

PROTEO INC

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

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

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

2102 BUSINESS CENTER DRIVE, IRVINE, CALIFORNIA

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

88-0292249

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

92612

(ZIP CODE)

(949) 253-4616

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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	23,879,350 shares of common stock as of October 31, 2008

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

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PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2008	December 31, 2007
	----- (Unaudited)	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,474,938	\$ 802,745
Research supplies inventory	125,747	127,557
Prepaid expenses and other current assets	35,796	80,542
	-----	-----
	1,636,481	1,010,844
PROPERTY AND EQUIPMENT, NET		
	286,076	376,542
	-----	-----
Total Assets	\$ 1,922,557	\$ 1,387,386
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 53,436	\$ 123,518
Accrued licensing fees	910,287	927,900
	-----	-----
	963,723	1,051,418
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Non-voting preferred stock, par value \$0.001 per share; 10,000,000 shares authorized; 600,000 shares Issued and outstanding (Liquidation preference: see Note 2)	600	--
Common stock, par value \$0.001 per share; 300,000,000 shares authorized; 23,879,350 shares issued and outstanding	23,880	23,880
Additional paid-in capital	8,567,634	4,968,234
Note receivable for sale of preferred stock	(2,328,008)	--
Accumulated other comprehensive income	343,721	370,378
Deficit accumulated during development stage	(5,648,993)	(5,026,524)
	-----	-----
Total Stockholders' Equity	958,834	335,968
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,922,557	\$ 1,387,386
	=====	=====

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
 (A DEVELOPMENT STAGE COMPANY)
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 AND COMPREHENSIVE LOSS
 FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007
 AND FOR THE PERIOD FROM NOVEMBER 22, 2000 (INCEPTION) THROUGH SEPTEMBER 30, 2008
 UNAUDITED

	THREE-MONTHS ENDED SEPTEMBER 30, 2008	THREE-MONTHS ENDED SEPTEMBER 30, 2007	NINE-MONTHS ENDED SEPTEMBER 30, 2008	NINE-MONTHS ENDED SEPTEMBER 30, 2007	NOVEMBER 22, 2000 (INCEPTION) THROUGH SEPTEMBER 30, 2008
REVENUES	\$ --	\$ --	\$ --	\$ --	\$ --
EXPENSES					
General and Administrative	100,363	58,221	315,420	193,678	3,843,723
Research and Development, net of grants	124,844	43,641	371,494	103,364	1,987,758
	-----	-----	-----	-----	-----
	225,207	101,862	686,914	297,042	5,831,481
	-----	-----	-----	-----	-----
INTEREST AND OTHER INCOME, NET	113,767	55,528	64,446	42,740	119,484
	-----	-----	-----	-----	-----
NET LOSS BEFORE MINORITY INTEREST	(111,440)	(46,334)	(622,468)	(254,302)	(5,711,997)
MINORITY INTEREST IN NET LOSS OF CONSOLIDATED SUBSIDIARY, NET OF TAXES	--	--	--	3,948	63,004
	-----	-----	-----	-----	-----
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	(111,440)	(46,334)	(622,468)	(250,354)	(5,648,993)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	(170,132)	45,006	(26,657)	64,813	343,721
	-----	-----	-----	-----	-----
COMPREHENSIVE LOSS	\$ (281,572)	\$ (1,328)	\$ (649,125)	\$ (185,541)	\$ (5,305,272)
	=====	=====	=====	=====	=====
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.01)	
	=====	=====	=====	=====	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	23,879,350	23,879,350	23,879,350	23,879,350	
	=====	=====	=====	=====	

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007, AND
FOR THE PERIOD FROM NOVEMBER 22, 2000 (INCEPTION) THROUGH SEPTEMBER 30, 2008
UNAUDITED

	NINE-MONTHS ENDED SEPTEMBER 30, 2008 -----	NINE-MONTHS ENDED SEPTEMBER 30, 2007 -----	NOVEMBER 22, 2000 (INCEPTION) THROUGH SEPTEMBER 30, 2008 -----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (622,468)	\$ (250,354)	\$(5,648,993)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	45,950	40,655	321,349
Loss on disposal of property and equipment	--	3,723	4,518
Unrealized foreign currency transaction (gain)loss	(18,453)	71,000	206,634
Changes in operating assets and liabilities:			
Research supplies inventory	(647)	--	(139,099)
Prepaid expenses and other current assets	45,538	(16,044)	(25,161)
Accounts payable and accrued liabilities	(71,375)	983	13,617
Accrued licensing fees	--	--	702,813
	-----	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(621,455)	(150,037)	(4,564,322)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(4,884)	(1,197)	(612,906)
Cash of reorganized entity	--	--	27,628
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(4,884)	(1,197)	(585,268)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	--	--	1,792,610
Proceeds from subscribed common stock	--	323,339	3,190,995
Proceeds from issuance of preferred stock	1,271,992	--	1,271,992
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,271,992	323,339	6,255,597
	-----	-----	-----
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	26,540	27,451	368,931
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	672,193	199,556	1,474,938
CASH AND CASH EQUIVALENTS - beginning of period	802,745	269,482	--
	-----	-----	-----
CASH AND CASH EQUIVALENTS - end of period	\$ 1,474,938	\$ 469,038	\$ 1,474,938
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Common stock issued for subscription receivable	\$ --	\$ --	\$ 1,627,755
	=====	=====	=====
Net assets (excluding cash) of reorganized entity received in exchange for equity securities	\$ --	\$ --	\$ 8,509
	=====	=====	=====
Unpaid balance of note receivable for issuance of preferred stock	\$ 2,328,008	\$ --	\$ 2,328,008
	=====	=====	=====

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 (UNAUDITED)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

BASIS OF PRESENTATION

The accompanying interim condensed consolidated financial statements as of September 30, 2008, for the three-months and nine-months ended September 30, 2008 and 2007 and for the period from November 22, 2000 (Inception) through September 30, 2008 have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments and accruals except for the sale/issuance of preferred stock described in Note 2) necessary to present fairly the financial condition, results of operations and cash flows of Proteo, Inc. and its wholly owned subsidiary (hereinafter collectively referred to as the "Company") as of and for the periods presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Operating results for the three-months and nine-months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or for any other interim period during such year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007 filed with the SEC on April 14, 2008.

NATURE OF BUSINESS

The Company intends 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 which 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.

Proteo, Inc.'s common stock is currently quoted on the OTC Bulletin Board of the National Association of Securities Dealers under the symbol "PTEO".

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 seek the various governmental regulatory approvals for the marketing of Elafin. Management 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 develop 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. There is no assurance of any future revenues. The Company will require substantial additional funding for continuing research and development, obtaining regulatory approvals 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:

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

The products that the Company is developing are considered drugs or biologics, and hence are governed by the Federal Food, Drug and Cosmetics Act (in the United States) and the regulations of State and various foreign government agencies. The Company's proposed pharmaceutical products to be used by humans are subject to certain clearance procedures administered by the above regulatory agencies.

PROTEO, INC. AND SUBSIDIARY
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 (UNAUDITED)

Management plans to generate 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 funds to meet its future working capital requirements through the additional sales of debt and/or 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 condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CONCENTRATIONS

The Company maintains substantially all of its cash in bank accounts at a German private commercial bank. The Company's bank accounts at this financial institution are presently protected by the voluntary "Deposit Protection Fund Of The German Private Commercial Banks". As such, the Company's bank is a member of this deposit protection fund. The Company has not experienced any losses in these accounts.

The Company's research and development activities and most of its assets are located in Germany. The Company's operations are subject to various political, economic, and other risks and uncertainties inherent in Germany and the European Union.

OTHER RISKS AND UNCERTAINTIES

Proteo, Inc.'s line of future pharmaceutical products being developed by its German subsidiary are considered drugs or biologics, and as such are governed by the Federal Food, Drug and Cosmetics Act (in the United States) and by the regulations of state agencies and various foreign government agencies. There can be no assurances that the Company will obtain the regulatory approvals required to market its products. The Company has no experience in obtaining regulatory clearance on these types of products. Therefore, the Company will be subject to the risks of delays in obtaining or failing to obtain regulatory clearance and other uncertainties, including financial, operational, technological, regulatory and other risks associated with an emerging business, including the potential risk of business failure.

As substantially all of the Company's operations are in Germany, the Company is exposed to risks related to fluctuations in foreign currency exchange rates. Management does not utilize derivative instruments to hedge against such exposure.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements have been prepared in accordance with GAAP and include the accounts of Proteo, Inc. and Proteo Biotech AG, its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In the opinion of management, neither the Financial Accounting Standards Board, its Emerging Issues Task Force, the American Institute of Certified Public Accountants, nor the SEC have issued any accounting pronouncements since the Company filed its December 31, 2007 Form 10-KSB that are expected to have a material impact on the Company's future consolidated financial statements.

The recent accounting pronouncements discussed in the notes to the Company's December 31, 2007 audited consolidated financial statements, filed previously with the SEC in Form 10-KSB that were required to be adopted during the year ending December 31, 2008 did not have or are not expected to have a significant impact on the Company's 2008 consolidated financial statements.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 (UNAUDITED)

2. STOCK SUBSCRIPTIONS RECEIVABLE AND OTHER EQUITY TRANSACTIONS

During the nine-month periods ended September 30, 2008 and 2007 the Company received payments of approximately \$1,272,000 for preferred stock and \$323,000 for common stock, respectively, in connection with the issuance of preferred stock and collections of a common stock subscriptions receivable.

In March 2008, the Company received 300,000 Euros (\$474,000)("Deposit") from FIDESprit AG ("FIDESprit"), a Swiss corporation, as a deposit for a capital stock subscription. On June 5, 2008, the Company's Board of Directors authorized the issuance of up to 750,000 shares of non-voting Series A Preferred Stock ("Series A Stock") with a par value of \$0.001 per share. On June 9, 2008, the Company entered into a Preferred Stock Purchase Agreement ("Stock Purchase Agreement") with FIDESprit. Pursuant to the Stock Purchase Agreement, the Company sold and issued to FIDESprit 600,000 shares of Series A Stock at a price of \$6.00 per share, for an aggregate price of \$3,600,000 ("Purchase Price"). In payment of the Purchase Price, FIDESprit delivered to the Company a promissory note in the amount of \$3,600,000. The promissory note matures on March 31, 2009. Scheduled principal payments have been paid or are due as follows: (i) the excess of the first installment (\$900,000) over the Deposit was paid upon execution of the Stock Purchase Agreement, (ii) the second installment, in the amount of \$450,000, was due on or before August 30, 2008, (iii) the third installment, in the amount of \$900,000, is due on or before November 30, 2008, and (iv) the final installment, in the amount of \$1,350,000, is due on or before March 31, 2009. The promissory note bears interest at 10% per annum only on any unpaid principal balance after March 31, 2009 or upon any default event. During the quarter ended June 30, 2008, the Company applied the Deposit against the Purchase Price and received approximately \$662,000 in principal payments for the promissory note. During the quarter ended September 30, 2008 the Company received approximately \$139,000 in principal payments for the promissory note. The unpaid principal balance of the Series A Stock Note receivable as of September 30, 2008 approximated \$2,328,000 which included approximately \$78,000 that was due on or before August 30, 2008. The \$78,000 was received in October 2008. The Series A Stock Note receivable is reported as a reduction of stockholders' equity at September 30, 2008.

Holders of Series A Stock are entitled to receive preferential dividends, if and when declared, at the per share rate of twice the per share amount of any cash or non-cash dividend distributed to holders of the Company's common stock. If no dividend is distributed to common stockholders, the holders of the outstanding shares of Series A Stock are entitled to an annual stock dividend payable at the rate of one share of Series A Stock for each twenty shares of Series A Stock owned by each holder of Series A Stock. The annual stock dividend shall be paid on June 30 commencing in 2009 and no stock dividends will be paid after December 31, 2011. In the event the Company shall enter into any transaction in which the shares of common stock are exchanged into other stock or securities, each share of Series A Stock shall automatically be exchanged or converted into the same security at a rate per share equal to 1.5 times the rate per share that the common stock is exchanged for. Upon liquidation, holders of Series A Stock are entitled to receive a per share cash distribution equal to twice the rate of the per share cash distribution, if any, to the holders of common stock.

FIDESprit and the Company have one director in common, who is also a shareholder of the Company.

There were no issuances of common stock during the nine-month period ended September 30, 2008, nor have any stock options been granted from inception to date.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 (UNAUDITED)

3. LOSS PER COMMON 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 common 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 outstanding at September 30, 2008 or 2007. Additionally, there were no adjustments to net loss to determine net loss available to common shareholders. As such, basic and diluted loss per common 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 from Euros (the functional currency) into U.S. dollars (the reporting currency) at period-end exchange rates; equity transactions are translated at historical rates; and grant receipts, income and expenses are translated at weighted average exchange rates for the period. Net foreign currency exchange gains or losses resulting from such translations are excluded from the results of operations but are included in other comprehensive income and accumulated in a separate component of stockholders' equity. Accumulated comprehensive income related to these items approximated \$344,000 at September 30, 2008 and \$370,000 at December 31, 2007.

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 U.S. 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 during the nine-month periods ended September 30, 2008 and 2007, and, therefore, has not realized any significant foreign currency exchanges gains or losses during these periods.

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 transaction (gains) and losses of approximately (\$18,000) and \$71,000, respectively, for the nine-months ended September 30, 2008 and 2007, respectively, which are included in interest and other income in the accompanying condensed consolidated statements of operations and comprehensive loss.

6. SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

SFAS No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION," establishes standards for how public companies report information about segments of their business in their annual financial statements and requires them to disclose 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 countries in which it holds material assets and reports material revenues and its major customers. The Company considers itself to operate in one segment and has not generated any significant operating revenues since its inception. All of the Company's property and equipment are located in Germany.

7. GRANTS

In May 2004, the German state of Schleswig-Holstein granted Proteo Biotech AG approximately 760,000 Euros (the "Grant") for further research and development of the Company's pharmaceutical product Elafin. The Grant, as amended, covers the period from April 1, 2004 to December 31, 2007 if certain milestones have been reached by September 30 of each year, with a possible extension as defined in the agreement. The Grant covers approximately 50% of eligible research and development costs and is subject to the Company's ability to otherwise finance the remaining costs. An additional condition of the Grant is that the product is to be developed and subsequently produced in Schleswig-Holstein.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 (UNAUDITED)

The Company qualified to receive approximately 217,000 Euros and 225,000 Euros (approximately \$320,000 and \$298,000, respectively) of the Grant in 2007 and 2006, respectively. Grant funds approximating 196,000 Euros and 225,000 Euros (approximately \$289,000 and \$298,000, respectively) have been received (or were due at December 31, 2007) and have been reported as a reduction of research and development expenses for the years ended December 31, 2007 and 2006, respectively. The remaining 21,000 Euros (approximately \$27,000) expired as of December 31, 2007 and were forfeited. Grant funds approximating 0 and 112,000 Euros (\$0 and \$151,000, respectively) during the nine-month periods ended September 30, 2008 and 2007, respectively, have been reported as a reduction of research and development expenses.

8. DR. WIEDOW LICENSE AGREEMENT

On December 30, 2000, the Company entered into a thirty-year license agreement, beginning January 1, 2001, with Dr. Oliver Wiedow, MD, the owner and inventor of several patents, patent rights and technologies related to Elafin. In exchange for an exclusive worldwide license for the intellectual property, the Company agreed to pay Dr. Wiedow a licensing fee of 110,000 Euros per year for six years for a total obligation of 660,000 Euros. Such licensing fees shall be reduced by payments to Dr. Wiedow during such term for any royalties and for 50% of any salary. Royalties are to be paid quarterly to Dr. Wiedow for the term of the agreement in the amount of three percent of gross revenues earned from the sale of products based on the licensed technology. Dr. Wiedow has not been paid any salary since execution of the agreement.

During 2004, the licensing agreement was amended to require payments of 30,000 Euros on July 15 of each year, beginning on July 15, 2004. Such amount can be increased in calendar 2005 and thereafter to 110,000 Euros by June 1 of each year based on an assessment of the Company's financial ability to make such payments. The annual payments will continue until the entire obligation of 660,000 Euros has been paid. In December 2007, the Company paid to Dr. Wiedow 30,000 Euros (approximately \$43,000). No other payments were made to Dr. Wiedow as of December 31, 2007, which was a technical breach of the license agreement. Dr. Wiedow waived such breach and deferred all of the other payments that were contractually due as of September 30, 2008 to December 31, 2008.

At September 30, 2008 and December 31, 2007 the Company has accrued \$910,287 (630,000 Euros) and \$927,900 (630,000 Euros), respectively, of licensing fees payable to Dr. Wiedow. No payments were made to Dr. Wiedow during the nine-month period ended September 30, 2008.

Dr. Wiedow, who is a director of the Company, beneficially owned approximately 45% of the Company's outstanding common stock as of September 30, 2008.

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

CAUTIONARY STATEMENTS:

This Quarterly Report on Form 10-Q 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, as amended (the "Exchange Act"). 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 management in forward-looking statements.

Such 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, 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 management or any other person that the objectives or plans of the Company will be achieved.

Since inception, the Company has generated a relatively minor amount of non-operating revenue from its licensing activities and does not expect to report any significant operating 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 principal operations.

OVERVIEW

The Company specializes in the research, development and marketing of drugs for inflammatory diseases with Elafin as its first project. 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 inflammatory diseases, and plans to seek governmental approval in Europe first. Currently, management estimates that it will take at least four years to achieve its first governmental approval for the use of Elafin as a drug for the first indication.

The Company's success will depend on its ability to prove that Elafin is well tolerated by humans and its efficacy 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 its use as a drug in any of the intended applications.

After developing a production procedure for Elafin, Proteo has initiated clinical trials to achieve governmental approval for the use of Elafin as a drug in Europe. For this purpose, Proteo has contracted Eurogentec, an experienced Contract Manufacturing Organization (CMO) located in Belgium to produce Elafin in accordance with GMP standards as required for clinical trials.

In December 2005, Proteo successfully completed a first Phase I trial for Elafin. Elafin was tested on 32 healthy male volunteers in a single-ascending-dose, double blind, randomized, placebo-controlled trial to evaluate its tolerability and safety at the Institut für Klinische Pharmakologie in Kiel, Germany. All intravenously applied doses were well tolerated. No severe adverse events occurred.

During 2006, the Company gathered and evaluated additional data from the results of the Phase I study. In addition, during 2006, we established a procedure to incorporate Elafin as an active ingredient in cream.

In September 2006, Windhover Information, Inc., an established provider of business information for decision makers in the biotechnology and pharmaceutical industries, chose the Company's Elafin project as one of the top 10 most interesting cardiovascular projects. We presented the Elafin project at the "Windhover's Therapeutic Alliances Cardiovascular Conference" in Chicago on November 16, 2006.

In September 2006 we filed an application with the EMEA (European Medicines Agency) to obtain orphan drug status in the European markets for Elafin to be used in the treatment of pulmonary hypertension. Subsequent to December 31, 2006, the Committee for Orphan Medical Products (COMP) of the EMEA issued a positive opinion recommending the granting of orphan medicinal product designation for Elafin for treatment of pulmonary arterial hypertension and chronic thromboembolic pulmonary hypertension. On March 20, 2007 the orphan drug designation became effective upon adoption of the recommendation by the European Commission.

In July 2007, we entered into an agreement with the University of Alberta, Canada to cooperate in research on Elafin for the treatment of pulmonary diseases in neonates. Animal experiments on newborn rats will be carried out by Dr. Bernard Thebaud, associate professor at the Department of Pediatrics and Neonatology.

In August 2007, the Company's subsidiary entered into an agreement with Rhein Minapharm ("Mina"), a well established Egyptian pharmaceutical company based in Cairo, for clinical development, production and marketing of Elafin. We have granted Mina the right to exclusively market Elafin in Egypt and certain Middle Eastern and African countries. Proteo received an initial payment of \$110,000 upon execution of the agreement, and may receive additional payments upon Mina's attainment of certain clinical milestones as well as royalties on future net product sales. In addition, Mina will finance the clinical research activities for the designated region. The agreement schedules the transfer of the biotechnological production process of Elafin to Cairo.

In January 2008, we entered into an agreement with Stanford University in California to cooperate in preclinical studies related to Elafin's treatment of pulmonary arterial hypertension. Proteo will provide support for animal experiments conducted by Marlene Rabinovitch, Research Director of the Vera Moulton Wall Center for Pulmonary Vascular Disease at Stanford University who is a renowned expert in the field, and her group at the university.

In April 2008, we submitted an application to the Ethics Committee at the University of Kiel, Germany for a placebo-controlled randomized trial to evaluate the effect of Elafin on cytokine profiles after major surgery (clinical phase II). In May 2008, the Ethics Committee at the University of Kiel, Germany gave its positive opinion on the above application which we submitted to the BUNDESINSTITUT FUR ARZNEIMITTEL UND MEDIZINPRODUKTE, the German Federal Institute for pharmaceuticals and medical products.

In August 2008, the BUNDESINSTITUT FUR ARZNEIMITTEL UND MEDIZINPRODUKTE granted approval for the Phase II clinical trial on the drug candidate Elafin. The trial will be performed in Germany at the Department of General and Thoracic Surgery, University Medical Center Schleswig-Holstein, Campus Kiel.

Our goal is to obtain our first governmental regulatory approval for the first indication of our initial product in 2012. It should be noted that the first indication, if successfully developed, would have a market potential substantially smaller than the overall market of Elafin for more widespread applications such as for the treatment of cardiac infarction.

RESULTS OF OPERATIONS

OPERATING EXPENSES

The Company's operating expenses for the nine month period ended September 30, 2008 were approximately \$687,000, an increase of approximately \$390,000 over the same period of the prior year. This increase is due primarily to an increase in research and development expenses during the nine month period ended September 30, 2008 of approximately \$268,000 which was not offset by the receipt of any grant funds as was the case in the same period of the prior year and an increase in general and administrative expenses of approximately \$122,000. The increase in general and administrative expenses is primarily due to an increase in professional fees related to financial reporting and the implementation of certain internal controls over financial reporting.

The Company's operating expenses for the three month period ended September 30, 2008 were approximately \$225,000, an increase of approximately \$123,000 over the same period of the prior year. This increase is due primarily to an increase in research and development expenses during the current year quarter of approximately \$81,000, which was not offset by the receipt of any grant funds as was the case in the prior year quarter, and an increase in general and administrative expenses of approximately \$42,000.

INTEREST AND OTHER INCOME

Interest and other income for the nine-month and three-month periods ended September 30, 2008 were approximately \$64,000 and \$114,000, respectively, an increase of approximately \$21,000 and \$58,000, respectively, over the same periods of the prior year. The increases are due primarily to an increase in the unrealized foreign currency transaction loss described in Note 5 to the Company's condensed consolidated financial statements included elsewhere herein.

FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

We experienced a net loss of approximately \$27,000 and \$170,000 in foreign currency translation adjustments during the nine-month and three-month periods ended September 30, 2008, respectively. This represents a decrease of approximately \$91,000 and \$215,000, respectively, over the same periods in the prior year. The decreases are primarily due to a strengthening U.S. Dollar (our reporting currency) compared to the Euro (our functional currency) during the periods.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception we have raised a total of (i) approximately \$4,983,000 from the sale of 20,065,428 shares of our common stock, of which 6,585,487 shares, 300,000 shares and 1,500,000 shares have been sold at \$0.40 per share, \$0.84 per share and \$0.60 per share, respectively, under stock subscription agreements in the amount of approximately \$2,035,000, \$252,000 and \$900,000, respectively, and (ii) \$1,272,000 from the sale of 600,000 shares of the Company's non-voting Series A Preferred Stock. The balance of the purchase price for the Series A Preferred Stock is evidenced by a promissory note which, as of September 30, 2008, had a principal balance of \$2,328,000. See Note 2 to the condensed consolidated financial statements included elsewhere herein for the payment terms under the promissory note.

In May 2004, the German State of Schleswig-Holstein granted Proteo Biotech AG approximately 760,000 Euros (the "2004 Grant") for further research and development of the Company's pharmaceutical product Elafin. The 2004 Grant, as amended, covers the period from April 1, 2004 to December 31, 2007 if certain milestones have been reached by September 30 of each year, with a possible extension as defined in the agreement. The 2004 Grant covers approximately 50% of eligible research and development costs and is subject to the Company's ability to otherwise finance the remaining 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.

The Company qualified to receive approximately 217,000 Euros and 225,000 Euros (approximately \$320,000 and \$298,000, respectively) under the 2004 Grant in 2007 and 2006, respectively. In 2007, we received grant funds approximating 172,000 Euros (approximately \$254,000) and qualified for an additional 23,623 Euros recorded as a receivable as of December 31, 2007. We did not qualify for approximately 21,000 Euros under the 2004 Grant by December 31, 2007, and such amount was forfeited. As of December 31, 2007, management believes that all other milestones required by the 2004 Grant have been satisfied.

The Company received approximately 24,000 Euros (\$34,000) of grant funds during The nine months ended September 30, 2008.

The Company has cash and cash equivalents approximating \$1,475,000 as of September 30, 2008. This is a significant increase over the December 31, 2007 balance of approximately \$803,000, mainly due to receipts of the first two installment payments on the promissory note receivable resulting from the sale of the Company's Series A Preferred Stock.

The VAT and grant amounts had been reflected as prepaid expenses and other current assets on our December 31, 2007 consolidated balance sheet. Their receipt accounts for the decrease in such account at September 30, 2008.

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 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, 2007 that the Company will require a significant amount of additional capital to advance the Company's products to the point where they may 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.

Therefore, the Company will be required to seek additional funds to finance 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.

OFF BALANCE SHEET ARRANGEMENTS

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

CAPITAL EXPENDITURES

None significant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company ("SRC") is not required to provide any information in response to Item 305 of Regulation S-K.

ITEM 4T. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to Birge Bargmann our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including Birge Bargmann our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2008. Based on that evaluation, Ms. Bargmann concluded that as of September 30, 2008, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were effective.

b) Changes in Internal Control Over Financial Reporting

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has concluded there were no significant changes in our internal controls over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A RISK FACTORS

Not required for SRCs.

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

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.

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: October 31, 2008

By: /s/ Birge Bargmann

*Birge Bargmann
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)*

EXHIBIT 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Birge Bargmann, certify that:

1. I have reviewed this report on Form 10-Q of Proteo, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2008

By: /s/ Birge Bargmann

*Birge Bargmann
Chief Executive Officer (Principal
Executive Officer)*

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Birge Bargmann, certify that:

1. I have reviewed this report on Form 10-Q of Proteo, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2008

By: /s/ Birge Bargmann

*Birge Bargmann
Chief Financial Officer (Principal
Accounting Officer)*

EXHIBIT 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Proteo, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the quarter ended September 30, 2008, as filed with the Securities and Exchange Commission (the "Report"), Birge Bargmann, Chief Executive Officer and Chief Financial Officer, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that to her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 31, 2008

/s/ Birge Bargmann

Birge Bargmann

*CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER*

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906, OR OTHER DOCUMENT AUTHENTICATING, ACKNOWLEDGING, OR OTHERWISE ADOPTING THE SIGNATURE THAT APPEARS IN TYPED FORM WITHIN THE ELECTRONIC VERSION OF THIS WRITTEN STATEMENT HAS BEEN PROVIDED TO AND WILL BE RETAINED BY THE COMPANY AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.