UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010.

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: 000-30728

PROTEO, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**88-0292249**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

2102 Business Center Drive
Irvine, California 92612
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
None	None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not 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-K or any amendment to this Form 10-K. ☑

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	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 ☑

The aggregate market value of the registrant's voting equity held by non-affiliates of the registrant, computed by reference to the closing sales price for the registrant's common stock on June 30, 2010, as reported on the OTC Bulletin Board, was approximately $5,566,000. (1)

Number of shares of Common Stock outstanding as of March 11, 2011: 23,879,350

1) Excludes 12,747,000 shares of common stock held by directors and officers, and any stockholder whose ownership exceeds five percent of the shares outstanding as of June 30, 2010

Documents Incorporated by Reference

None.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☑

PROTEO, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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CAUTIONARY STATEMENT

This Annual Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Since we are a "penny stock" company (see Item 5 of Part II of this Annual Report), the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995 does not apply to us. We note, however, that such forward-looking statements involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the "Company" (as that term is defined below) to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements contained in this Form 10-K. Such potential risks and uncertainties include, without limitation, Food and Drug Administration ("FDA") and other regulatory approval of our products, patent protection on our proprietary technology, product liability exposure, uncertainty of market acceptance, competition, technological change, and other risk factors detailed herein and in our other filings with the Securities and Exchange Commission (the "SEC"). Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our Company and our business made elsewhere in this annual report as well as other public reports filed with the SEC. The forward-looking statements are made as of the date of this Form 10-K, and we assume no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements.

Such statements are based on management's beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements also include statements in which words such as "may," "should, " "expect," "anticipate," "intend," "plan," "believe," "estimate," "consider," “hopes,” “project”, “will,” their opposites and similar expressions are used.

Forward-looking statements are not guarantees of future performance. They should not be regarded as a representation by us or any other person that the objectives or plans will be achieved. The Company's future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

PART I

ITEM 1 - BUSINESS

COMPANY OVERVIEW- HISTORY

Proteo, Inc. is a Nevada corporation formed on December 18, 1992. Proteo, Inc. has one wholly owned subsidiary, Proteo Biotech AG ("PBAG"), a German corporation (Proteo, Inc. and PBAG are hereinafter collectively referred to as "we", "our", the "Company" and "Proteo"). The Company's common stock is currently quoted on the Over-The-Counter Bulletin Board ("OTCBB") under the symbol "PTEO.OB". Effective December 31, 2004, the Company's other wholly owned subsidiary, Proteo Marketing, Inc. ("PMI") was merged into the Company.

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 PBAG, and as a result, PBAG became a wholly owned subsidiary of PMI.

During 2001, PMI entered into a Shell Acquisition Agreement (the "Acquisition Agreement") with Trivantage Group, Inc. ("Trivantage"), a public "shell" company, in a transaction accounted for as a reverse merger. In accordance with the Acquisition Agreement, PMI first acquired 176,660,280 shares (1,313,922 post-reverse split shares, as described below) of Trivantage's common stock representing 90% of the issued and outstanding common stock of Trivantage, in exchange for a cash payment of $500,000 to the sole shareholder of Trivantage. Secondly, Trivantage completed a one for one-hundred-fifty reverse stock split. Finally, effective April 25, 2002, the shareholders of PMI exchanged their shares of PMI for an aggregate of 20,286,512 shares of Trivantage to effect a reverse merger between PMI and Trivantage. Subsequently, Trivantage changed its name to Proteo, Inc.

DESCRIPTION OF BUSINESS

The Company intends to develop, promote and market pharmaceuticals and other biotech products. The Company's focus is on natural occurring compounds which have proven superior biologic activity over almost all known compounds. The focus on natural occurring compounds is driven by the assumption that these compounds will have fewer side effects regarding metabolism and excretion. Whenever possible, human peptides and proteins, which have no allergenic potential, will be used.

Proteo is engaged in the development of pharmaceuticals based on the body's own tools and weapons to fight inflammatory diseases. Specifically, we are focusing our research on the development of drugs based on the human protein Elafin. We strongly believe that Elafin will be useful in the treatment of post-surgery damage to tissue, complications resulting from organ transplantation, pulmonary hypertension, serious injuries caused by accidents, cardiac infarction, as well as other diseases.

Proteo’s pharmaceutical Elafin is a copy of a naturally occurring human anti-inflammatory substance. It is a natural antagonist of the tissue destroying enzymes (proteases such as elastase and proteinase 3) that participate in the inflammatory mechanism of many diseases. Elafin’s ability to block the proteases that cause these undesirable effects makes it a promising drug for the treatment of various inflammatory diseases and posttraumatic inflammatory complication. Numerous preclinical studies on animal models of human disease demonstrate the beneficial anti-inflammatory effects of Elafin. The drug candidate is currently being investigated in clinical trials phase II for three diseases.

The company believes that it is favorable to target orphan drug indications first. Orphan drugs are pharmaceuticals for the treatment of rare diseases, which do not affect more than 200,000 people in the United States ("US") and about 230,000 people in the European Union according to the respective legislations. The advantage of developing orphan drugs is seen in the fact that companies can apply for an orphan drug designation in the US or European Union which not only associated with reduced fees to regulatory agencies and facilitated drug approval but also guarantees 7-year or 10-year marketing exclusivity in the US and European Union, respectively, on drug sales for the first company to obtain marketing approval of a particular drug in the respective regions.

Proteo has obtained Orphan drug designations within the European Union for the use of Elafin in treatment of pulmonary arterial hypertension and chronic thromboembolic pulmonary hypertension as well as for the treatment of esophagus carcinoma. In the latter indication especially the postoperative inflammation will be targeted by Elafin treatment.

The excellent tolerability of recombinant Elafin for injection in human subjects was demonstrated in a Phase I clinical trial. In a Phase II clinical trial the effect of Elafin on the postoperative inflammatory reaction occurring in cancer patients whose esophagus has been removed was investigated at three German University Hospitals. This serious operation (esophagectomy), which lasts for several hours, carries the risk of numerous specific complications that generally result in a prolonged period of intensive care. The trial showed a clear clinical benefit for the postoperative recovery of the patients in the Elafin treated group.

Elafin may also be used in the course of transplantation. To transplant organs successfully, simultaneous treatment with anti-inflammatory drugs is necessary. Inflammations of transplanted organs are mainly caused either by rejection of the organ by the immune system or by blood supply deficiencies during the transplantation. Although various drugs are used today to avoid the rejection of the organ, such rejections still occur quite often. Therefore, additional anti-inflammatory drugs are needed, which may potentially prevent damage caused by blood supply deficiencies. Tests carried out on rabbits at the University of Toronto have demonstrated the effectiveness of an infusion with Elafin after a heart transplant. In cases where Elafin was not administered, a substantial thickening of the coronary vessel walls occurred due to temporary circulation reduction. Thus, frequently the heart was not sufficiently supplied with blood. Inflammation and destruction of the heart musculature, which was partly replaced by functionless scar tissue, was the result. Treatment with Elafin has been shown to reduce such damage to a minimal level.

Proteo’s licensing and development partner, Minapharm Pharmaceuticals SAE, has initiated a Phase II clinical trial for the use of Elafin on kidney transplant patients. This trial is concerned with the prevention of acute organ rejection and chronic graft injury (allograft nephropathy), which is a devastating complication of kidney transplantation that is responsible for a significant portion of graft loss. This trial is to be conducted at Cairo University.

We believe a further indication for Elafin is the use as a drug in the treatment of cardiac infarction. Cardiac infarction appears as a result of deficiencies in the blood supply of heart muscles caused by damage to the supplying coronary vessels. As an immediate result, the heart weakens and the heart muscles are destroyed. Damage to tissue caused by cardiac infarction will slowly form scars. Current methods of treatment are aimed at restoring the blood supply to the heart, either by replacement with new blood vessels (bypass surgery), by stent implantation or by removal of blood-clots in the coronary vessels (lyse therapy). Animal experiments have shown that Elafin may be effective in protecting the heart muscles against destruction after blood supply was interrupted. Our cooperation partner, the University of Edinburgh, is initiating a clinical trial to test Elafin in bypass operations after heart attacks. This study is being financially supported by the Medical Research Council (MRC) and the Chest, Heart and Stroke Scotland (CHSS).

Elafin may also be useful in the treatment of the seriously injured. Similar to damage of heart muscles as described above, much of the damage caused by serious injuries appears after the injury causing event (e.g. traffic accidents). In emergency treatment following accidents, the blood supply, nerve fibers and the stability of bones and joints are given priority. Due to blood supply deficiencies, inflammation will occur in injured muscles and in injured vessels. Because muscles may be destroyed by the inflammation, limbs may have to be amputated despite successful surgeries. Elafin may protect muscles against damage caused by inflammation. In animal experiments, rat legs treated with Elafin remained almost unaffected, although the blood supply to the leg was cut off for six hours.

Other preliminary data indicate that Elafin may be useful in a broad range of other applications whether pharmaceutical or not. Therefore, we will attempt to encourage other scientists, research centers as well as other companies to do research and development on Elafin for applications other than those described above. For example, Elafin may also be effective in the treatment of lung diseases and defects, dermatological diseases and defects, or as an ingredient to coat medical devices, such as stents, or in cosmetics.

The products and technologies we intend to develop will require significant commitments of personnel and financial resources. However, we do not believe that any of our planned products will produce sufficient revenues in the next several years to support us financially. To achieve profitable operations, the Company, independently or in collaboration with others, must successfully identify, develop, manufacture, obtain regulatory approval for and market proprietary products.

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 an experienced Contract Manufacturing Organization (CMO) located in Europe to produce Elafin in accordance with GMP (good manufacturing practices) standards as required for clinical trials.

In December 2005, Proteo successfully completed a first Phase I trial for Elafin. Elafin was tested on healthy male volunteers in a single-ascending-dose, double blind, randomized, placebo-controlled trial to evaluate its tolerability and safety at the Institut fur Klinische Pharmakologie in Kiel, Germany. All intravenously applied doses were well tolerated. No severe adverse events occurred. In 2006, we gathered and evaluated additional data from the results of the Phase I study.

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 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. Orphan Drug Designation of the European Commission assures exclusive marketing rights for the treatment of this disease within the European Union for a period of up to ten years after receiving market approval.

In August 2007, we entered into a license agreement with Minapharm Pharmaceuticals SAE ("Minapharm"), a well established Egyptian pharmaceutical company based in Cairo, for clinical development, production and marketing of Elafin. We have granted Minapharm the right to exclusively market Elafin in Egypt and certain Middle Eastern and African countries. Minapharm initiates a Phase II clinical trial to study the efficacy of Elafin on kidney transplant patients. The study will be conducted as a Phase II trial for prevention of acute and chronic allograft nephropathy at the University of Cairo.

In January 2008, the Company entered into an agreement with Stanford University in California, to cooperate in preclinical studies related to Elafin treatment of pulmonary arterial hypertension. Proteo provides support for animal experiments that are currently 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 May 2010 scientists of Stanford University presented new preclinical data on Proteo's drug substance Elafin at the Annual International Conference of the American Thoracic Society in New Orleans. The data show that the treatment with Elafin during mechanical ventilation largely prevented the inflammation in lungs of newborn mice. In August 2010 the agreement with Stanford University was extended by a further project.

In April 2008, we initiated a placebo-controlled randomized trial to evaluate the effect of Elafin on cytokine profiles after major surgery (clinical phase II), which was approved in May 2008 by the responsible Ethics Committee and in August 2008 by the German Federal Institute for Drugs and Medical Devices. In November 2008 the Phase II clinical trial on patients undergoing esophagectomy for esophagus carcinoma was started in the Department for General and Thoracic Surgery at the University Hospital of Kiel University, Germany. The trial conduct was initially planned for one year. In summer 2009 it became apparent that the clinical trial center could not recruit sufficient numbers of patients to meet the planning. Thus, the Company has extended the monocentric trial to a multicentric trial. In December 2009 all regulatory approvals were obtained to expand the trial. Two additional trial centers started recruiting patients and the recruitment and treatment was completed in April 2010. The trial showed that intravenously administered Elafin has a very clear positive effect on the period of recovery: 63 percent of the Elafin treated patients required only one day of intensive care. All patients in the placebo group needed several days of postoperative intensive medical care. At years end 2010 the European Medicines Agency EMA gave scientific advice and protocol assistance to the Company for further clinical development in this indication. Protocol assistance is the special form of scientific advice available for companies developing medicines for 'orphan' or rare diseases.

In September 2009, the Company signed a Memorandum of Understanding with the University of Edinburgh. Within the framework of collaboration, it is intended to investigate the effect of Elafin on the damage and inflammation of cardiac muscle after coronary bypass operations in a Phase II clinical trial at the University of Edinburgh. The study will be funded by the Medical Research Council (MRC) and Chest Heart and Stroke Scotland (CHSS) with 500,000 GBP. In February 2011 this clinical trial with 80 patients has received approval by the responsible Ethics Committee of NHS Scotland.

In January 2010, following the recommendation of the European Medicines Agency (EMA) as of November 2009, the European Commission has granted Orphan Drug Designation for the protease inhibitor Elafin to be used in the treatment of esophagus carcinoma.

Our strategy and goal is to develop into a profitable company by developing drug candidates for orphan diseases with high medical needs. The company intends to generate revenue by out-licensing and marketing activities. To date, the Company has not had profitable operations. Furthermore, we do not anticipate that we will have profitable operations in the near future.

OUR SUBSIDIARY

PBAG, our operating subsidiary, was formed in Kiel, Germany on April 6, 2000. PBAG is in the business of developing pharmaceutical products based on the human protein called Elafin and possible by-products thereof as well as related technologies. The President, Chief Executive Officer and Chief Financial Officer of PBAG is currently Birge Bargmann. The members of the Supervisory Board of PBAG are Oliver Wiedow, MD, Barbara Kahlke, PhD and Florian Wegner. PBAG has four employees as of December 31, 2010.

COLLABORATION WITH OTHER COMPANIES

The Company actively seeks further out-licensing partners, co-development partnerships and other collaborations with third parties to generate revenues and/or to expedite the Company's product development. However, there can be no assurance that the Company's efforts to build such alliances will be successful at any time or in any way.

COMPETITION

The market for our planned products and technologies is highly competitive, and we expect competition to increase. We compete with many other companies involved in the development of pharmaceuticals, most of which are larger than Proteo. Some of our anticipated competitors offer a broad range of equipment, supplies, products and technology, including many of the products and technologies contemplated to be offered by us. To the extent that customers exhibit loyalty to the supplier that first supplies them with a particular product or technology, our competitors may have an advantage over us with respect to such products and technologies. Additionally, many of our competitors have, and will continue to have, greater research and development, marketing, financial and other resources than us and, therefore, represent and will continue to represent significant competition in our anticipated markets. As a result of their size and the breadth of their product offering, certain of these companies have been and will be able to establish managed accounts by which, through a combination of direct computer links and volume discounts, they seek to gain a disproportionate share of orders for health care products and technologies from prospective customers. Such managed accounts present significant competitive barriers for us. It is anticipated that we will benefit from their participation in selected markets, which, as they expand, may attract the attention of our competitors. The business of research and development of pharmaceuticals is intensely competitive. Major companies with immense financial and personal resources are also engaged in this field.

Elastase inhibitors such as Elafin, have been under research and development in the pharmaceutical industry for decades. Currently, hundreds of related patents have been granted. Most of these substances are produced synthetically, and are not applicable in the treatment of human diseases. Currently two elastase inhibitors are used as pharmaceuticals, alpha-1-antitrypsin worldwide and Sivelestat in Japan and Korea. Further elastase inhibitors are in clinical development, such as Depelestat and AZD9668.

Alpha-1-antitrypsin

Human blood naturally contains relatively large amounts of alpha-1-antitrypsin. Alpha-1-antitrypsin is marketed for more than 20 years currently by Talecris, Behring and Baxter as a plasma-derived product to supply patients with genetic deficiency of functional alpha-1-antitrypsin.

Sivelestat

Ono Pharmaceutical Co. Ltd., in Japan has developed the synthetic elastase inhibitor Sivelestat. Ono received approval in 2002 to use Sivelestat as a drug for the indication "Amelioration of acute lung disease accompanying generalized inflammatory syndrome" in Japan and in Korea (Dong-A, Pharmaceutical Co., Ltd., Seoul) in 2006.

Depelestat

A further elastase inhibitor has been engineered from the Kunitz domain of human inter-alpha-trypsin inhibitor. This peptide was found to be a potent inhibitor of human elastase, however, other than in the case of Elafin, it is reported that no other proteases, including proteinase 3, were inhibited. Currently Depelestat is being clinically developed by Debiopharm for use in the treatment of cystic fibrosis and acute respiratory distress syndrome.

AZD9668

Astra-Zeneca is currently investigating the efficacy of AZD9668, an orally applicable elastase inhibitor, in various clinical phase II trials on chronic obstructive pulmonary disease, cystic fibrosis and bronchiectasis. No results have been reported.

GOVERNMENT REGULATION

The Company is, and will continue to be, subject to governmental regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, and other similar laws of general application, as to all of which we believe we are in material compliance. Any future change in, and the cost of compliance with, these laws and regulations could have a material adverse effect on the business, financial condition, and results of operations of the Company.

Because of the nature of our operations, the use of hazardous substances, and our ongoing research and development and manufacturing activities, we are subject to stringent federal, state and local and foreign laws, rules, regulations and policies governing the use, generation, manufacturing, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. Although we believe that we are in material compliance with all applicable governmental and environmental laws, rules, regulations and policies, there can be no assurance that the business, financial conditions, and results of operations of the Company will not be materially adversely affected by current or future environmental laws, rules, regulations and policies, or by liability occurring because of any past or future releases or discharges of materials that could be hazardous.

Additionally, the clinical testing, manufacture, promotion and sale of a significant majority of the products and technologies of the Company, if those products and technologies are to be offered and sold in the United States, are subject to extensive regulation by numerous governmental authorities in the United States, principally the FDA and corresponding state regulatory agencies. Additionally, to the extent those products and technologies are to be offered and sold in markets other than the United States, the clinical testing, manufacture, promotion and sale of those products and technologies will be subject to similar regulation by corresponding foreign regulatory agencies. In general, the regulatory framework for biological health care products is more rigorous than for non-biological health care products. Generally, biological health care products must be shown to be safe, pure, potent and effective. There are numerous state and federal statutes and regulations that govern or influence the testing, manufacture, safety, effectiveness, labeling, storage, record keeping, approval, advertising, distribution and promotion of biological health care products. Non-compliance with applicable governmental requirements can result in, among other things, fines, injunctions, seizures of products, total or partial suspension of product marketing, failure of the government to grant pre-market approval, withdrawal of marketing approvals, product recall and criminal prosecution.

PATENTS, LICENSES & ROYALTIES

The Company owns licenses to exclusively develop products based on patents and filings. The Company does not have title to any patents related to Elafin; title to these patents rests with Dr. Wiedow. The Company's rights with respect to patents are derived pursuant to a license agreement between the Company and Dr. Wiedow (the " License Agreement ") dated December 30, 2000, which was amended by an Amendment Agreement to the License Agreement (the "Amendment") dated December 23, 2008.

Pursuant to the License Agreement, the Company agreed to pay Dr. Wiedow an annual license fee of 110,000 Euros for a period of six years. No payments were made through fiscal year 2003 through 2006. In December 2007 the Company paid Dr. Wiedow 30,000 Euros.

Pursuant to the Amendment, the Company and Dr. Wiedow have agreed that the Company would pay the outstanding balance of 630,000 Euros to Dr. Wiedow as follows: for fiscal years 2008 to 2012, the Company shall pay Dr. Wiedow 30,000 Euros per year, and for fiscal years 2013 to 2016, the Company shall pay Dr. Wiedow 120,000 Euros per year. The foregoing payments shall be made on or before December 31 of each fiscal year. In December 2008 the Company paid Dr. Wiedow 30,000 Euros. No other payments have been made to Dr. Wiedow as of December 31, 2010, which is a technical breach of the agreement. Dr. Wiedow waived such breach and deferred the prior year payments to 2011. While the total amount owed does not currently bear interest, the Amendment provides that any late payment shall be subject to interest at an annual rate equal to the German Base Interest Rate (0.12% as of January 1, 2011) plus six percent. In the event that the Company's financial condition improves, the parties can agree to increase and/or accelerate the payments.

The Amendment also modified the royalty payment such that the Company will not only pay a three percent (3%) royalty on gross revenues from the Company's sale of products based on the licensed technology but also three percent of the license fees (including upfront and milestone payments and running royalties) received by the Company or its subsidiary from their sublicensing of the licensed technology.

AstraZeneca Inc. (formerly Zeneca Inc., formerly ICI Pharmaceuticals Inc.) had held the patents for Elafin for several years and has significantly contributed to the current knowledge. Therefore, AstraZeneca Inc. will receive two percent of the net sales of the Company from products based on patents in which Dr. Wiedow was the principal inventor. Proteo holds an exclusive license for the following patents:

Country		Patent Number	Expiry Date
USA	US	5464822	07-Nov-2012
USA	US	6245739	12-Jun-2018
USA	US	6893843	08-Jun-2010
European Union	EP	0402068	04-Jun-2010
Japan	JP	2989853	08-Jun-2010
Australia	AU	636148	05-Jun-2010
Canada	CA	2018592	08-Jun-2010
Finland	FI	902880	08-Jun-2010
Ireland	IE	070520	05-Jun-2010
Israel	IL	094602	03-Jun-2010
New Zealand	NZ	233974	07-Jun-2010
Norway	NO	177716	01-Jun-2010
Portugal	PT	094326	11-Oct-2011
South Africa	ZA	9004461	08-Jun-2010

On November 15, 2004, the Company entered into an exclusive worldwide license and collaboration agreement with ARTES Biotechnology GmbH ("ARTES"). This agreement enables the Company 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 the Company. The agreement has a term of fifteen years with an annual license fee equal to the greater of 10,000 Euros 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 the Company under similar terms.

In August 2007, the Company's subsidiary entered into an agreement with Rhein Minapharm ("Minapharm") for clinical development, production and marketing of Elafin. The Company has granted Minapharm the right to exclusively market Elafin in Egypt and certain Middle Eastern and African countries. Under this agreement, the Company had deferred certain amounts received until the expiration of a refund period in October 2010. Accordingly, approximately $108,000 is included as other income for 2010 in the accompanying consolidated statements of operations. The Company may receive additional milestone-payments upon Minapharm's attainment of certain clinical milestones as well as royalties on any future net product sales.

EMPLOYEES

As of December 31, 2010, Proteo had four employees, all working at our offices in Germany.

ITEM 1A. – RISK FACTORS

A smaller reporting company (“SRC”) is not required to provide any information in response to Item 503(c) of Regulation S-K.

ITEM 1B. – UNRESOLVED STAFF COMMENTS

None

ITEM 2 - PROPERTIES

The Company has entered into several leases for office and laboratory facilities in Germany expiring at dates through December 2011. The aggregate monthly rental under the foregoing leases was approximately $3,800.

ITEM 3 - LEGAL PROCEEDINGS

The Company may from time to time be involved in various claims, lawsuits, and disputes with third parties, actions involving allegations of discrimination, or breach of contract actions incidental to the operation of its business. The Company is not currently involved in any litigation which it believes could have a materially adverse effect on its financial condition or results of operations.

ITEM 4 – [REMOVED AND RESERVED]

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the OTC Bulletin Board under the symbol PTEO.OB. The table below gives the range of high and low bid prices of our common stock for each quarter during the fiscal years ended December 31, 2010 and 2009 based on information provided by the OTC Bulletin Board. Such over-the-counter market quotations reflect inter-dealer prices, without mark-up, mark-down or commissions and may not necessarily represent actual transactions or a liquid trading market.

YEAR	PERIOD	HIGH	LOW
2010	First Quarter	$1.25	$0.35
	Second Quarter	0.96	0.38
	Third Quarter	0.65	0.20
	Fourth Quarter	0.63	0.20
2009	First Quarter	$1.49	$1.00
	Second Quarter	1.49	0.94
	Third Quarter	1.38	0.64
	Fourth Quarter	1.25	0.51

On March 4, 2011, the last sales price of our common stock was $0.21 per share. No cash dividends have been paid on our common stock for the 2010 and 2009 fiscal years and no change of this policy is under consideration by the Board of Directors. The payment of cash dividends in the future will be determined by the Board of Directors in light of conditions then existing, including our Company's earnings (if any), financial requirements, and opportunities for reinvesting earnings (if any), business conditions, and other factors. Except as described in the "Preferred Stock" section of Note 3 to the Company's consolidated financial statements included elsewhere herein, there are otherwise no restrictions on the payment of dividends.

NUMBER OF SHAREHOLDERS

As of March 11, 2010, the number of shareholders of record of the Company's common stock was 1,777.

PENNY STOCK

Until we satisfy the initial listing requirements for the Nasdaq Stock Market and successfully apply to have our shares of common stock traded thereon, our common stock will continue to be quoted on the OTCBB. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the price of, our common stock. Our common stock is subject to provisions of Section 15(g) and Rule 15g-9 of the Exchange Act, commonly referred to as the "penny stock rule." Section 15(g) sets forth certain requirements for transactions in penny stocks, and Rule 15g-9(d) incorporates the definition of "penny stock" that is found in Rule 3a51-1 of the Exchange Act. The SEC generally defines "penny stock" to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. Since our common stock is deemed to be a penny stock, trading in our shares is subject to additional sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. "Accredited investors" include (i) certain entities as defined in Rule 501(a) of Regulation D, (ii) directors and executive officers of the issuer of the securities being offered or sold and (iii) persons with a net worth exceeding $1,000,000 or annual income exceeding $200,000 (or $300,000 together with their spouse) in each of the two most recent years and reasonably expect to reach the same income level in the current year. For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such security and must have the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document, prepared by the SEC, relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information for the penny stocks held in an account and information on the limited market in penny stocks. Consequently, these rules may restrict the ability of a broker-dealer to trade and/or maintain a market in our common stock and may affect the ability of our shareholders to sell their shares.

DIVIDEND POLICY

To date, we have declared no cash dividends on our common or preferred stock, and do not expect to pay cash dividends on our common and preferred stock in the near term. We intend to retain future earnings, if any, to provide funds for operation of our business.

EQUITY COMPENSATION PLAN INFORMATION

We have no equity compensation plans as of December 31, 2010.

RECENT SALES OF UNREGISTERED SECURITIES

We had no sales of unregistered securities since those disclosed on our December 31, 2009 Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA.

An SRC is not required to provide any information in response to Item 301 of Regulation S-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. 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 Annual 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. 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, increases in general and administrative expenses, and other specific risks that may be alluded to in this Annual Report or in other reports filed with the SEC 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 Annual 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.

See page one for additional information regarding forward-looking statements.

The Company currently generates minor non-operating revenue from its out-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 assurance as to the level of operating revenues, if any, the Company may actually achieve from its planned principal operations.

OVERVIEW

The Company is a clinical stage drug development company focusing on the development of anti-inflammatory treatments for rare diseases with significant unmet needs. The Company's management deems its lead drug candidate Elafin for intravenous use to be one of the most prospective treatments of postoperative inflammatory complications in the surgical therapy of esophagus carcinoma, kidney transplantation and coronary arterial bypass surgery. Elafin appears to be also a promising compound for the treatment of pulmonary arterial hypertension. The clinical development is currently focused in Europe with the intention to receive the primary approval in Europe.

The Company's success will depend on its ability to prove that Elafin is well tolerated by humans and its efficacy in the indicated diseases in order to demonstrate a favorable risk/benefit balance. 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 in further clinical trials or its use as a drug in any of the intended applications.

Proteo has obtained Orphan drug designations within the European Union for the use of Elafin in treatment for the treatment of pulmonary arterial hypertension and chronic thromboembolic pulmonary hypertension as well as for the treatment of esophagus carcinoma. Orphan drug designation assures exclusive marketing rights for the treatment of the respective disease within the EU for a period of up to ten years after receiving market approval. In addition, a simplified, accelerated and less expensive approval procedure with the assistance of European Medicines Agency (“EMA”), the European FDA equivalent, can be drawn upon.

Proteo currently focuses on the development of Elafin for treatment of postoperative inflammatory complications in the surgical therapy of esophagus carcinoma. Clinical trials for further indications and preclinical research into new fields of application are conducted in cooperation with Universities and our licensing partner Minapharm.

CLINICAL DEVELOPMENT

After developing a production procedure for Elafin, The Company has initiated clinical trials to achieve governmental approval for the use of Elafin as a drug in Europe. For this purpose, the Company has contracted an experienced Contract Manufacturing Organization in Europe to produce Elafin in accordance with GMP standards as required for clinical trials. The excellent tolerability of Elafin in human subjects was demonstrated in a Phase I clinical single dose escalating study.

Treatment of Esophagus Carcinoma

A double-blind, randomized, placebo-controlled Phase II clinical trial on the effect of Elafin on the postoperative inflammatory reactions and postoperative clinical course was conducted in patients undergoing esophagectomy for esophagus carcinoma was begun in November 2008. In summer 2009 it became apparent that the clinical trial center could not recruit sufficient numbers of patients to meet the planning. Thus, the Company has extended the monocentric trial to a multicentric trial involving two additional trial centers. We announced the favorable influence of Elafin treatment on the postoperative recovery in February 2011. In January 2010 Orphan Drug Designation was awarded to the Company by the European Commission for the use of Elafin in the treatment of esophagus carcinoma. The future clinical development and prerequisites for marketing authorization are currently subject to discussions with the EMA.

Treatment of Coronary Bypass Patients

In September 2009 the Company signed a Memorandum of Understanding with the University of Edinburgh. Within the framework of collaboration, it is intended to conduct a Phase II clinical trial to investigate the effect of Elafin on the damage and inflammation of cardiac muscle after coronary bypass operations. The trial, which will be headed by Dr. Peter Henriksen a leading expert in interventional cardiology at the Edinburgh Heart Centre. The study will be funded by the Medical Research Council (MRC) and Chest Heart and Stroke Scotland (CHSS) with 500,000 GBP. In February 2011 this clinical trial with 80 patients has received approval by the responsible Ethics Committee of NHS Scotland.

Treatment of Kidney Transplantation

The Company's licensing and development partner, Minapharm Pharmaceuticals SAE, has initiated a Phase II clinical trial on the use of Elafin in kidney transplantation patients. This trial is concerned with the prevention of acute organ rejection and chronic graft injury (allograft nephropathy) and will be conducted at the University of Cairo. The start and conduct of the trial may be influenced by the actual political situation in Egypt. Actually, the consequences cannot be overseen by management.

PRECLINICAL RESEARCH

Pulmonary arterial Hypertension

Since 2008, the Company cooperates with scientists at Stanford University in California with respect to the preclinical development in the field of pulmonary arterial hypertension and ventilation induced injury. The group presented new preclinical data on the Company's drug substance Elafin at the Annual International Conference of the American Thoracic Society in New Orleans in May 2010. The data show that the treatment with Elafin during mechanical ventilation largely prevented the inflammation in lungs of newborn mice. In August 2010 the cooperation agreement with Stanford University was extended by a further project.

Vascular damage

The Company entered into an agreement with the Molecular Imaging North Competence Center (MOIN CC) at the Christian-Albrechts-University of Kiel in April 2010. Under this agreement the effects of Elafin on vascular changes will be examined in animal models. The federal state of Schleswig-Holstein is backing the creation and infrastructure of MOIN CC with 8.2 million EUR using funding from the federal state and the European Regional Development Fund (ERDF), as well as resources from the second German economic stimulus package.

Life-threating Infections

In June 2010 the Company has signed a cooperative research and development agreement with the US Army Medical Research Institute of Infectious Diseases (USAMRIID). This agreement allows USAMRIID to use Proteo's Elafin and related scientific data in order to plan and conduct preclinical research on the development of new therapeutic strategies to combat life-threatening infectious diseases, in an investigation into the use of Elafin as a co-therapy with antibiotics.

RESULTS OF OPERATIONS

OPERATING EXPENSES

The Company's operating expenses for the year ended December 31, 2010 were approximately $749,000, a decrease of approximately $152,000 over the year ended December 31, 2009. This decrease is due to decreases in general and administrative and research and development expenses during the year ended December 31, 2010 of approximately $22,000 and $130,000, respectively. Research and development expenses decreased primarily due to a reduction in research personnel during 2010.

INTEREST AND OTHER INCOME

Interest and other income for the year ended December 31, 2010 approximated $239,000, an increase of $195,000 from the year ended December 31, 2009. The increase was primarily driven by foreign currency transaction gains in 2010 and recognizing previously deferred licensing fees. Certain obligations of the Company are denominated in Euros. A strengthening U.S. Dollar compared to the Euro during 2010 has resulted in a foreign currency transaction gain of approximately $106,000 in 2010. Additionally, in 2010 the Company recognized approximately $108,000 of licensing fees related to the Minapharm licensing agreement, which had been received in 2009. Recognition of such amount was previously deferred until certain refund contingencies expired in October 2010.

FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

We experienced a loss of approximately $147,000 in foreign currency translation adjustments during the year ended December 31, 2010. For the year ended December 31, 2009, the Company recognized a gain of approximately $37,000. This represents a net decrease of approximately $184,000. The decrease is primarily due to a strengthening U.S. Dollar (our reporting currency) compared to the Euro (the functional currency of PBAG) during 2010.

INCOME TAXES

The Company has a deferred tax asset of approximately $1,924,000 and $1,879,000 at December 31, 2010 and 2009, respectively, relating primarily to tax net operating loss carryforwards, as discussed below, and timing differences related to the recognition of accrued licensing fees. Full valuation allowances have been established against these deferred tax assets due to going concern issues.

As of December 31, 2010, the Company had tax net operating loss carryforwards ("NOLs") of approximately $1,383,000 and $4,791,000 available to offset future taxable Federal and foreign income, respectively. The Federal NOL expires in varying years through 2025. The foreign net operating loss relates to Germany and does not have an expiration date. In the event the Company were to experience a greater than 50% change in ownership, as defined in Section 382 of the Internal Revenue Code, the utilization of the Company's Federal tax NOLs could be restricted.

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) $2,616,000 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 December 31, 2010, had a principal balance of $984,400. See Note 3 to the consolidated financial statements included elsewhere herein for the payment terms under the promissory note.

The Company has cash and cash equivalents approximating $698,000 as of December 31, 2010. This is an increase over the December 31, 2009 balance of approximately $689,000, mainly due to receipts on the promissory note receivable resulting from the sale of the Company's Series A Preferred Stock in excess of operating and research and development expenditures.

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

CAPITAL EXPENDITURES

None significant.

GOING CONCERN

The Company's independent registered public accounting firm has stated in their Auditors' Report included in this Form 10-K 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.

INFLATION

Management believes that inflation has not had a material effect on the Company's results of operations during 2010 and 2009.

OFF BALANCE SHEET ARRANGEMENTS

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

ACCOUNTING MATTERS

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our results of operations, liquidity and capital resources is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates.

The following represents a summary of our critical accounting policies, defined as those policies that we believe are: (a) the most important to the portrayal of our financial condition and results of operations, and (b) that require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the matters that are inherently uncertain. We discuss each of these policies below, as well as the estimates and judgments involved. We also have other policies that we consider key accounting policies; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require us to make estimates or judgments that are difficult or subjective.

FOREIGN CURRENCY FINANCIAL REPORTING

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. Expense and grant receipts are translated at weighted average exchange rates for the period. Net exchange gains or losses resulting from such translation are excluded from the consolidated statements of operations and are included in comprehensive loss and accumulated in a separate component of stockholders' equity. Such accumulated amount approximated $170,000 and $317,000 at December 31, 2010 and 2009, respectively.

The Company records payables related to a certain licensing agreement (Note 6) in accordance with the Foreign Currency Matters Topic of the Codification. 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 made no payments under this licensing agreement during the years ended December 31, 2010 and 2009, and did not realize any significant foreign currency exchanges gains or losses.

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 an unrealized foreign currency transaction gain (loss) of approximately $106,000 and $(14,000) for the years ended December 31, 2010 and 2009, respectively, which are included in interest and other income (expense), net in the accompanying consolidated statements of operations and comprehensive loss.

INCOME TAXES

The Company accounts for income taxes using the liability method in accordance with the Income Taxes Topic of the ASC. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be recovered.

As of December 31, 2010 and 2009, the Company did not increase or decrease the liability for unrecognized tax benefit related to uncertain tax positions in prior periods nor did the Company increase its liability for any uncertain tax positions in the current year. Furthermore, there were no adjustments to the liability or lapse of any statutes of limitation or settlements with taxing authorities.

The Company expects resolution of unrecognized tax benefits, if created, would occur while the 100% valuation allowance of deferred tax assets is maintained; therefore, the Company does not expect to have any unrecognized tax benefits that, if recognized, would affect its effective income tax rate.

The Company will recognize interest and penalty related to unrecognized tax benefits and penalties as income tax expense. As of December 31, 2010, the Company has not recognized any liabilities for penalty or interest as the Company does not have any liability for unrecognized tax benefits.

The Company is subject to taxation in the US and various states. The Company's 2005 through 2010 tax years are subject to examination by the taxing authorities. With few exceptions, the Company is no longer subject to U.S. federal, state, local or foreign examinations by taxing authorities for years before 2005.

COMPREHENSIVE LOSS

Total comprehensive loss represents the net change in stockholders' equity (deficit) during a period from sources other than transactions with stockholders and as such, includes net earnings or loss. For the Company, other comprehensive loss represents the foreign currency translation adjustments, which are recorded as components of stockholders' equity.

LOSS PER COMMON 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 available to common stockholders by the weighted average shares outstanding assuming all dilutive potential common shares were issued. There were no dilutive potential common shares outstanding at December 31, 2010 or 2009.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

An SRC is not required to provide any information in response to Item 305 of Regulation S-K.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is submitted as a separate section of this report immediately following the signature page.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A - CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including Birge Bargmann, our chief executive officer and chief financial officer, we have evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, Ms. Bargmann has concluded that these controls and procedures were effective as of December 31, 2010, including those to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of Proteo is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, (iii) provide reasonable assurance that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the company, and (iv) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Management has assessed the Company's internal control over financial reporting as of December 31, 2010. The assessment was based on criteria for effective internal control over financial reporting described in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, Management believes that the Company maintained effective internal control over financial reporting as of December 31, 2010.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Inherent limitations exist in any system of internal control including the possibility of human error and the potential of overriding controls. Even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. The effectiveness of an internal control system may also be affected by changes in conditions.

ITEM 9B - OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names and ages of the current and incoming directors and executive officers of the Company and the principal offices and positions with the Company held by each person. The Board of Directors elects the executive officers of the Company annually. The directors serve one-year terms until their successors are elected. The executive officers serve terms of one year or until their death, resignation or removal by the Board of Directors

NAME	AGE	POSITIONS
Birge Bargmann	49	President, Chief Executive Officer, Chief Financial Officer and Director
Dr. Barbara Kahlke	46	Secretary
Professor Oliver Wiedow, MD.	53	Director
Prof. Hartmut Weigelt, Ph.D.	65	Director

BIOGRAPHICAL INFORMATION

Birge Bargmann has served as our President, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") since November 2005 and a Director of the Company since December 2000. In November 2005, she was appointed CEO and CFO of the Company and its subsidiary. Ms. Bargmann was a member of the Supervisory Board of Proteo Biotech AG from 2000 to 2005. Since 1989, Ms. Bargmann has worked as a medical technique assistant engaged in the Elafin project at the University of Kiel. She co-developed and carried out procedures to detect and to purify Elafin. The Board of Directors concluded that Ms. Bargmann should serve as a director in light of her extensive scientific understanding of our technologies in development combined with the perspective and experience she brings as our current President and Chief Executive Officer from her extensive history with the Company.

Dr. Barbara Kahlke has served as our Secretary since August 2004. She has been a member of the Supervisory Board of Proteo Biotech AG since May 2002, and a scientific researcher for Proteo Biotech AG since May 2000. Dr. Kahlke is a biologist, having received her doctorate from Christian-Albrechts-University in Kiel, Germany. Since 1994, Dr. Kahlke has worked for a medium-sized German pharmaceutical company with responsibilities in molecular biology and in protein production in compliance with GMP. She discovered the biological activity of bis-acyl urea.

Prof. Oliver Wiedow, M.D. has served as a Director of the Company since December 2000. Professor Wiedow served as our President, Chief Executive Officer and Chief Financial Officer from January 2004 to June 2004 and has served as a member of the Supervisory Board of Proteo Biotech AG since 2000. Since 1985 Professor Wiedow has served as physician and scientist at the University of Kiel, Germany. Prof. Wiedow discovered Elafin in human skin and has researched its biological effects. The Board of Directors concluded that Dr. Wiedow should serve as a director in light of his having been an inventor of, and his extensive scientific understanding of, our technologies in development.

Prof. Hartmut Weigelt, Ph.D. has served as a Director of the Company since December 2000. Prof. Weigelt was a member of the Supervisory Board of Proteo Biotech AG from 2000 to 2003. Since 1996, Prof. Weigelt has served as the managing director of Eco Impact GmbH which he co-founded. Prof. Weigelt was a co-founder of the first German private university, Witten/Herdecke and he is currently Chief Scientific Officer ("CSO") of MedEcon Ruhr GmbH, and head of the Department of Dental Biomedicine at the University of Applied Sciences in Hamm (Northrhine-Westphalia, Germany). Prof. Weigelt studied chemistry and biology and graduated with a M.Sc., Ph.D., and D.Sc. in biology. The Board of Directors concluded that Prof. Weigelt should serve as a director in light of his extensive scientific understanding of our technologies in development.

AUDIT COMMITTEE AND FINANCIAL EXPERT

Proteo, Inc. is not a "listed company" under SEC rules and is therefore not required to have an audit committee comprised of independent directors. We do not currently have an audit committee; however, for certain purposes of the rules and regulations of the SEC and in accordance with the Sarbanes-Oxley Act of 2002, our board of directors is deemed to be its audit committee and as such functions and performs some of the same duties as an audit committee including: (1) selection and oversight of our independent accountant; (2) establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters; and (3) engaging outside advisors. Our board of directors has determined that its members do not include a person who is an "audit committee financial expert" within the meaning of the rules and regulations of the SEC.

The board of directors has determined that each of its members is able to read and understand fundamental financial statements and has substantial business experience that results in that member's financial sophistication. Accordingly, the board of directors believes that each of its members has sufficient knowledge and experience necessary to fulfill the duties and obligations that an audit committee would have. The Company does not have a formal compensation committee. The board of directors, acting as a compensation committee, periodically meets to discuss and deliberate on issues surrounding the terms and conditions of executive officer compensation.

FAMILY RELATIONSHIPS

There are no family relationships between or among the directors, executive officers or persons nominated by the Company to become directors or executive officers.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

To the best of the management's knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent beneficial owners of our common stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on the review of copies of such reports furnished to the Company and written representations that no other reports were required, the Company has been informed that all Section 16(a) filing requirements applicable to the Company's officers, directors and greater than ten percent beneficial owners of our common stock were complied with.

CODE OF ETHICAL CONDUCT

The Company maintains a code of ethical conduct applicable to all employees, officers and directors. The Company will also provide to any person without charge, and upon request, a copy of the Code of Ethics by making a request in writing to: info@proteo.us.

ITEM 11 - EXECUTIVE COMPENSATION

The following table sets forth the total compensation earned over each of the past two fiscal years ended December 31, 2010 by each person who served as the principal executive officer of Proteo during fiscal years ended 2010 and 2009. There were no other executive officers who had compensation of $100,000 or more during fiscal years ended 2010 and 2009.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation (#)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total Compensation ($)
Birge Bargmann (Chief Executive Officer and Chief Financial Officer)	2010	$ 74,378	-0-	-0-	-0-	-0-	-0-	-0-	74,378
	2009	$ 133,888	-0-	-0-	-0-	-0-	-0-	-0-	133,888

Ms. Bargmann’s salary is paid by the Company’s wholly owned subsidiary Proteo Biotech AG.

OPTION/STOCK APPRECIATION RIGHTS GRANTS TABLE

The Company does not have a stock option plan, and has not granted any stock options or stock appreciation rights to date.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUE TABLE

Not applicable.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Company does not have any equity compensation plans.

COMPENSATION OF DIRECTORS

The Directors have not received any compensation for serving in such capacity, and the Company does not currently contemplate compensating its Directors in the future for serving in such capacity.

EMPLOYMENT AND CONSULTING AGREEMENTS

The Company has no employment contracts with any of its officers or directors and maintains no retirement, fringe benefit or similar plans for the benefit of its officers or directors. However, Ms. Bargmann does have an employment contract with the Company's wholly owned subsidiary Proteo Biotech AG, which is described below. The Company may, however, enter into employment contracts with its officers and key employees, adopt various benefit plans and begin paying compensation to its officers and directors as it deems appropriate to attract and retain the services of such persons. The Company does not pay fees to directors who are not executive officers for their attendance at meetings of the Board of Directors or its committees; however, the Company may adopt a policy of making such payments in the future. The Company will reimburse out-of-pocket expenses incurred by directors in attending Board and committee meetings.

COMPENSATION COMMITTEE AND INSIDER PARTICIPATION

The current Board of Directors includes Birge Bargmann, who also serves as an executive officer of the Company. As a result, this director discusses and participates in deliberations of the Board of Directors on matters relating to the terms of executive compensation. In this regard, a director whose executive compensation is voted upon by the Board of Directors must abstain from such vote.

REPORT OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION

The following statement made by the Board of Directors, sitting as a Compensation Committee, shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, and shall not otherwise be deemed filed under either of such Acts.

The Company does not have a formal compensation committee and the Company's officers receive no compensation from the Company at this time. Ms. Bargmann, our President, Chief Executive Officer and Chief Financial Officer, receives compensation from our wholly-owned subsidiary, Proteo Biotech AG. The Supervisory Board of Proteo Biotech AG entered into an employment contract with Ms. Bargmann on August 1, 2007. The contract became effective on August 1, 2007 and expires on July 31, 2010. A new contract is currently under negotiation. Pursuant to the agreement, Ms. Bargmann received a salary of 8,000 Euro per month in 2009, which amounted to total annual compensation of 96,000 Euro for the year ended December 31, 2009. Ms. Bargmann took a 40% reduction to her salary in 2010, which amounted to total annual compensation of 56,000 Euro for the year ended December 31, 2010. The supervisory Board and Ms. Bargmann are obliged to negotiate the compensation at any time on the request of either party taking into consideration the economic performance of the Company. If no understanding can be reached within one month, the requesting party is allowed to terminate the agreement three months after at month's end.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of December 31, 2010, certain information with respect to the Company's equity securities owned of record or beneficially by (i) each director and executive officer; (ii) each person who owns beneficially more than 5% of each class of the Company's outstanding equity securities; and (iii) all directors and executive officers as a group. The address for all of the following individuals is c/o Proteo, Inc., 2102 Business Center Drive, Irvine, California 92612.

Name of Beneficial Owner	Number of Common Shares Beneficially Owned (1)	Percent of Class
Prof. Oliver Wiedow, M.D.	10,680,000	44.7%
Birge Bargmann	2,000,000	8.4%
Dr. Barbara Kahlke	10,000	*
Prof. Hartmut Weigelt, Ph.D.	57,000	*
All directors and executive officers as a group (4 persons)	12,747,000	53.4%

_____

* less than 1%

(1) Based on 23,879,350 common shares outstanding as of December 31, 2010.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

On December 30, 2000, the Company entered into a thirty-year license agreement, beginning January 1, 2001 (the "License Agreement"), with Dr. Wiedow, the owner and inventor of several patents, patent rights and technologies related to Elafin. Pursuant to the License Agreement, the Company agreed to pay Dr. Wiedow an annual license fee of 110,000 Euros for a period of six years. No payments were made through fiscal year 2003. In 2004, the License Agreement was amended to require the Company to make annual payments of 30,000 Euros, to be paid on July 15 of each year, beginning in 2004. Such annual payment could be increased to 110,000 Euros by June 1 of each year based on an assessment of the Company's financial ability to make such payments. In December 2007 the Company paid Dr. Wiedow 30,000 Euros. The License Agreement was again amended by an Amendment Agreement to the License Agreement (the "Amendment") dated December 23, 2008. Pursuant to the Amendment, the Company and Dr. Wiedow have agreed that the Company would pay the outstanding balance of 630,000 Euros to Dr. Wiedow as follows: for fiscal years 2008 to 2012, the Company shall pay Dr. Wiedow 30,000 Euros per year, and for fiscal years 2013 to 2016, the Company shall pay Dr. Wiedow 120,000 Euros per year. The foregoing payments shall be made on or before December 31 of each fiscal year. In December 2008 the Company paid Dr. Wiedow 30,000 Euros. No payments were made under this agreement during 2009 or 2010. While the total amount owed does not currently bear interest, the Amendment provides that any late payment shall be subject to interest at an annual rate equal to the German Base Interest Rate (0.12% as of January 1, 2010) plus six percent. In the event that the Company's financial condition improves, the parties can agree to increase and/or accelerate the payments.

The Amendment also modified the royalty payment such that the Company will not only pay Dr. Wiedow a three percent royalty on gross revenues from the Company's sale of products based on the licensed technology but also three percent of the license fees (including upfront and milestone payments and running royalties) received by the Company or its subsidiary from their sublicensing of the licensed technology.

No royalty expense has been recognized under the License Agreement or the Amendment since the Company has yet to generate any related revenues. At December 31, 2010 and 2009, the Company has accrued approximately $795,000 and $860,000, respectively, of licensing fees payable to Dr. Wiedow, of which approximately $119,000 and $86,000, respectively, is included in current liabilities with the remainder included in long-term liabilities.

On September 28, 2006, Dr. Wiedow entered into an agreement to contribute 50,000 Euros (approximately $63,000) to PBAG for a 15% non-voting interest in PBAG, in accordance with certain provisions of the German Commercial Code. Dr. Wiedow will receive 15% of profits, as determined under the agreement, not to exceed in any given year 30% of the capital contributed. Additionally, he will be allocated 15% of losses, as determined under the agreement, not to exceed the capital contributed. Dr. Wiedow is under no obligation to provide additional capital contributions to the Company. During the years ended December 31, 2007 and 2006, losses of 50,000 Euros (approximately $63,000) were allocated against the contributed capital account, which is presented as minority interest in the profits and losses of Proteo Biotech on the accompanying statements of operations and comprehensive loss.

The disclosure requirements of Item 407(a) of Regulation S-K are not applicable to this filing.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES:

We were billed approximately $85,000 for each of the fiscal years ended December 31, 2010 and 2009, for professional services rendered by the principal accountant for the audit of the our annual consolidated financial statements and the review of our quarterly unaudited consolidated financial statements.

AUDIT RELATED FEES:

None

TAX FEES:

We were billed approximately $6,000 for each of the fiscal years ended December 31, 2010 and 2009, respectively, for professional services rendered by the principal accountant for tax compliance.

ALL OTHER FEES:

There were no other professional services rendered by our principal accountant during the two years ended December 31, 2010 that were not included in the three categories above.

All of the services provided by our principal accountant were approved by our Board of Directors. No more than 50% of the hours expended on our audit for the last fiscal year were attributed to work performed by persons other than full-time employees of our principal accountant.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) **Financial Statements.** Reference is made to the Index to Consolidated Financial Statements on page F-1 for a list of financial statements filed as a part of this Annual Report.

(2) **Financial Statement Schedules.** All financial statement schedules are omitted because of the absence of the conditions under which they are required to be provided or because the required information is included in the financial statements listed above and/or related notes.

(3) **List of Exhibits.** The following is a list of exhibits filed as a part of this Annual Report on Form 10-K.

Exhibit No.	Description
21	List of Subsidiaries of Proteo, Inc.
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act 2002
32	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

Dated: March 14, 2011

By: /s/ Birge Bargmann
Birge Bargmann
Chief Executive Officer and
Chief Financial Officer

Pursuant to requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Capacity	Date
/s/ Birge Bargmann Birge Bargmann	Director, Chief Executive Officer and Chief Financial Officer	March 14, 2011
/s/ Oliver Wiedow, M.D. Oliver Wiedow, M.D.	Director	March 14, 2011
/s/ Hartmut Weigelt, Ph.D. Hartmut Weigelt, Ph.D.	Director	March 14, 2011

PROTEO, INC. AND SUBSIDIARY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Proteo, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Proteo, Inc. and Subsidiary (collectively the "Company"), a Development Stage Company, as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years ended December 31, 2010 and 2009, and for the period from November 22, 2000 (Inception) to December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 consolidated financial position of Proteo, Inc. and Subsidiary as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years ended December 31, 2010 and 2009, and for the period from November 22, 2000 (Inception) to December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As reported in the accompanying consolidated financial statements, the Company is a development stage enterprise which has experienced significant losses since inception with no operating revenues. As of December 31, 2010, the Company's deficit accumulated during the development stage approximated $7.3 million. As discussed in Note 1 to the consolidated financial statements, a significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP

March 14, 2011
Newport Beach, California

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

ASSETS

	December 31, 2010	December 31, 2009
CURRENT ASSETS		
Cash and cash equivalents	$ 698,534	$ 689,126
Research supplies	494,349	581,919
Prepaid expenses and other current assets	33,643	67,469
	1,226,526	1,338,514
PROPERTY AND EQUIPMENT, NET	168,168	232,469
	$ 1,394,694	$ 1,570,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 106,424	$ 190,627
Accrued licensing fees	119,277	85,998
	225,701	276,625
LONG TERM LIABILITIES		
Deferred fees	-	117,230
Accrued licensing fees	675,903	773,982
	675,903	891,212
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Non-voting preferred stock, par value $0.001 per share; 10,000,000 shares authorized; 661,500 and 630,000 shares issued and outstanding at December 31, 2010 and 2009, respectively (Liquidation preference - Note 3)	662	630
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	8,567,634
Note receivable for sale of preferred stock	(984,400)	(1,731,306)
Accumulated other comprehensive income	169,680	316,528
Deficit accumulated during development stage	(7,284,366)	(6,774,220)
Total Proteo, Inc. Stockholders' Equity	493,090	403,146
Noncontrolling Interest	-	-
Total Stockholders' Equity	493,090	403,146
Total Liabilities and Stockholders' Equity	$ 1,394,694	$ 1,570,983

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
AND FOR THE PERIOD FROM NOVEMBER 22, 2000 (INCEPTION) THROUGH DECEMBER 31, 2010

CONSOLIDATED STATEMENTS OF OPERATIONS	2010	2009	NOVEMBER 22, 2000 (INCEPTION) THROUGH DECEMBER 31, 2010
REVENUES	$ -	$ -	$ -
EXPENSES			
General and administrative	366,098	388,371	4,740,795
Research and development	383,182	513,080	3,048,891
	749,280	901,451	7,789,686
INTEREST AND OTHER INCOME (EXPENSE), NET	239,166	43,667	442,378
NET LOSS	(510,114)	(857,784)	(7,347,308)
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	63,004
NET LOSS ATTRIBUTABLE TO PROTEO, INC.	(510,114)	(857,784)	(7,284,304)
PREFERRED STOCK DIVIDEND	(32)	(30)	(62)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (510,146)	$ (857,814)	$ (7,284,366)
BASIC AND DILUTED LOSS ATTRIBUTABLE TO PROTEO, INC. COMMON SHAREHOLDERS	$ (0.02)	$ (0.04)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	23,879,350	23,879,350	
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS			
NET LOSS ATTRIBUTABLE TO PROTEO, INC.	$ (510,114)	$ (857,784)	$ (7,284,304)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	(146,848)	37,248	169,680
COMPREHENSIVE LOSS	$ (656,962)	$ (820,536)	$ (7,114,624)

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009, AND FOR THE PERIOD
FROM NOVEMBER 22, 2000 (INCEPTION) THROUGH DECEMBER 31, 2010

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Stock Subscriptions Receivable	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During Development Stage	Total
BALANCE - November 22, 2000 (Inception)	-	$ -	-	$ -	$ -	$ -	$ -	$ -	$ -
Common stock subscribed at $0.001 per share	-	-	4,800,000	4,800	-	(4,800)	-	-	-
Common stock issued for cash at $3.00 per share	-	-	50,000	50	149,950	-	-	-	150,000
Reorganization with Proteo Biotech AG	-	-	2,500,000	2,500	6,009	-	-	-	8,509
Net loss	-	-	-	-	-	-	-	(60,250)	(60,250)
BALANCE - December 31, 2000	-	$ -	7,350,000	$ 7,350	$ 155,959	$ (4,800)	$ -	$ (60,250)	$ 98,259
Common stock issued for cash at $3.00 per share	-	-	450,000	450	1,349,550	-	-	-	1,350,000
Cash received for common stock subscribed at $0.001 per share	-	-	-	-	-	4,800	-	-	4,800
Common stock issued for cash at $0.40 per share	-	-	201,025	201	80,209	-	-	-	80,410
Common stock subscribed at $0.40 per share	-	-	5,085,487	5,086	2,029,109	(2,034,195)	-	-	-
Common stock issued for cash to related parties at $0.001 per share	-	-	7,200,000	7,200	-	-	-	-	7,200
Other comprehensive loss	-	-	-	-	-	-	(20,493)	-	(20,493)
Net loss	-	-	-	-	-	-	-	(374,111)	(374,111)
BALANCE - December 31, 2001	-	$ -	20,286,512	$ 20,287	$ 3,614,827	$ (2,034,195)	$ (20,493)	$ (434,361)	$ 1,146,065

Common stock issued in connection with reverse merger	-	$ -	1,313,922	$ 1,314	$ (1,314)	$ -	$ -	$ -	$ -
Cash received for common stock subscribed at $0.40 per share	-	-	-	-	-	406,440	-	-	406,440
Other comprehensive income	-	-	-	-	-	-	116,057	-	116,057
Net loss	-	-	-	-	-	-	-	(1,105,395)	(1,105,395)
BALANCE - December 31, 2002	-	$ -	21,600,434	$ 21,601	$ 3,613,513	$ (1,627,755)	$ 95,564	$ (1,539,756)	$ 563,167
Common stock issued for cash at $0.60 per share	-	-	66,667	67	39,933	-	-	-	40,000
Cash received for common stock subscribed at $0.40 per share	-	-	-	-	-	387,800	-	-	387,800
Other comprehensive income	-	-	-	-	-	-	164,399	-	164,399
Net loss	-	-	-	-	-	-	-	(620,204)	(620,204)
BALANCE - December 31, 2003	-	$ -	21,667,101	$ 21,668	$ 3,653,446	$ (1,239,955)	$ 259,963	$ (2,159,960)	$ 535,162
Common stock issued for cash at $0.40 per share	-	-	412,249	412	164,588	-	-	-	165,000
Cash received for common stock subscribed at $0.40 per share	-	-	-	-	-	680,000	-	-	680,000
Other comprehensive income	-	-	-	-	-	-	93,186	-	93,186
Net loss	-	-	-	-	-	-	-	(639,746)	(639,746)
BALANCE - December 31, 2004	-	$ -	22,079,350	$ 22,080	$ 3,818,034	$ (559,955)	$ 353,149	$ (2,799,706)	$ 833,602
Common stock subscribed at $0.84 per share	-	-	300,000	300	251,700	(252,000)	-	-	-
Cash received for common stock subscribed at $0.40 per share	-	-	-	-	-	435,284	-	-	435,284
Other comprehensive loss	-	-	-	-	-	-	(134,495)	-	(134,495)
Net loss	-	-	-	-	-	-	-	(1,131,781)	(1,131,781)
BALANCE - December 31, 2005	-	$ -	22,379,350	$ 22,380	$ 4,069,734	$ (376,671)	$ 218,654	$ (3,931,487)	$ 2,610

Common stock subscribed at $0.60 per share	-	$ -	1,500,000	$ 1,500	$ 898,500	$ (900,000)	$ -	$ -	$ -
Cash received for common stock subscribed at $0.40 per share	-	-	-	-	-	414,590	-	-	414,590
Other comprehensive income	-	-	-	-	-	-	61,737	-	61,737
Net loss			-	-	-	-	-	(649,868)	(649,868)
BALANCE - December 31, 2006	-	$ -	23,879,350	$ 23,880	$ 4,968,234	$ (862,081)	$ 280,391	$ (4,581,355)	$ (170,931)
Cash received for common stock subscribed at $0.60 per share	-	-	-	-	-	862,081	-	-	862,081
Other comprehensive income	-	-	-	-	-	-	89,987	-	89,987
Net loss	-	-	-	-	-	-	-	(445,169)	(445,169)
BALANCE - December 31, 2007	-	$ -	23,879,350	$ 23,880	$ 4,968,234	$ -	$ 370,378	$ (5,026,524)	$ 335,968
Preferred stock subscribed at $6.00 per share	600,000	600	-	-	3,599,400	(3,600,000)	-	-	-
Cash received for preferred stock subscribed at $2.26 per share	-	-	-	-	-	1,354,611	-	-	1,354,611
Other comprehensive loss	-	-	-	-	-	-	(91,098)	-	(91,098)
Net loss	-	-	-	-	-	-	-	(889,882)	(889,882)
BALANCE - December 31, 2008	600,000	$ 600	23,879,350	$ 23,880	$ 8,567,634	$ (2,245,389)	$ 279,280	$ (5,916,406)	$ 709,599
Cash received for preferred stock subscribed at $2.26 per share	-	-	-	-	-	514,083	-	-	514,083
Preferred stock dividend	30,000	30						(30)	-
Other comprehensive income	-	-	-	-	-	-	37,248	-	37,248
Net loss	-	-	-	-	-	-	-	(857,784)	(857,784)
BALANCE - December 31, 2009	630,000	$ 630	23,879,350	$ 23,880	$ 8,567,634	$ (1,731,306)	$ 316,528	$ (6,774,220)	$ 403,146
Cash received for preferred stock subscribed at $2.26 per share	-	-	-	-	-	746,906	-	-	746,906
Preferred stock dividend	31,500	32	-	-	-	-	-	(32)	-
Other comprehensive loss	-	-	-	-	-	-	(146,848)	-	(146,848)
Net loss	-	-	-	-	-	-	-	(510,114)	(510,114)
BALANCE - December 31, 2010	661,500	$ 662	23,879,350	$ 23,880	$ 8,567,634	$ (984,400)	$ 169,680	$ (7,284,366)	$ 493,090

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
AND FOR THE PERIOD FROM NOVEMBER 22, 2000 (INCEPTION) THROUGH DECEMBER 31, 2010

	2010	2009	NOVEMBER 22, 2000 (INCEPTION) THROUGH DECEMBER 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss attributable to Proteo, Inc.	$ (510,114)	$ (857,784)	$ (7,284,304)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	48,145	56,523	439,346
Bad debt expense	-	60,408	60,408
Loss on disposal of equipment	-	-	4,518
Foreign currency transaction (gains) losses	(105,992)	14,160	91,570
Changes in operating assets and liabilities:			
Research supplies	43,817	(452,808)	(539,683)
Prepaid expenses and other current assets	(8,463)	63,497	(135,185)
Accounts payable and accrued liabilities	(74,529)	60,429	77,895
Deferred fees	(108,397)	-	11,944
Accrued licensing fees	-	-	660,713
NET CASH USED IN OPERATING ACTIVITIES	(715,533)	(1,055,575)	(6,612,778)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(1,259)	(20,308)	(634,873)
Cash of reorganized entity	-	-	27,638
NET CASH USED IN INVESTING ACTIVITIES	(1,259)	(20,308)	(607,235)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	-	-	1,792,610
Proceeds from subscribed common stock and issuance of preferred stock to related party	746,906	514,083	5,806,575
NET CASH PROVIDED BY FINANCING ACTIVITIES	746,906	514,083	7,599,185
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(20,706)	13,476	319,362
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,408	(548,324)	698,534
CASH AND CASH EQUIVALENTS--BEGINNING OF PERIOD	689,126	1,237,450	-
CASH AND CASH EQUIVALENTS--END OF PERIOD	$ 698,534	$ 689,126	$ 698,534
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Preferred stock dividend	$ 32	$ 30	$ 62
Common stock issued for subscriptions 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	$ -	$ -	$ 2,245,389

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION/NATURE OF BUSINESS

Proteo, Inc. and Proteo Marketing, Inc. ("PMI"), a Nevada corporation, which began operations in November 2000, entered into a reorganization and stock exchange agreement in December 2000 with Proteo Biotech AG ("PBAG"), a German corporation, incorporated in Kiel, Germany. Pursuant to the terms of the agreement, all of the shareholders of PBAG exchanged their common stock for 2,500,000 shares of PMI common stock. As a result, PBAG became a wholly owned subsidiary of PMI. Proteo Inc.'s common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "PTEO.OB".

During 2001, PMI entered into a Shell Acquisition Agreement (the "Acquisition Agreement") with Trivantage Group, Inc. ("Trivantage"), a public "shell" company, in a transaction accounted for as a reverse merger. In accordance with the Acquisition Agreement, PMI first acquired 176,660,280 shares (1,313,922 post-reverse split shares, as described below) of Trivantage's common stock representing 90% of the issued and outstanding common stock of Trivantage, in exchange for a cash payment of $500,000 to the sole shareholder of Trivantage. Secondly, Trivantage completed a one for one-hundred-fifty reverse stock split. Finally, effective April 25, 2002, the shareholders of PMI exchanged their shares of PMI for an aggregate of 20,286,512 shares of Trivantage to effect a reverse merger between PMI and Trivantage. Subsequently, Trivantage changed its name to Proteo, Inc. Effective December 31, 2004, PMI merged into Proteo, Inc. PBAG and Proteo, Inc. are hereinafter collectively referred to as the "Company."

The Company intends to develop, 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 post-surgery damage to tissue, complications resulting from organ transplantation, pulmonary hypertension, serious injuries caused by accidents, cardiac infarction, as well as other diseases.

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 will begin 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 product sales. The Company believes that none of its planned products will produce sufficient revenues in the near future. 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEVELOPMENT STAGE AND GOING CONCERN MATTERS

The Company has been in the development stage since it began operations on November 22, 2000 and has not generated any revenues from operations and has incurred net losses since inception of approximately $7,347,000. There is no assurance of any future revenues. At December 31, 2010, the Company has working capital of approximately $1,001,000, stockholders' equity of approximately $493,000, and an accumulated deficit of approximately $7.3 million.

The Company will require substantial additional funding for continuing research and development, obtaining regulatory approval, and for the commercialization of its products.

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

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

The Company's products, to the extent they may be deemed drugs or biologics, are governed by the United States 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 generate revenues from product sales, but there are no purchase commitments for any of the proposed products. Additionally, the Company may generate revenues from out-licensing activities. There can be no assurance that further out-licensing may be achieved and may generate significant profit. 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 placement of debt and/or sales of 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 substantial doubt 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONCENTRATIONS

The Company maintains substantially all of its cash in bank accounts at a private German 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 bank 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

The Company'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 and Drug and Cosmetics Act in the United States and by the regulations of state agencies and various foreign government agencies. There can be no assurance that the Company will obtain the regulatory approvals required to market its products. The pharmaceutical products under development in Germany will be subject to more stringent regulatory requirements because they are recombinant proteins for use in humans. The Company has no experience in obtaining regulatory approvals for 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, they are exposed to risks related to fluctuations in foreign currency exchange rates. The Company does not utilize derivative instruments to hedge against such exposure.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“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.

Effective January 1, 2009, the Company adopted new guidance to the Consolidation Topic of the Financial Accounting Standard Board’s (“FASB”) new Accounting Standards Codification (“ASC” or “Codification”). This guidance improves the relevance, comparability and transparency of the financial information that a company provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard requires the Company to classify noncontrolling interests (previously referred to as "minority interest") as part of consolidated net earnings and to include the accumulated amount of noncontrolling interests as part of stockholders' equity.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PRINCIPLES OF CONSOLIDATION (continued)

The net loss amounts the Company has previously reported are now presented as "Net loss attributable to Proteo, Inc." and, as required by the Codification, earnings per share continues to reflect amounts attributable only to the Company. Similarly, in the presentation of stockholders' equity, the Company distinguishes between equity amounts attributable to the Company's stockholders and amounts attributable to the noncontrolling interest - previously classified as minority interest outside of stockholders' equity. In addition to these financial reporting changes, this guidance provides for significant changes in accounting related to noncontrolling interests; specifically, increases and decreases in the Company's controlling financial interests in consolidated subsidiaries will be reported in equity similar to treasury stock transactions. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings. Except for presentation, the implementation of this guidance did not have a material effect on the Company's consolidated financial statements because a substantive contractual arrangement specifies the attribution of net earnings and loss not to exceed the noncontrolling interest.

STARTUP ACTIVITIES

The Other Expenses Topic (Start-Up Costs Sub-topic) of the ASC requires that all non-governmental entities expense the costs of startup activities as incurred, including organizational costs. This standard has not materially impacted the Company's financial position or results of operations.

GRANTS

At times the Company has received grants from the German government which were used to fund research and development activities and the acquisition of equipment. Grant receipts for the reimbursement of research and development expenses were offset against such expenses in the accompanying consolidated statements of operations and comprehensive loss when the related expenses are incurred. Grants related to the acquisition of tangible property were recorded as a reduction of such property's historical cost.

The Company has not received any grant funds for the years ended December 31, 2010 and 2009, nor has it applied for any additional grants during such periods.

USE OF ESTIMATES

The Company prepares its consolidated financial statements in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues (if any) and expenses during the reporting period. Significant estimates made by management include, among others, realizability of long-lived assets and estimates for deferred tax asset valuation allowances. Actual results could materially differ from such estimates.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS AND CERTAIN OTHER ASSETS/LIABILITIES

The Fair Value Measurements and Disclosures Topic of the ASC requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. Management believes that the carrying amounts of the Company's financial instruments, consisting primarily of cash and cash equivalents, accounts payable and accrued liabilities, approximate their fair value at December 31, 2010 and 2009 due to their short-term nature. The Company does not have any assets or liabilities that are measured at fair value on a recurring or non-recurring basis during the years ended December 31, 2010 and 2009 and for the period from November 22, 2000 (Inception) through December 31, 2010.

FOREIGN CURRENCY FINANCIAL REPORTING

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. Expense and grant receipts are translated at weighted average exchange rates for the period. Net exchange gains or losses resulting from such translation are excluded from the consolidated statements of operations and are included in comprehensive loss and accumulated in a separate component of stockholders' equity. Such accumulated amount approximated $170,000 and $317,000 at December 31, 2010 and 2009, respectively.

The Company records payables related to a certain licensing agreement (Note 6) in accordance with the Foreign Currency Matters Topic of the Codification. 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 made no payments under this licensing agreement during the years ended December 31, 2010 and 2009, and did not realize any significant foreign currency exchanges gains or losses.

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 an unrealized foreign currency transaction gain (loss) of approximately $106,000 and $(14,000) for the years ended December 31, 2010 and 2009, respectively, which are included in interest and other income (expense), net in the accompanying consolidated statements of operations and comprehensive loss.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid temporary cash investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of deposits with banks and short-term certificates of deposit.

RESEARCH SUPPLIES

Research supplies is stated at cost, and is entirely comprised of research supplies and materials that are expensed as consumed.

LONG-LIVED ASSETS

Property and equipment are recorded at cost and depreciated using the straight-line method over their expected useful lives, which range from 3 to 14 years. Leasehold improvements are amortized over the expected useful life of the improvement or the remaining lease term, whichever is shorter. Expenditures for normal maintenance and repairs are charged to income, and significant improvements are capitalized. The cost and related accumulated depreciation or amortization of assets are removed from the accounts upon retirement or other disposition; any resulting gain or loss is reflected in the consolidated statements of operations and comprehensive loss.

The Codification requires that certain long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset, an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. Assets to be disposed are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no indicators of impairment existed as of or during the years ended December 31, 2010 and 2009. There can be no assurance, however, that market conditions or demand for the Company's products or services will not change which could result in long-lived asset impairment charges in the future.

REVENUE RECOGNITION

It is the Company's intent to recognize revenues from future product sales at the time of product delivery. The Company believes that once significant operating revenues are generated, the Company's revenue recognition accounting policies will conform to the Revenue Recognition Topic of the Codification.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RESEARCH AND DEVELOPMENT

Research and development costs are charged to operations as incurred. Grant funds received are reported as a reduction of research and development costs.

PATENTS AND LICENSES

The Company does not own any patents or patents pending related to the Elafin technology and instead operates under a technology license agreement with a related party (see Note 6). Under such license agreement, the Company has agreed to pay all costs related to new patents, patents pending, and patent maintenance associated with the Elafin technology. The Company expenses such costs as incurred.

INCOME TAXES

The Company accounts for income taxes using the liability method in accordance with the Income Taxes Topic of the ASC. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be recovered.

As of December 31, 2010 and 2009, the Company did not increase or decrease the liability for unrecognized tax benefit related to uncertain tax positions in prior periods nor did the Company increase its liability for any uncertain tax positions in the current year. Furthermore, there were no adjustments to the liability or lapse of any statutes of limitation or settlements with taxing authorities.

The Company expects resolution of unrecognized tax benefits, if created, would occur while the 100% valuation allowance of deferred tax assets is maintained; therefore, the Company does not expect to have any unrecognized tax benefits that, if recognized, would affect its effective income tax rate.

The Company will recognize interest and penalty related to unrecognized tax benefits and penalties as income tax expense. As of December 31, 2010, the Company has not recognized any liabilities for penalty or interest as the Company does not have any liability for unrecognized tax benefits.

The Company is subject to taxation in the U.S. and various states. The Company's 2005 through 2010 tax years are subject to examination by the taxing authorities. With few exceptions, the Company is no longer subject to U.S. federal, state, local or foreign examinations by taxing authorities for years before 2005.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ACCOUNTING FOR STOCK-BASED COMPENSATION

From inception to December 31, 2010, the Company has not granted any stock options, stock warrants, or stock appreciation rights, and has not adopted any stock option plan.

LOSS PER COMMON 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 available to common stockholders by the weighted average shares outstanding assuming all dilutive potential common shares were issued. There were no dilutive potential common shares outstanding at December 31, 2010 or 2009.

COMPREHENSIVE LOSS

Total comprehensive loss represents the net change in stockholders' equity (deficit) during a period from sources other than transactions with stockholders and as such, includes net earnings or loss. For the Company, other comprehensive loss represents the foreign currency translation adjustments, which are recorded as components of stockholders' equity.

SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

The Company considers itself to operate in one segment and has had no operating revenues from inception. See Note 2 for information on long-lived assets located in Germany.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

Effective September 30, 2009, the Company adopted the FASB's new Accounting Standard Codification as the single source of authoritative accounting guidance under the Generally Accepted Accounting Principles Topic. The ASC does not create new accounting and reporting guidance, rather it reorganizes GAAP pronouncements into approximately 90 topics within a consistent structure. All guidance in the ASC carries an equal level of authority. Relevant portions of authoritative content, issued by the SEC, for SEC registrants, have been included in the ASC. After the effective date of the Codification, all nongrandfathered, non-SEC accounting literature not included in the ASC is superseded and deemed nonauthoritative. Adoption of the Codification also changed how the Company references GAAP in its consolidated financial statements.

The FASB has issued Accounting Standards Update ("ASU") No. 2010-09, Subsequent Events *(Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The FASB believes these amendments remove potential conflicts with the SEC's literature. All of the amendments in the ASU were effective upon issuance (February 24, 2010).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In December 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which codifies FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. ASU 2009-17 represents a revision to former FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. Early application is not permitted. The adoption of this update had no impact on the Company's consolidated financial statements.

In June 2009, the FASB issued Statements on Financial Accounting Standards ("SFAS") No. 166, *Accounting for Transfers of Financial Assets—An Amendment of FASB Statement 140*, which eliminates the concept of qualified special purpose entities (QSPEs) and provides additional criteria transferors must use to evaluate transfers of financial assets. This standard modifies certain guidance contained in FASB ASC 860 and is adopted into the Codification through the issuance of ASU 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*. In order to determine whether a transfer is accounted for as a sale, the transferor must assess whether it and all of its consolidated entities have surrendered control of the financial assets. The standard also requires financial assets and liabilities retained from a transfer accounted for as a sale to be initially recognized at fair value. This standard is effective for fiscal years and interim periods beginning after November 15, 2009, with adoption applied prospectively for transfers that occur on or after the effective date. The adoption of this standard had no impact on the Company's consolidated financial statements.

In April 2009, the FASB issued additional guidance under the Investments – Debt and Equity Securities Topic of the ASC. For debt securities, this guidance replaces the management assertion that it has the intent and ability to hold an impaired debt security until recovery with the requirement that management assert if it either has the intent to sell the debt security or if it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis. If management intends to sell the debt security or it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis, an other than temporary impairment ("OTTI") shall be recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value at the reporting date. After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. The update also changes the presentation in the financial statements of non credit related impairment amounts for instruments within its scope. When the entity asserts it does not have the intent to sell the security and it is more likely than not it will not have to sell the security before recovery of its cost basis, only the credit related impairment losses are to be recognized in earnings and non credit losses are to be recognized in other comprehensive income ("OCI"). Additionally, this update provides for enhanced presentation and disclosure of OTTIs of debt and equity securities in the financial statements. The adoption of this guidance had no impact on the Company's consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Effective January 1, 2009, the Company adopted additional guidance to the Intangibles – Goodwill and Other Topic of the FASB ASC. This update amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this update is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under accounting for business combinations, and other U.S. GAAP. The adoption of this guidance did not have any impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted new guidance to the Business Combinations Topic of the FASB ASC. This guidance establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The adoption of this guidance had no impact on the Company's consolidated financial statements. The Company will apply this guidance prospectively to any business combination on or after January 1, 2009 as required.

Effective January 1, 2009, the Company adopted additional guidance under the Fair Value Measurement and Disclosures Topic of the FASB ASC, which delays the effective date of the adoption of new guidance under the Fair Value Measurements and Disclosures Topic to January 1, 2009 for certain nonfinancial assets and nonfinancial liabilities. Examples of applicable nonfinancial assets and nonfinancial liabilities to which this update applies include, but are not limited to:

- Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination that are not subsequently remeasured at fair value;
- Reporting units measured at fair value in the goodwill impairment test as described in the Intangibles – Goodwill and Other Topic of the FASB ASC and nonfinancial assets and nonfinancial liabilities measured at fair value in the goodwill impairment test, if applicable; and
- Nonfinancial long-lived assets measured at fair value for impairment assessment under the Property, Plant and Equipment Topic of the FASB ASC.

The adoption of this update had no impact on the Company's consolidated financial statements.

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The adoption of this ASU is not expected to result in a material impact to the Company's future consolidated financial statements.

Except as described above, in the opinion of management, neither the FASB, its Emerging Issues Task Force, the AICPA, nor the SEC have issued any additional accounting pronouncements that are expected to have a material impact on the Company's future consolidated financial statements.

2. PROPERTY AND EQUIPMENT

Property and equipment, all of which is located in Kiel, Germany, consist of the following:

	December 31,	
	2010	2009
Technical and laboratory equipment	$ 410,245	$ 442,319
Plant	195,859	211,819
Leasehold improvements	4,928	5,329
Office equipment	27,671	29,925
	638,703	689,392
Less accumulated depreciation and amortization	(470,535)	(456,923)
Total	$ 168,168	$ 232,469

Depreciation and amortization expense included in general and administrative expense in the consolidated statements of operations approximated $48,000 and $57,000 for the years ended December 31, 2010 and 2009, respectively.

During the two years ended December 31, 2010, there were no long-lived assets that were considered to be impaired.

3. STOCKHOLDERS' EQUITY

COMMON STOCK

The Company is authorized to issue 300,000,000 shares of $0.001 par value common stock. The holders of the Company's common stock are entitled to one vote for each share held of record on all matters to be voted on by those stockholders.

In November 2000, the Company sold and issued 4,800,000 shares of restricted common stock at $0.001 per share for $4,800 in cash, which was received in fiscal 2001; therefore the issuance was accounted for as a stock subscription receivable at December 31, 2000. During the year ended December 31, 2001, the Company sold and issued an additional 7,200,000 shares of restricted common stock to related parties at $0.001 per share for $7,200 in cash.

In November 2000, the Company sold and issued 50,000 shares of restricted common stock at $3.00 per share for $150,000 in cash.

3. STOCKHOLDERS' EQUITY (continued)

COMMON STOCK (continued)

In December 2000, the Company issued 2,500,000 shares of restricted common stock in connection with the reorganization and stock exchange agreement with PBAG (see "Organization/Nature of Business" in Note 1).

During the year ended December 31, 2001, the Company issued and sold 450,000 shares of restricted common stock at $3.00 per share to Euro-American GmbH for $1,350,000 in cash.

During the year ended December 31, 2001, the Company entered into a subscription agreement and note receivable for 6,000,000 shares of the Company's restricted common stock with Euro-American GmbH, valued at $2,400,000. During the year ended December 31, 2001, 5,286,512 shares of Company common stock were issued under such subscription, of which approximately $435,000, $680,000, and $794,000 was received against this receivable during the years ended December 31, 2005, 2004, and the period from Inception through December 31, 2003, respectively. In May 2003, FID-Esprit AG ("FID-Esprit") assumed the common stock subscription agreement with Euro-American GmbH. The Company received the outstanding balance in installments through March 28, 2006.

During the year ended December 31, 2002, the Company issued 1,313,922 shares of restricted common stock in conjunction with the reverse merger with PMI (see "Organization/Nature of Business" in Note 1).

Additionally, the Company entered into a common stock purchase agreement with FID-Esprit to sell up to 1,000,000 shares of the Company's restricted common stock. Under the agreement, the Company agreed to sell its common stock at a price per share equal to 40% of the average ask price for the 20 trading days previous to the date of subscription, as quoted on a public market. However, the price per share will be no less than $0.40. During the years ended December 31, 2004 and 2003, the Company issued 412,249 and 66,667 shares, respectively, at $0.40 and $0.60 per share, respectively, for cash. Such agreement was not renewed after it expired on December 31, 2004.

In November 2005, the Company entered into a common stock purchase agreement with FID-Esprit to sell 300,000 of the Company's restricted common shares at $0.84 per share, or $252,000. Concurrent with such transaction, FID-Esprit issued a promissory note to the Company for $252,000 to be paid in four installments of $63,000 each, due on March 31, 2006, June 30, 2006, September 30, 2006, and December 31, 2006. The promissory note was paid in full during the year ended December 31, 2006.

In December 2006, the Company entered into a common stock purchase agreement with FID-Esprit to sell 1,500,000 of the Company's restricted common shares at $0.60 per share, or $900,000. Concurrent with such transaction, FID-Esprit issued a promissory note to the Company for $900,000 to be paid in five installments of $180,000 each through December 31, 2007. FID-Esprit made a partial payment of $37,894 against the note in December 2006. FID-Esprit paid the remaining balance in 2007.

3. STOCKHOLDERS' EQUITY (continued)

PREFERRED STOCK

The Company is authorized to issue 10,000,000 shares of preferred stock, $0.001 par value per share. Except as described below, the Board of Directors has not designated any liquidation value, dividend rates or other rights or preferences with respect to any shares of preferred stock.

The Board of Directors has designated 750,000 preferred shares as non-voting Series A Preferred Stock. As more fully described in the Company's Form 8-K filed with the SEC on June 11, 2008, holders of Series A Preferred 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 Series A Preferred Stock are entitled to an annual stock dividend payable at the rate of one share of Series A Preferred Stock for each twenty shares of Series A Preferred Stock owned by each holder of Series A Preferred Stock. The annual stock dividend shall be paid on June 30 of each year commencing in 2009 and no stock dividends will be paid after December 31, 2011.

On June 9, 2008, the Company entered into a Preferred Stock Purchase Agreement ("Stock Purchase Agreement") with FID-Esprit (the "Investor"), a common stockholder and related party. Pursuant to the Stock Purchase Agreement, the Company sold and issued to the Investor 600,000 shares of Series A Preferred 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, the Investor delivered to the Company a promissory note in the amount of $3,600,000 (the "Note"), which matured on March 31, 2009. During the year ended December 31, 2009, the Company received payments approximating $514,000 (including payments received under the Forbearance Agreement, as described below), in connection with the Stock Purchase Agreement. The unpaid principal balance of the Series A Preferred Stock note receivable as of December 31, 2009, which represents a technical default under the Note, approximated $1,731,000. The Series A Preferred Stock note receivable is reported as a reduction of stockholders' equity.

On July 6, 2009, the Company and Investor entered into a Forbearance Agreement and General Release (the "Forbearance Agreement") to renegotiate the terms of the Note. Pursuant to the Forbearance Agreement, the Investor acknowledged and agreed that, as of July 6, 2009, it was obligated to the Company under the Note for the aggregate sum of $1,940,208 (the "Indebtedness"), which represents the unpaid principal amount as of such date plus a late charge equal to three percent (3%) of the unpaid principal amount (approximately $65,000). In exchange for the Company's agreement to forbear from exercising its rights under the Note and Guaranty, the Investor has agreed to pay the Indebtedness by making monthly payments in the amount of $140,000 commencing on the first business day of September 2009 and continuing on the first business day of each succeeding month thereafter until the Indebtedness is paid in full. As of December 31, 2009, the Company had only received approximately $148,000 since the inception of the Forbearance Agreement (approximately $5,000 of which was applied to the late charge), and therefore the Investor was technically in default. The Company has not chosen to enforce the remedies under the Forbearance Agreement or the Stock Purchase Agreement as of the filing of this Form 10-K. The receivable for late fees was fully reserved at December 31, 2010 and 2009.

3. STOCKHOLDERS' EQUITY (continued)

PREFERRED STOCK (continued)

On February 11, 2010, the Company entered into an Agreement on the Assumption of Debt ("Agreement") between the Company, btd biotech development GmbH ("Assignee"), and Axel J. Kutscher (the "Guarantor" of the Note). Pursuant to the Agreement, the Company consented to Assignee's assumption of the obligations owed to the Company by Investor under the Note, Stock Purchase Agreement and Forbearance Agreement. The Guarantor consented to the assumption of the obligations owed to the Company by Investor and acknowledged, agreed, and consented to the continuing validity of his guaranty. During the year ended December 31, 2010, the Company received payments approximating $747,000, in connection with this agreement. The note receivable approximated $984,000 at December 31, 2010.

Effective June 30, 2010 and 2009, the Company declared a stock dividend of 31,500 shares and 30,000 shares, respectively, of Series A Preferred Stock payable to its Series A Preferred Stock holders pursuant to the Stock Purchase Agreement.

4. NONCONTROLLING INTEREST

On September 28, 2006, a shareholder of the Company entered into an agreement to contribute 50,000 Euros (approximately $63,000) to PBAG for a 15% non-voting interest in PBAG, in accordance with certain provisions of the German Commercial Code. The party will receive 15% of profits, as determined under the agreement, not to exceed in any given year 30% of the capital contributed. Additionally, the party will be allocated 15% of losses, as determined under the agreement, not to exceed the capital contributed. The party is under no obligation to provide additional capital contributions to the Company. Prior to 2008, allocated losses reduced the minority stockholder's capital account to $0, which has been reported as net loss attributable to noncontrolling interest in the accompanying consolidated financial statements.

5. INCOME TAXES

There is no material income tax expense recorded for the years ended December 31, 2010 or 2009 due to the Company's net losses.

Income tax expense for the years ended December 31, 2010 and 2009 differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to the pretax loss for the following reasons:

	2010	2009
Income tax benefit at U.S. federal statutory rates	$ (173,000)	$ (286,000)
Change in valuation allowance	173,000	286,000
State and local income taxes, net of federal income tax effect	800	800
	$ 800	$ 800

5. INCOME TAXES (continued)

The Company has a deferred tax asset and an equal amount of valuation allowance of approximately $1,924,000 and $1,879,000 at December 31, 2010 and 2009, respectively, relating primarily to tax net operating loss carryforwards, as discussed below, and timing differences related to the recognition of accrued licensing fees.

As of December 31, 2010, the Company had tax net operating loss carryforwards ("NOLs") of approximately $1,383,000 and $4,791,000 available to offset future taxable Federal and foreign income, respectively. The Federal NOL expires in varying years through 2025. The foreign net operating loss relates to Germany and does not have an expiration date.

In the event the Company were to experience a greater than 50% change in ownership, as defined in Section 382 of the Internal Revenue Code, the utilization of the Company's Federal tax NOLs could be restricted.

6. COMMITMENTS AND CONTINGENCIES

DR. WIEDOW LICENSE AGREEMENT

On December 30, 2000, the Company entered into a thirty-year license agreement, beginning January 1, 2001 (the "License Agreement"), with Dr. Oliver Wiedow, MD, the owner and inventor of several patents, patent rights and technologies related to Elafin. Pursuant to the License Agreement, the Company agreed to pay Dr. Wiedow an annual license fee of 110,000 Euros for a period of six years. No payments were made through fiscal year 2003. In 2004, the License Agreement was amended to require the Company to make annual payments of 30,000 Euros, to be paid on July 15 of each year, beginning in 2004. Such annual payment could be increased to 110,000 Euros by June 1 of each year based on an assessment of the Company's financial ability to make such payments. In December 2007 the Company paid Dr. Wiedow 30,000 Euros. The License Agreement was again amended by an Amendment Agreement to the License Agreement (the "Amendment") dated December 23, 2008. Pursuant to the Amendment, the Company and Dr. Wiedow have agreed that the Company would pay the outstanding balance of 630,000 Euros to Dr. Wiedow as follows: for fiscal years 2008 to 2012, the Company shall pay Dr. Wiedow 30,000 Euros per year, and for fiscal years 2013 to 2016, the Company shall pay Dr. Wiedow 120,000 Euros per year. The foregoing payments shall be made on or before December 31 of each fiscal year. In December 2008 the Company paid Dr. Wiedow 30,000 Euros. No payments were made under this agreement during 2009 or 2010. While the total amount owed does not currently bear interest, the Amendment provides that any late payment shall be subject to interest at an annual rate equal to the German Base Interest Rate (0.12% as of January 1, 2011) plus six percent. In the event that the Company's financial condition improves, the parties can agree to increase and/or accelerate the payments.

The Amendment also modified the royalty payment such that the Company will not only pay Dr. Wiedow a three percent royalty on gross revenues from the Company's sale of products based on the licensed technology but also three percent of the license fees (including upfront and milestone payments and running royalties) received by the Company or its subsidiary from their sublicensing of the licensed technology.

No royalty expense has been recognized under the License Agreement or the Amendment since the Company has yet to generate any related revenues. At December 31, 2010 and 2009, the Company has accrued approximately $795,000 and $860,000, respectively, of licensing fees payable to Dr. Wiedow, of which approximately $119,000 and $86,000, respectively, is included in current liabilities with the remainder included in long-term liabilities.

Dr. Wiedow, who is a director of the Company, beneficially owned approximately 45% of the Company's outstanding common stock as of December 31, 2010.

6. COMMITMENTS AND CONTINGENCIES (continued)

DR. WIEDOW LICENSE AGREEMENT (continued)

On October 4, 1999, Dr. Wiedow and AstraZeneca PLC (formerly Zeneca Limited) entered into an agreement to assign all patents and technology related to Elafin to Dr. Wiedow in exchange for a royalty of 2% of any future net sales from such patents and technology. The Company, under its December 30, 2000 licensing agreement with Dr. Wiedow discussed above, assumed such royalty obligation.

ARTES BIOTECHNOLOGY LICENSE AGREEMENT

On November 15, 2004, the Company entered into an exclusive worldwide license and collaboration agreement with ARTES Biotechnology GmbH ("ARTES"). This agreement enables the Company 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 the Company. The agreement has a term of fifteen years with an annual license fee equal to the greater of 10,000 Euros 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 the Company under similar terms.

RHEIN MINAPHARM AGREEMENT

In August 2007, the Company's subsidiary entered into an agreement with Rhein Minapharm ("Minapharm") for clinical development, production and marketing of Elafin. The Company has granted Minapharm the right to exclusively market Elafin in Egypt and certain Middle Eastern and African countries. Under this agreement, the Company had deferred certain amounts received until the expiration of a refund period in October 2010. Accordingly, approximately $108,000 is included as other income for 2010 in the accompanying consolidated statements of operations. The Company may receive additional milestone-payments upon Minapharm's attainment of certain clinical milestones as well as royalties on any future net product sales.

LEASES

The Company has entered into several leases for office and laboratory facilities in Germany, expiring at dates through December 2011. The Company also leases office space in Irvine, California on a month-to-month basis. Total rental expense for all facilities for the years ended December 31, 2010 and 2009 approximated $35,000, and $35,000, respectively. Future minimum rental payments under non-cancelable operating leases approximate $34,000 for the year ending December 31, 2011.

6. COMMITMENTS AND CONTINGENCIES (continued)

LEGAL

The Company may from time to time be involved in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination, or breach of contract actions incidental to the operation of its business. The Company is not currently involved in any such litigation which it believes could have a material adverse effect on its financial condition or results of operations.

7. LOSS PER COMMON SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted loss per common share computations for the years ended December 31, 2010 and 2009:

	2010	2009
Numerator for basic and diluted loss per common share:		
Net loss attributable to Proteo, Inc.	$ (510,114)	$ (857,784)
Preferred stock dividend	(32)	(30)
Net loss attributable to common stockholders	(510,146)	(857,814)
Denominator for basic and diluted loss per common share:		
Weighted average number of common shares outstanding	23,879,350	23,879,350
Basic and diluted loss per common share	$ (0.02)	$ (0.04)

EXHIBIT 21

SUBSIDIARIES OF PROTEO, INC.

Proteo Biotech AG, a German joint stock corporation

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 annual report on Form 10-K (hereinafter referred to as "this report") of Proteo, Inc. (hereinafter referred to as "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 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: March 14, 2011

By: /s/ Birge Bargmann

Birge Bargmann
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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 annual report on Form 10-K (hereinafter referred to as "this report") of Proteo, Inc. (hereinafter referred to as "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 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: March 14, 2011

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

The undersigned hereby certifies, in her capacity as an officer of Proteo, Inc. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

(1) the Annual Report of the Company on Form 10-K for the period ended December 31, 2010 (hereinafter referred to as the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2011

/s/ Birge Bargmann

Birge Bargmann Chief Executive Officer and
Chief Financial Officer

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO PROTEO, INC. AND WILL BE RETAINED BY PROTEO, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

THIS CERTIFICATION IS BEING FURNISHED PURSUANT TO RULE 15(D) AND SHALL NOT BE DEEMED "FILED" FOR PURPOSES OF SECTION 18 OF THE EXCHANGE ACT (15 U.S.C. 78R), OR OTHERWISE SUBJECT TO THE LIABILITY OF THAT SECTION. THIS CERTIFICATION SHALL NOT BE DEEMED TO BE INCORPORATED BY REFERENCE INTO ANY FILING UNDER THE SECURITIES ACT OR THE EXCHANGE ACT, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES IT BY REFERENCE.