06830. Of the shares reported in the Schedule 13G, (i) Lone Spruce, L.P. ("Lone Spruce") has shared voting and dispositive power with respect to 13,598 shares; (ii) Lone Balsam, L.P. ("Lone Balsam") has shared voting and dispositive power with respect to 29,839 shares; (iii) Lone Sequoia, L.P. ("Lone Sequoia") has shared voting and dispositive power with respect to 24,931 shares; (iv) Lone Cascade, L.P. ("Lone Cascade") has shared voting and dispositive power with respect to 400,864 shares; (v) Lone Sierra, L.P. ("Lone Sierra") has shared voting and dispositive power with respect to 20,021 shares; (vi) Lone Pine Associates LLC ("Lone Pine") has shared voting and dispositive power with respect to 68,368 shares; (vii) Lone Pine Members LLC ("Lone Pine Members") has shared voting and dispositive power with respect to 420,885 shares; (viii) Lone Pine Capital LLC ("Lone Pine Capital") has shared voting and dispositive power with respect to 603,819 shares; and (ix) Stephen F. Mandel, Jr. ("Mr. Mandel") has shared voting and dispositive power with respect to 1,093,072 shares. Mr. Mandel is the managing member of (a) Lone Pine (which is the general partner of Lone Spruce, Lone Sequoia and Lone Balsam); (b) Lone Pine Members (which is the general partner of Lone Cascade and Lone Sierra); and (c) Lone Pine Capital (which is the investment manager of shares held by Lone Cypress, Ltd., Lone Kauri, Ltd., and Lone Monterey Master Fund, Ltd.).

(10)

Includes 5,900 shares held by FMR LLC., as to which the beneficial owners have sole voting power and 890,052 shares as to which the beneficial owners have sole dispositive power. This information is based solely on a Schedule 13G/A filed by the party on February 17, 2009 whose business address is 82 Devonshire Street, Boston, MA 02109.

(11)

Includes 636,792 shares held by Barclays Global Investors (Deutschland) AG, as to which the beneficial owners have sole voting power and 835,141 shares as to which the beneficial owners have sole dispositive power. This information is based solely on a Schedule 13G filed by the party on February 5, 2009 whose business address is Apianstrasse 6, D-85774, Unterfohring, Germany.

(12)

Includes 750,000 shares held by Apex Capital, LLC., as to which the beneficial owners have shared voting power and 750,000 shares as to which the beneficial owners have shared dispositive power. This information is based solely on a Schedule 13G filed by the party on March 3, 2009 whose business address is 25 Orinda Way, Suite 300, Orinda, CA 94563.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. The Audit Committee is currently composed of three directors, each of whom meets the independence and experience requirements under the Nasdaq rules and the independence requirements of the SEC.

Management is responsible for the preparation of the Company's financial statements and financial reporting process including its system of internal controls. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB") and expressing (i) an opinion on whether the Company's consolidated financial statements present fairly, in all material respects, the Company's financial position and results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles and (ii) an opinion on whether the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Audit Committee's responsibility is to monitor and oversee these processes. The Board of Directors has determined that John M. Gibbons, the Chair of the Audit Committee, is an audit committee financial expert and is independent.

In connection with these responsibilities, the Audit Committee met with management and the independent registered public accounting firm to review and discuss the December 31, 2008 consolidated financial statements and obtained from management their representation that the Company's financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Management determined that, as of December 31, 2008, the Company maintained effective internal control over financial reporting.

The Audit Committee also discussed with the independent registered public accounting firm the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committees), which includes, among other items, information regarding the conduct of the audit of the Company's consolidated financial statements. The Audit Committee also received written disclosures from KPMG LLP required by the PCAOB's Rule 3526: *Communication with Audit Committees Concerning Independence*, and the Audit Committee discussed with KPMG LLP its independence from the Company and the Company's management. The Audit Committee has further considered the compatibility of the services provided by KPMG LLP with that firm's independence.

The Audit Committee operates under a written charter, which was adopted by the Board and is assessed annually for adequacy by the Audit Committee. The Audit Committee held eight meetings during fiscal 2008, including meetings with the independent registered public accounting firm and Chief Audit Executive, both with and without management present. In performing its functions, the Audit Committee acts only in an oversight capacity. It is not the responsibility of the Audit Committee to determine that the Company's financial statements are complete and accurate, are presented in accordance with U.S. generally accepted accounting principles or present fairly the results of operations of the Company for the periods presented or that the Company maintains appropriate internal controls. Nor is it the duty of the Audit Committee to determine that the audit of the Company's financial statements has been carried out in accordance with the standards of the PCAOB or that the Company's registered public accounting firm is independent.

Based upon the Audit Committee's review and discussions with management and the independent registered public accounting firm, the Audit Committee recommended that the Board of Directors

include the audited consolidated financial statements in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2008, filed with the SEC on March 2, 2009.

THE AUDIT COMMITTEE

John M. Gibbons, Chair
Tore Steen
Karyn O. Barsa

The Report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

Certain Relationships and Related Transactions

The legal department is primarily responsible for identifying and reviewing relationships and transactions in which the Company and our directors, executive officers, certain of our shareholders or their immediate family members are participants to determine whether any of these related persons had or will have a direct or indirect material interest. In order to identify potential related person transactions, the Company's legal department annually prepares and distributes to all directors and executive officers a written questionnaire which includes questions intended to elicit information about any related person transactions. In addition, the Company's Code of Business Conduct and Ethics addresses conflicts of interest where an individual's private interests interfere or conflict with the interests of the Company, including relationships with suppliers, customers or competitors. Conflicts of interest which might impair or appear to impair the exercise of judgment solely for the benefit of the Company are prohibited. In general, such conflicts must be approved by the legal department, the employee's supervisor or, in the case of directors, the Board. Information regarding potential conflicts of interests in violation of the Company's Code of Business Conduct and Ethics may be reported to the Company's anonymous reporting hotline and may be subsequently obtained by the Audit Committee Chair, the Chair of the Board and the chief audit executive.

If a related person transaction is identified by the legal department as one which must be reported in the Company's Proxy Statement pursuant to applicable Securities and Exchange Commission regulations, our Board is responsible for reviewing and approving or ratifying any such related person transactions. In evaluating related person transactions, our Board members apply the same standards of good faith and fiduciary duty they apply to their general responsibilities as the Board and as individual directors. The Board may approve a related person transaction when, in its good faith judgment, the transaction is in the best interests of the Company.

There were no disclosable transactions with related persons under Item 404 of Regulation S-K during the fiscal year ended December 31, 2008 or currently proposed.

Limitation of Liability and Indemnification of Directors and Officers

Our Certificate of Incorporation and Bylaws provide that we shall indemnify directors and executive officers to the fullest extent now or hereafter permitted by the Delaware General Corporation Law (the "DGCL"). In addition, we have entered into Indemnification Agreements with our directors and executive officers in which we agree to indemnify such persons to the fullest extent now or hereafter permitted by the DGCL.

We have obtained a liability policy for our directors and officers as permitted by the DGCL which extends to, among other things, liability arising under the Securities Act of 1933, as amended.

We maintain an insurance policy pursuant to which our directors and officers are insured, within the limits and subject to the limitations of the policy, against specified expenses in connection with the defense of claims, actions, suits or proceedings, and liabilities which might be imposed as a result of such claims, actions, suits or proceedings, that may be brought against them by reason of their being or having been directors or officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than 10% of the Common Stock (collectively "Section 16 Persons") to file initial reports of ownership (Forms 3) and reports of changes in ownership of Common Stock (Forms 4 and Forms 5) with the SEC as well as the Company.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and representations from each Section 16 Person known to the Company that no other reports were required, during the fiscal year ended December 31, 2008, all Section 16(a) filing requirements applicable to its Section 16 Persons were complied with except that:

(i) Ruth M. Owades filed a Form 4 on July 17, 2008, which reported transactions that were due to be reported on June 26, 2008; and

(ii) Karyn O. Barsa filed a Form 4 on July 17, 2008, which reported transactions that were due to be reported on June 26, 2008.

PROPOSAL NO. 2

RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

For the 2008 fiscal year, KPMG LLP provided audit services, which included examination of the Company's annual consolidated financial statements. The Audit Committee has selected KPMG LLP to provide audit services to the Company and its subsidiaries for the fiscal year ending December 31, 2009. The stockholders are being requested to ratify such selection at the Annual Meeting. A representative of KPMG LLP will attend the Annual Meeting to make any statements he or she may desire and to respond to appropriate stockholder questions.

Although this appointment is not required to be submitted to a vote of the stockholders, the Audit Committee believes it is appropriate as a matter of policy to request that the stockholders ratify the appointment. Ratification of the appointment of the independent registered public accounting firm requires the affirmative vote of holders of a majority of the outstanding shares of our Common Stock, present in person or represented by Proxy of the Annual Meeting and entitled to vote. If the stockholders do not ratify the appointment, the Board of Directors and Audit Committee will consider the selection of another independent registered public accounting firm.

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE "FOR" PROPOSAL NO. 2 TO RATIFY THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2009.

Audit Fees and All Other Fees

Audit Fees

Fees approved for audit services totaled approximately $1,164,000 in 2008 and $1,446,000 in 2007. The 2008 audit fees include fees associated with the audit of the Company's consolidated balance sheet as of December 31, 2008, the related consolidated statements of operations, stockholders' equity and

comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008 and the audit of internal control over financial reporting as of December 31, 2008 (collectively referred to as the integrated audit), as well as the reviews of the Company's quarterly reports on Form 10-Q and statutory audits required internationally. Included in the audit fees in 2007 was approximately $448,000 related to the restatement of the Company's Annual Report on Form 10-K/A for the year ending December 31, 2006 and the Company's Quarterly Report on Form 10-Q/A for the period ending March 31, 2007.

Audit-Related Fees

The Company was not billed for any audit-related fees in 2008 or 2007.

Tax Fees

Fees incurred for tax services, including tax compliance, tax advice and tax planning for income taxes and customs matters, totaled approximately $228,000 in 2008 and $187,000 in 2007.

All Other Fees

The Company was not billed for any other fees in 2008 or 2007.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee administers the Company's engagement of KPMG LLP and pre-approves all audit and permissible non-audit services on a case-by-case basis. In approving non-audit services, the Audit Committee considers whether the engagement could compromise the independence of KPMG LLP, and whether for reasons of efficiency or convenience it is in the best interest of the Company to engage its independent auditor to perform the services. The Audit Committee has determined that performance by KPMG LLP of the non-audit services listed above did not affect their independence.

Prior to engagement, the Audit Committee Chair pre-approves all independent auditor services. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval categories. In those instances, the Audit Committee requires that those services be submitted to the Audit Committee Chair for specific pre-approval before the Company can engage the independent auditor to provide them. On May 8, 2007, the Audit Committee approved an Audit and Non-Audit Financial Service Approval Policy giving our Chief Audit Executive and Chief Financial Officer discretionary authority to engage financial services firms for audit and permissible non-audit services to the Company of up to a dollar amount equal to 5% of the total fees paid to our independent auditors during each fiscal year.

The Audit Committee Chair has been delegated pre-approval authority. The Chair reports any pre-approval decisions to the Audit Committee at its next scheduled meeting for approval by the Committee.

PROPOSAL NO. 3

AMENDMENT OF CERTIFICATE OF INCORPORATION TO INCREASE AUTHORIZED CAPITAL STOCK

At the Annual Meeting, stockholders will be asked to approve an amendment to the Company's Restated Certificate of Incorporation to increase the authorized number of shares of Common Stock from 20,000,000 shares to 50,000,000 shares (the "Amendment"). On April 7, 2009, the Board of Directors adopted resolutions setting forth the Amendment in the form of an amendment to Section 1

of Article IV of the Company's Restated Certificate of Incorporation which is attached hereto as Exhibit A, and has determined the Amendment to be advisable and in Company's best interest and is hereby seeking approval of the Amendment by the Company's stockholders.

The following is the relevant text of Section 1 of Article IV of the Company's Restated Certificate of Incorporation, as proposed to be amended, with additions indicated with italicized text and deletions indicated by strike-through text:

> SECTION 1. *Authorized Shares.* The Corporation shall be authorized to issue two classes of shares of stock to be designated, respectively, "Preferred Stock" and "Common Stock;" the total number of shares that the Corporation shall have authority to issue is *Fifty-Five* ~~Twenty Five~~ Million (*55,000,000*) (~~25,000,000~~); the total number of shares of Preferred Stock shall be Five Million (5,000,000) and all such shares shall have a par value of one cent ($0.01); and the total number of shares of Common Stock shall be *Fifty* ~~Twenty~~ Million (*50,000,000*) (~~20,000,000~~), and each such share shall have a par value of one cent ($0.01).

Purpose of the Amendment

The purpose of the Amendment is to increase the total authorized number of shares of Common Stock from 20,000,000 shares to 50,000,000 shares. The additional authorized shares may be used by the Company for business and financial purposes as determined by the Board of Directors from time to time to be necessary or desirable. Subject to favorable market conditions and approval of the Amendment, the Company is considering using a number of the additional shares of Common Stock to effect a stock split, in the form of a stock dividend payable on all outstanding shares of Common Stock. The Board has not yet determined whether to implement a stock split, and the magnitude of a stock split, if any, will be based on market conditions and remain in the Board's sole discretion. Should the Board determine that a stock split is advisable, the proposed increase in the number of authorized shares of Common Stock will be necessary, as the current number of authorized shares of Common Stock that are not reserved or outstanding is not sufficient to effect a stock split. Stockholder approval of a stock split effected in the form of a stock dividend is not required under Delaware law, is not being solicited by this Proxy Statement and will not be solicited in the future in order to effect a stock split.

The objective of a stock split would be to lower the per share market price of the Common Stock in inverse proportion to the stock split. Such lower price would be expected to increase the liquidity and broaden the marketability of the Common Stock to a larger group of investors. The Board may decide, however, in the best interests of the Company and due to market conditions or otherwise, not to effect a stock split. Therefore, no assurances can be given that the Board will effect a stock split or declare any type of stock split or stock dividend, even if the Amendment is approved. Alternatively, the additional shares authorized as a result of the Amendment could be used in connection with other possible business and financial uses, such as raising capital through the sale of Common Stock; acquiring other companies, businesses, products or services in exchange for shares of Common Stock; attracting and retaining employees by the issuance of additional securities under the Company's various equity compensation plans; and other transactions and corporate purposes that the Board of Directors deems to be in the Company's best interest.

The additional authorized shares would enable the Company to act quickly in response to opportunities that may arise for these types of transactions, in most cases without the necessity of obtaining future stockholder approval and holding a special stockholders' meeting before such issuance(s) could proceed, except as provided under Delaware law or under the marketplace rules of Nasdaq. Whether and how to undertake any of these types of transactions, if at all, will depend in part on market conditions at the time and there can be no assurance that the Company will undertake any of these types of transactions even if the Amendment is approved by the stockholders.

As of the close of business on the Record Date, there were 13,115,373 shares of Common Stock issued and outstanding. In addition, as of such date, 777,006 shares were subject to outstanding equity compensation awards such as stock options, stock appreciation rights (SARs), nonvested stock units (NSUs) and restricted stock units (RSUs). An additional 1,272,329 shares were reserved for issuance in connection with future awards available for grant under the Company's stockholder-approved, 2006 Equity Incentive Plan.

Other than consideration of a possible stock split and shares that may be issued under the equity compensation plans listed above, as of the date of this Proxy Statement the Company has no immediate plans, understandings, agreements or commitments to issue additional shares of Common Stock for any purposes. However, the Company also reviews and evaluates potential capital raising activities, strategic transactions and other corporate actions on an ongoing basis to determine if such actions would be in the best interests of the Company and its stockholders.

Effects of the Amendment, if Adopted

Upon issuance, the additional shares of authorized Common Stock would have rights identical to the shares of Common Stock currently outstanding. Approval of the Amendment would not have any immediate dilutive effect on the proportionate voting power or other rights of existing stockholders. In the event that a stock split were effected, it would reduce the Company's diluted earnings per share but would not affect voting rights of current stockholders, as each stockholder would continue to hold the same percentage interest in the Company. However, to the extent that the additional authorized shares of Common Stock are issued in the future in a corporate transaction, other than a stock split, they may decrease existing stockholders' percentage equity ownership and, depending on the price at which they were issued, could be dilutive to the voting rights of existing stockholders and have a negative effect on the market price of the Company's Common Stock. Because the Company's Restated Certificate of Incorporation does not confer to the Company's stockholders preemptive rights with respect to Common Stock, should the Board of Directors elect to issue additional shares of Common Stock, existing stockholders would not have any preferential rights to purchase these shares.

The Amendment could, under certain circumstances, have an anti-takeover effect, although it is not the Company's intention with this proposal. For example, in the event of a hostile attempt to take control of the Company, it may be possible for the Company to impede the attempt by issuing shares of Common Stock, which would dilute the voting power of the other outstanding shares and increase the potential cost to acquire control of the Company. The Amendment therefore may have the effect of discouraging unsolicited takeover attempts, potentially limiting the opportunity for the Company's stockholders to dispose of their shares at a premium, which is often offered in takeover attempts, or that may be available under a merger proposal. The Amendment may have the effect of permitting the Company's current management, including the current Board of Directors, to retain its position, and place it in a better position to resist changes that stockholders may wish to make if they are dissatisfied with the conduct of the Company's business. However, as of the date of this Proxy Statement, the Board of Directors is not aware of any attempt to take control of the Company, and the Board of Directors has not presented this proposal with the intent that it be utilized as a type of anti-takeover device.

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock of the Company is required to authorize the proposed increase in the authorized number of shares of Common Stock. Both abstentions and broker non-votes are not affirmative votes and, therefore, will have the same effect as votes against this Proposal No. 3.

The Board of Directors has reserved the right, in the exercise of its discretion, to abandon the Amendment regardless of whether the stockholders approve the Amendment.

If the Amendment is approved by the stockholders and it is not abandoned by the Board of Directors, it will become effective upon filing of a Certificate of Amendment, in the form set forth as Appendix A to this Proxy Statement, to the Company's Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which filing is expected to occur soon after the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" PROPOSAL NO. 3 TO APPROVE THE AMENDMENT TO THE COMPANY'S CERTIFICATE OF INCORPORATION.

STOCKHOLDER PROPOSALS FOR THE 2010 ANNUAL MEETING

Any stockholder desiring to submit a proposal for action at our 2010 Annual Meeting of Stockholders and include it in our Proxy Statement with respect to such meeting should arrange for such proposal to be delivered to us at our principal executive offices no later than December 29, 2009, which is 120 calendar days prior to the anniversary of the mailing date of this year's Proxy Statement, in order to be considered for possible inclusion in the Proxy Statement for that meeting. If the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's annual meeting, the deadline for inclusion of proposals in our Proxy Statement for our 2010 Annual Meeting of Stockholders is instead a reasonable time before we begin to print and mail the proxy materials for that meeting. Matters pertaining to such proposals, including the number and length thereof, eligibility of persons entitled to have such proposals included, and other aspects, are regulated by the Securities Exchange Act of 1934, as amended, rules and regulations of the Securities and Exchange Commission, other laws and regulations, and our Bylaws, to which interested persons should refer. You may obtain a complete copy of our Bylaws without charge by submitting a written request to our Corporate Secretary at our principal executive office. Stockholders wishing to submit for consideration a possible board candidate should follow the procedures set forth under "Procedures for Stockholder Nominations."

If a stockholder desires to bring business before the 2010 Annual Meeting of Stockholders which is not the subject of a proposal properly submitted for inclusion in the Company's Proxy Statement, the stockholder must follow procedures outlined in the Company's Bylaws. The Bylaws provide that a stockholder entitled to vote at the meeting may make nominations for the election of directors or may propose that other business be brought before the meeting only if (a) such nominations or proposals are included in the Company's Proxy Statement or otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (b) the stockholder has delivered written notice to the Company (containing certain information specified in the Bylaws) not less than 90 days prior to the date of the meeting. However, if the Company has given less than 90 days advance notice or public disclosure of the date the meeting is to be held, written notice of a nomination or proposal to be submitted by a stockholder at the meeting will be timely if it has been received by the Company not later than the 7th day following the date on which notice of the meeting is mailed or the meeting date is otherwise publicly disclosed.

OTHER BUSINESS OF THE ANNUAL MEETING

Management is not aware of any matters to come before the Annual Meeting or any continuation, postponement or adjournment thereof other than the election of directors, the ratification of the selection of the Company's independent registered public accounting firm and the approval of an amendment to the Company's Restated Certificate of Incorporation. However, inasmuch as matters of which management is not now aware may come before the Annual Meeting or any continuation, postponement or adjournment thereof, the Proxies confer discretionary authority with respect to acting thereon, and the persons named in such Proxies intend to vote, act and consent in accordance with their best judgment with respect thereto, provided that, to the extent the Company becomes aware a reasonable time before the Annual Meeting of any matter to come before such meeting, the Company

will provide an opportunity to vote by Proxy directly on such matter. Upon receipt of such Proxies in time for voting, the shares represented thereby will be voted as indicated thereon and as described in this Proxy Statement.

COST OF SOLICITATION

The solicitation of Proxies is made on behalf of the Company and all the expenses of soliciting Proxies from stockholders will be borne by the Company. In addition to the solicitation of Proxies by use of the mail, officers and regular employees may communicate with stockholders personally or by mail, telephone, or otherwise for the purpose of soliciting such Proxies, but in such event no additional compensation will be paid to any such persons for such solicitation. The Company will reimburse banks, brokers and other nominees for their reasonable out-of-pocket expenses in forwarding soliciting material to beneficial owners of shares held of record by such persons. The total estimated cost of the solicitation of Proxies is approximately $85,000.

ANNUAL REPORT ON FORM 10-K

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (excluding the exhibits thereto) as filed with the SEC, accompanies this Proxy Statement, but it is not deemed to be a part of the Proxy soliciting material. The Form 10-K contains consolidated financial statements of the Company and its subsidiaries and the report thereon of KPMG LLP, the Company's independent registered public accounting firm.

The Company will provide a copy of the exhibits to its Form 10-K for the fiscal year ended December 31, 2008 upon the written request of any beneficial owner of the Company's securities as of the Record Date and reimbursement of the Company's reasonable expenses. Such request should be addressed to the Secretary of the Company at the Company's corporate offices at 495-A South Fairview Avenue, Goleta, California 93117.

STOCKHOLDERS ARE URGED TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AS SOON AS POSSIBLE AND RETURN IT IN THE ENVELOPE PROVIDED, TO WHICH NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ ANGEL R. MARTINEZ

Angel R. Martinez
Chair of the Board, President and Chief Executive Officer

Goleta, California
April 24, 2009

Appendix A

CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
DECKERS OUTDOOR CORPORATION

DECKERS OUTDOOR CORPORATION, a Delaware corporation organized and existing under and by virtue of the Delaware General Corporation Law (the "*Corporation*"), does hereby certify:

FIRST: The Board of Directors of the Corporation duly adopted resolutions proposing and declaring advisable the following amendments to the Amended and Restated Certificate of Incorporation of the Corporation, directing that said amendment be submitted to the stockholders of the Corporation for consideration thereof. The resolutions setting forth the proposed amendments are as follows:

RESOLVED, that the Section 1 of Article IV of the Corporation's Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

> SECTION 1. *Authorized Shares.* The Corporation shall be authorized to issue two classes of shares of stock to be designated, respectively, "Preferred Stock" and "Common Stock;" the total number of shares that the Corporation shall have authority to issue is Fifty-Five Million (55,000,000); the total number of shares of Preferred Stock shall be Five Million (5,000,000) and all such shares shall have a par value of one cent ($0.01); and the total number of shares of Common Stock shall be Fifty Million (50,000,000), and each such share shall have a par value of one cent ($0.01).

SECOND: That thereafter, the holders of the necessary number of shares of capital stock of the Corporation voted in favor of the foregoing amendment at the Corporation's 2009 Annual Meeting of Stockholders called and held on May 28, 2009 upon notice in accordance with the provisions of Section 222 of the Delaware General Corporation Law.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, I affirm, under penalties of perjury, that the matters set forth in this certificate, which is executed on , 2009, are true and correct of my own knowledge.

Angel R. Martinez
Chair of the Board, President and
Chief Executive Officer

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