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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2005

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 000-32849

PROTEO, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA	88-0292249
(STATE OR OTHER JURISDICTION OF	(I.R.S. EMPLOYER

INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

2102 BUSINESS CENTER DRIVE, IRVINE, CALIFORNIA 92612
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

Registrant's telephone number, including area code: (949) 253-4616

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	NUMBER OF SHARES OUTSTANDING
Common Stock, $0.001 par value	22,079,350 shares of common stock as August 10, 2005

Transitional Small Business Disclosure Format
(Check one):
Yes |_| No |X|.

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PROTEO, INC.
AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

TABLE OF CONTENTS

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PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2005

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UNAUDITED

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 482,935
Research supplies inventory	35,633
Prepaid expenses and other current assets	45,382
	563,950
PROPERTY AND EQUIPMENT, NET	400,248
	$ 964,198

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 18,867
Accrued licensing fees	597,000
	615,867
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; no shares issued and outstanding	-

Common stock, par value $0.001 per share; 300,000,000 shares authorized; 22,079,350 shares issued and outstanding	22,080
Additional paid-in capital	3,818,034
Stock subscriptions receivable	(359,879)
Accumulated other comprehensive income	213,833
Deficit accumulated during development stage	(3,345,737)
	348,331
	$ 964,198

 SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

<PAGE>

<TABLE>

PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2005 AND 2004
AND FOR THE PERIOD FROM NOVEMBER 22, 2000 (INCEPTION) THROUGH JUNE 30, 2005

UNAUDITED

	THREE-MONTHS ENDED JUNE 30, 2005	THREE-MONTHS ENDED JUNE 30, 2004	SIX-MONTHS ENDED JUNE 30, 2005	SIX-MONTHS ENDED JUNE 30, 2004	NOVEMBER 22, 2000 (INCEPTION) THROUGH JUNE 30, 2005
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES	$ -	$ -	$ -	$ -	$ -
EXPENSES					
General and Administrative	105,977	100,245	404,553	188,112	2,378,012
Research and Development, net of grants	344,832	85,696	223,655	185,355	1,021,257
	450,809	185,941	628,208	373,467	3,399,269
INTEREST AND OTHER INCOME (EXPENSE)	46,409	7,749	82,177	22,328	53,532
NET LOSS (AVAILABLE TO COMMON STOCKHOLDERS)	(404,400)	(178,192)	(546,031)	(351,139)	(3,345,737)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	(64,216)	(6,819)	(139,316)	(34,093)	213,833
COMPREHENSIVE LOSS	$ (468,616)	$ (185,011)	$ (685,347)	$ (385,232)	$ (3,131,904)
BASIC AND DILUTED LOSS AVAILABLE TO COMMON STOCKHOLDERS PER COMMON SHARE	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.02)	

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	22,079,350	21,667,001	22,079,350	21,667,101

PAGE 2 SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.
</TABLE>

<PAGE>
<TABLE>

PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2005 AND 2004, AND
FOR THE PERIOD FROM NOVEMBER 22, 2000 (INCEPTION) THROUGH JUNE 30, 2005

UNAUDITED

	SIX-MONTHS ENDED JUNE 30, 2005	SIX-MONTHS ENDED JUNE 30, 2004	NOVEMBER 22, 2000 (INCEPTION) THROUGH JUNE 30, 2005
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (546,031)	$ (351,139)	$ (3,345,737)
Adjustments to reconcile net loss to net cash used			

in operating activities:			
Depreciation	24,132	24,369	142,785
Unrealized foreign transaction loss (gain)	72,000	(15,000)	199,000
Changes in operating assets and liabilities:			
Research supplies inventory	4,660	1,805	(35,633)
Prepaid expenses and other current assets	(1,170)	2,095	(41,720)
Accounts payable and accrued liabilities	34,393	(11,279)	47,534
Accrued licensing fees	(75,000)	66,000	398,000
NET CASH USED IN OPERATING ACTIVITIES	(487,016)	(283,149)	(2,635,771)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(6,863)	(1,313)	(594,491)
Cash of reorganized entity	-	-	27,638
NET CASH USED IN INVESTING ACTIVITIES	(6,863)	(1,313)	(566,853)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	-	-	1,792,610
Proceeds for subscribed stock	200,076	200,000	1,679,116
NET CASH PROVIDED BY FINANCING ACTIVITIES	200,076	200,000	3,471,726
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(139,316)	(34,093)	213,833
NET (DECREASE) INCREASE IN CASH	(433,119)	(118,555)	482,935
CASH AND CASH EQUIVALENTS - beginning of period	916,054	491,282	-

CASH AND CASH EQUIVALENTS - end of period	$ 482,935	$ 372,727	$ 482,935

PAGE 3 SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

</TABLE>

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PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JUNE 30, 2005

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

BASIS OF PRESENTATION

The management of Proteo, Inc. ("Proteo" or the "Company") and its wholly owned subsidiary Proteo Biotech, AG, without audit, prepared the condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2005 and 2004 and for the period from November 22, 2000 (Inception) through June 30, 2005. In the opinion of management, all adjustments necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the Company's financial position as of June 30, 2005, and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2005 and 2004 and for the period from November 22, 2000 (Inception) through June 30, 2005, have been made. Such adjustments consist only of normal recurring adjustments.

Certain note disclosures normally included in our annual consolidated financial

statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to instructions for Form 10-QSB. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto which are included in Proteo, Inc.'s Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2005.

The results of operations for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

NATURE OF BUSINESS

Proteo Marketing, Inc. ("PMI") was incorporated in the State of Nevada and began operations on November 22, 2000. In December 2000, PMI entered into a reorganization and stock exchange agreement with Proteo Biotech AG, ("PBAG"), a German corporation, incorporated in Kiel, Germany. As a result, PBAG became a wholly owned subsidiary of PMI. On April 25, 2002, PMI completed a reverse merger with the Company. Effective December 31, 2004, PMI merged into Proteo. The Company's common stock is currently quoted on the OTC Bulletin Board of the National Association of Securities Dealers under the symbol "PTEO.OB".

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1. NATURE OF BUSINESS AND BASIS OF PRESENTATION (continued)

NATURE OF BUSINESS (continued)

The Company and its subsidiary intend to develop, manufacture, promote and market pharmaceuticals and other biotech products. The Company is focused on the development of pharmaceuticals based on the human protein Elafin. Elafin is a human protein that naturally occurs in human skin, lungs, and mammary glands. The Company believes Elafin may be useful in the treatment of cardiac infarction, serious injuries caused by accidents, post surgery damage to tissue and complications resulting from organ transplantations.

Since its inception, the Company has primarily been engaged in the research and development of its proprietary product Elafin. Once the research and development phase is complete, the Company intends to manufacture and obtain the various governmental regulatory approvals for the marketing of Elafin. The Company is in the development stage and has not generated any significant revenues from any product sales. The Company believes that none of its planned products will produce sufficient revenues in the near future. As a result, the Company plans to identify and develop other potential products. There are no assurances, however, that the Company will be able to produce such products, or if produced, that they will be accepted in the marketplace.

DEVELOPMENT STAGE AND GOING CONCERN CONSIDERATIONS

The Company has been in the development stage since it began operations on November 22, 2000, and has not generated any significant revenues from operations, and there is no assurance of any future revenues.

The Company will require substantial additional funding for continuing research and development, obtaining regulatory approval and for the commercialization of its product. There can be no assurance that the Company will be able to obtain sufficient additional funds when needed, or that such funds, if available, will be obtainable on terms satisfactory to the Company.

Management has taken action to address these matters. They include:

- Retention of experienced management personnel with particular skills in the commercialization of such products.
- Attainment of technology to develop additional biotech products.
- Raising additional funds through the sale of debt and equity

securities.

- o Applying for additional research grants.

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PROTEO, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JUNE 30, 2005

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1. NATURE OF BUSINESS AND BASIS OF PRESENTATION (continued)

DEVELOPMENT STAGE AND GOING CONCERN CONSIDERATIONS (CONTINUED)

The Company's products, to the extent they may be deemed drugs or biologics, are governed by the Federal Food, Drug and Cosmetics Act and the regulations of State and various foreign government agencies. The Company's proposed pharmaceutical products to be used with humans are subject to certain clearance procedures administered by the above regulatory agencies. There can be no assurance that the Company will receive the regulatory approvals required to market its proposed products elsewhere or that the regulatory authorities will review the product within the average period of time.

Management plans to obtain revenues from product sales, but there is no commitment by any persons for purchase of any of the proposed products. In the absence of significant sales and profits, the Company may seek to raise additional funds to meet its working capital requirements through the additional sales of debt and equity securities. There is no assurance that the Company will be able to obtain sufficient additional funds when needed, or that such funds, if available, will be obtainable on terms satisfactory to the Company.

These circumstances, among others, raise concerns about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements discussed in the Notes to the December 31, 2004 consolidated financial statements filed previously with the Securities and Exchange Commission in Form 10-KSB that are required to be adopted during the year ending December 31, 2005 did not have, or are not expected by management to have, a significant impact on the Company's consolidated financial statements.

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2. STOCK SUBSCRIPTIONS RECEIVABLE AND OTHER STOCK ISSUES

During the three-month and six-month periods ended June 30, 2005, the Company received $160,076 and $200,076, respectively, in connection with stock subscriptions receivable. Management expects the outstanding balance of the stock subscription receivable to be received in installments through November 2005 and believes such balance to be fully collectible.

There have been no issuances of common stock or preferred stock during the three-month or six-month periods ended June 30, 2005, nor have any stock options been granted from inception to-date.

3. LOSS PER SHARE

The Company computes loss per common share using Statement of Financial Accounting Standards ("SFAS") No. 128 "EARNINGS PER SHARE." Basic loss per common share is computed based on the weighted average number of shares outstanding for the period. Diluted loss per share is computed by dividing net loss by the weighted average shares outstanding assuming all dilutive potential common shares were issued. There were no dilutive potential common shares at June 30, 2005 and 2004. Additionally, there were no adjustments to net loss to determine net loss available to common shareholders. As such, basic and diluted loss per share equals net loss, as reported, divided by the weighted average common shares outstanding for the respective periods.

4. FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's German operations are translated into U.S. dollars at period-end exchange rates; equity transactions are translated at historical rates; and income and expenses are translated at weighted average exchange rates for the period. Net foreign currency exchange gains or losses resulting from such translation are excluded from net earnings but are included in comprehensive income and accumulated in a separate component of stockholders' equity. Accumulated comprehensive income approximated $214,000 at June 30, 2005.

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5. FOREIGN CURRENCY TRANSACTIONS

The Company records payables related to a certain licensing agreement, in accordance with SFAS No. 52, "FOREIGN CURRENCY TRANSLATION." Quarterly commitments under such agreement are denominated in Euros. For each reporting period, the Company translates the quarterly amount to US dollars at the exchange rate effective on that date. If the exchange rate changes between when the liability is incurred and the time payment is made, a foreign exchange gain or loss results. The Company has made no payments under this licensing agreement, and, therefore, has not realized any exchanges losses during the three-month and six-month periods ended June 30, 2005 and 2004.

Additionally, the Company computes a foreign exchange gain or loss at each balance sheet date on all recorded transactions denominated in foreign currencies that have not been settled. The difference between the exchange rate that could have been used to settle the transaction on the date it occurred and the exchange rate at the balance sheet date is the unrealized gain or loss that is currently recognized. The Company recorded unrealized foreign currency exchange losses of approximately $64,000 and $7,000 for the three-months ended June 30, 2005 and 2004, respectively, and losses of approximately $139,000 and $34,000, respectively, for the six-month periods then ended.

6. SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

SFAS No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION," establishes standards for the way public companies report information about segments of their business in their annual financial

statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The Company considers itself to operate in one segment and has not generated significant revenues since its inception. All fixed assets are located in Germany.

7. GRANTS

Proteo Biotech AG's previous research grant from the German state of Schleswig-Holstein expired during the three-month period ended March 31, 2004. No grant funds were received during the three-month or six-month periods ended June 30, 2004. In May 2004, the German State of Schleswig-Holstein granted Proteo Biotech AG approximately 760,000 Euros for further research and development of the Company's pharmaceutical product Elafin. The new grant covers the period from April 1, 2004 to March 31, 2007 if certain milestones have been reached by September 30 of each year, with a possible extension as defined in the agreement.

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7. GRANTS (continued)

The new grant covers 49.74% of eligible research and development costs and is subject to the Company's ability to cover the remaining 50.26 % of the costs. The Company has qualified to receive approximately 250,000 Euros (approximately $320,000) of the new grant in 2005. Grant funds approximating 120,000 and 0 Euros ($154,000 and $0, respectively) have been recorded as a reduction of research and development expenses for the six-month periods ended June 30, 2005 and 2004, respectively. As of June 30, 2005, management believes that all milestones required by the new grant have been satisfied. Of the 120,000 Euros in grant funds recorded during the six-month period ended June 30, 2005, approximately 103,000 Euros was received prior to June 30, 2005, and approximately 17,000 Euros was received in July 2005. As management was reasonably assured at period-end that the Company had complied with all conditions to receive such funds and that they would receive such funds, approximately 17,000 Euros ($20,000) was recorded as receivable and is included in prepaid expenses and other current assets on the accompanying condensed consolidated balance sheet at June 30, 2005.

8. CONSULTING AGREEMENTS

EUROGENTEC AGREEMENT

On March 18, 2005, the Company entered into a contractual agreement with Eurogentec S.A., a Belgium contract manufacturing organization, for the production of the Company's product Elafin for clinical trials according to good manufacturing practices. Such agreement will require payments approximating 400,000 Euros, payable upon the attainment of achieved milestones between April 2005 and July 2005. The Company incurred expense approximating 193,000 Euros (approximately $250,000) under this contract during the six-month period ended June 30, 2005.

IKP AGREEMENT

On April 25, 2005, the Company entered into a contractual agreement with the Institut fur klinische Pharmakologie ("IKP"), a German organization, for clinical testing of the Company's product Elafin. Such agreement will require payments approximating 118,000 Euros, payable upon the attainment of achieved milestones. The Company incurred expense approximating 24,000 Euros (approximately $30,000) under this contract during the six-month period ended June 30, 2005.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS
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CAUTIONARY STATEMENTS:

This Quarterly Report on Form 10-QSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company intends that such forward-looking statements be subject to the safe harbors created by such statutes. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. Accordingly, to the extent that this Quarterly Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements. The differences may be caused by a variety of factors, including but not limited to adverse economic conditions, intense competition, including intensification of price competition and entry of new competitors and products, adverse federal, state and local government regulation, inadequate capital, unexpected costs and operating deficits, and increases in general and administrative costs, and other specific risks that may be alluded to in this Quarterly Report or in other reports issued by the Company. In addition, the business and operations of the Company are subject to substantial risks that increase the uncertainty inherent in the forward-looking statements. The inclusion of forward looking statements in this Quarterly Report should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

The Company does not currently generate any revenue from its operations and does not expect to report any significant revenue until the successful development and marketing of its planned pharmaceutical and other biotech products. Additionally, after the launch of the Company's products, there can be no

assurance that the Company will generate positive cash flow and there can be no assurances as to the level of revenues, if any, the Company may actually achieve from its planned operations.

PLAN OF OPERATIONS

The Company specializes in the research, development and marketing of drugs for inflammatory diseases with Elafin as its first project. The Company's management deems Elafin to be one of the most prospective substances in the treatment of serious tissue and muscle damage. Independently conducted animal experiments have indicated that Elafin may have benefits in the treatment of tissue and muscle damage caused by insufficient oxygen supply and therefore may be useful in the treatment of heart attacks, serious injuries and in the course of organ transplants. Other applications have yet to be determined.

The Company intends to implement Elafin as a drug in the treatment of serious tissue and muscle damage, e.g. due to traffic accidents, and intends to achieve governmental approval in Europe first. Currently, management assumes that it will take at least five years to achieve first governmental approval for the use of Elafin as a drug in the treatment of serious tissue and muscle damage.

The Company's success will depend on its ability to prove that Elafin is well tolerated by humans and its efficiency in the indicated treatment. There can be no assurance that the Company will be able to develop feasible production procedures in accordance with Good Manufacturing Practices ("GMP") standards, or that Elafin will receive any governmental approval for the use as drug in any of the intended applications.

In November 2004, we entered into an exclusive worldwide license and collaboration agreement with ARTES Biotechnology GmbH ("ARTES"). This license agreement enables us to economically produce Elafin on a large scale by using the sublicensed yeast HANSENULA POLYMORPHA as a high performance expression system. Rhein Biotech GmbH ("Rhein") has licensed the yeast to ARTES, who in-turn sublicensed it to us. The agreement has a term of 15 years with an annual license fee of 10,000 Euros per year or 2.5% royalties on the future sales of Elafin. Should the license agreement between Rhein and ARTES terminate, Rhein will assume the sublicense agreement with us Company under similar terms.

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A necessary pre-requisite for the commencement of clinical trials is the production of Elafin according to GMP Standards. In anticipation of commencing clinical trials, on March 18, 2005 we entered into a contractual agreement with Eurogentec S.A., located in Liege, Belgium, an experienced Contract Manufacturing Organization (CMO) for the production of a required amount of Elafin according to GMP Standards. The authorities demand strict standards for the manufacture of medicines for clinical testing, and the GMP production of Elafin for the upcoming clinical trials has to comply with a large number of rules and regulations.

In April 2005, we entered into an agreement with the German Institut fur klinische Pharmakologie ("IKP"), an experienced Contract Research Organization (CRO), to assist us with our initial clinical trial involving Elafin, to evaluate the tolerability, safety, pharmacokinetic and dynamics of Elafin pursuant to a clinical protocol [e.g. with patients]. We plan to commence Phase I of the clinical trials in September 2005. Phase I will involve the enrollment of approximately 40 healthy patients. Publication of the results of the Phase I clinical trial is expected in the fourth quarter of 2005.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception we have raised a total of approximately $ 3,831,000 from the sale of 18,265,428 shares of our common stock, of which 5,085,487 shares have been sold at $0.40 per share under a stock subscription agreement in the amount of approximately $2,035,000.

In 2001, Proteo Biotech, AG, our wholly-owned subsidiary ("PBAG") received a grant from the German State Schleswig-Holstein in the amount of approximately 790,000 Euros which grant covered the period from February 1, 2001 to March 31, 2004.

In May 2004, PBAG received another grant from the German State of Schleswig-Holstein in the approximate amount of 760,000 Euros for further research and development of our pharmaceutical product Elafin. The new grant covers the period from April 1, 2004 to March 31, 2007 if certain milestones have been reached by September 30 of each year, with a possible extension as

defined in the agreement. The new grant covers 49.74% of eligible research and development costs and is subject to our ability to fund the remaining 50.26 % of the costs. An additional condition of the grant is that the product is to be developed and subsequently produced in the German state of Schleswig-Holstein. We qualified to receive approximately 250,000 Euros (approximately $320,000) under the new grant in 2005, of which approx. 120,000 Euros ($154,000) had been recorded by June 30, 2005. We believe that all milestones required by the new grant had been satisfied as of June 30, 2005. There can be no assurance that we will qualify for additional funds under the grant.

The Company has cash approximating $480,000 as of June 30, 2005. This is a significant increase over the June 30, 2004 cash balance of approximately $370,000. The increase is due in large part to additional grant funds received and the collection of $680,000 on our stock subscription receivable between June 30, 2004 and June 30, 2005.

On November 15, 2004, the Company entered into an exclusive worldwide license and collaboration agreement with ARTES Biotechnology GmbH ("ARTES"). This license agreement enables us to economically produce Elafin on a large scale by using the sublicensed yeast HANSENULA POLYMORPHA as a high performance expression system. Rhein Biotech GmbH ("Rhein") has licensed the yeast to ARTES, who in-turn sublicensed it to us. The agreement has a term of 15 years with an annual license fee of 10,000 Euros per year or 2.5% royalties on the future sales of Elafin. Should the license agreement between Rhein and ARTES terminate, Rhein will assume the sublicense agreement with us Company under similar terms.

On March 18, 2005, the Company entered into a contractual agreement with Eurogentec S.A., a Belgium CMO, for the production of the Company's product Elafin for clinical trials according to good manufacturing practices. Such agreement will require payments approximating 400,000 Euros, payable upon the attainment of achieved milestones between April 2005 and July 2005. The Company incurred expense approximating 193,000 Euros (approximately $250,000) under this contract during the six-month period ended June 30, 2005, therefore causing research and development expenses to be substantially higher this quarter than that of the previous year.

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On April 25, 2005, the Company entered into a contractual agreement with the Institut fur klinische Pharmakologie ("IKP"), a German organization, for clinical testing of the Company's product Elafin. Such agreement will require payments approximating 118,000 Euros, payable upon the attainment of achieved milestones, which are expected to be achieved during the third and fourth quarters of 2005. The Company incurred expense approximating 24,000 Euros (approximately $30,000) under this contract during the six-month period ended June 30, 2005. This has also caused research and development expenses to increase this quarter.

Management believes that the Company will not generate any significant revenues in the next few years, nor will it have sufficient cash to fund operations. As a result, the Company's success will largely depend on its ability to secure additional funding through the sale of its Common Stock and/or the sale of other debt securities. There can be no assurance, however, that the Company will be able to consummate debt or equity financing in a timely manner, or on a basis favorable to the Company, if at all.

GOING CONCERN

The Company's independent registered public accounting firm stated in their Auditor's Report included in our Form 10-KSB for the year ended December 31, 2004 that the Company will require a significant amount of additional capital to advance the Company's products to the point where they become commercially viable and has incurred significant losses since inception. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The Company intends to fund operations through grant proceeds and increased equity financing arrangements which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements for the fiscal year ending December 31, 2005. Therefore, the Company will be required to seek additional funds to fund its long-term operations. The successful outcome of future activities cannot be determined at this time and there is no assurance that if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

INFLATION

Management believes that inflation has not had a material effect on the Company's results of operations.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not currently have any off balances sheet arrangements.

CAPITAL EXPENDITURES

None significant.

ITEM 3. CONTROLS AND PROCEDURES

Walter J. Thomsen, the Company's new principal executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(c) and 15d-15(e) under of the Securities Exchange Act of 1934, as amended). Based on his most recent evaluation, he has concluded that the Company's disclosure controls and procedures were effective as of June 30, 2005. There have been no significant changes in the Company's internal control over financial reporting during the quarter ended June 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not currently a party to any legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibits:

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

PROTEO, INC.

Dated: August 12, 2005

By: /s/ Walter J. Thomsen

Walter J. Thomsen
Principal Executive Officer and
Chief Financial Officer
(signed both as an Officer duly
authorized to sign on behalf of the
Registrant and Principal Financial
Officer and Chief Accounting Officer)

</TEXT>
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