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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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 NO.)
2102 BUSINESS CENTER DRIVE, IRVINE, CALIFORNIA	92612
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(949) 253-4155
(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

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

CLASS	NUMBER OF SHARES OUTSTANDING
Common Stock, $0.001 par value	23,879,350 shares of common stock at August 14, 2014

PROTEO, INC.
AND SUBSIDIARY

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PROTEO, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 692,777	$ 456,310
Research supplies	390,095	391,526
Prepaid expenses and other current assets	10,808	22,073
	1,093,680	869,909
PROPERTY AND EQUIPMENT, NET	19,277	20,501
	$ 1,112,957	$ 890,410
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 68,469	$ 151,359
	68,469	151,359
LONG TERM LIABILITIES		
Deferred revenues	534,858	–
Accrued licensing fees	778,107	784,776
	1,312,965	784,776
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Non-voting preferred stock, par value $0.001 per share; 10,000,000 shares authorized; 723,590 shares issued and outstanding	724	724
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	8,988,125	8,988,125
Accumulated other comprehensive income	240,289	250,514
Accumulated deficit	(9,521,495)	(9,308,968)
Total Stockholders' Deficit	(268,477)	(45,725)
Total Liabilities and Stockholders' Deficit	$ 1,112,957	$ 890,410

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2014	2013	2014	2013
CONSOLIDATED STATEMENTS OF OPERATIONS				
REVENUES	$ –	$ –	$ –	$ –
EXPENSES				
General and administrative	41,197	40,151	86,070	93,643
Research and development	108,296	96,907	216,390	150,043
	149,493	137,058	302,460	243,686
OTHER INCOME (EXPENSE)				
Development income	74,776	–	74,776	–
Interest and other income (expense), net	10,545	(20,110)	15,157	13,561
	85,312	(20,110)	89,933	13,561
NET LOSS	$ (64,172)	$ (157,168)	$ (212,527)	$ (230,125)
BASIC AND DILUTED LOSS PER SHARE	$ 0.00	$ (0.01)	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	23,879,350	23,879,350	23,879,350	23,879,350
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS				
NET LOSS	$ (64,172)	$ (157,168)	$ (212,527)	$ (230,125)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	(8,447)	21,243	(10,225)	(21,660)
COMPREHENSIVE LOSS	$ (72,619)	$ (135,925)	$ (222,752)	$ (251,785)

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (212,527)	$ (230,125)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,848	11,455
Loss on disposal of equipment	–	11,438
Foreign currency transaction gains	(11,271)	(21,892)
Changes in operating assets and liabilities:		
Research supplies	(1,905)	45,732
Prepaid expenses and other current assets	11,126	30,343
Accounts payable and accrued liabilities	(82,438)	(48,478)
Deferred revenue	533,742	–
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	242,575	(201,527)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	–	34,663
Acquisition of property and equipment	(4,794)	–
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(4,794)	34,663
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,314)	(5,726)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	236,467	(172,590)
CASH AND CASH EQUIVALENTS--BEGINNING OF PERIOD	456,310	375,722
CASH AND CASH EQUIVALENTS--END OF PERIOD	$ 692,777	$ 203,132

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 (UNAUDITED)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

BASIS OF PRESENTATION

The accompanying condensed consolidated balance sheet as of December 31, 2013, which has been derived from audited financial statements, and the accompanying interim condensed consolidated financial statements as of June 30, 2014 and for the three-month and six-month periods ended June 30, 2014 and 2013, have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments and accruals) necessary to present fairly the financial condition, results of operations and cash flows of Proteo, Inc. and its wholly owned subsidiary (hereinafter collectively referred to as the "Company") as of and for the periods presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Operating results for the three-month and six-month periods ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, or for any other interim period during such year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC, although the Company believes that the disclosures made are adequate to make the information not misleading. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on February 26, 2014.

NATURE OF BUSINESS

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 Tiprelestat (also known as Elafin) for intravenous use to be one of the most prospective treatments of acute postoperative inflammatory complications, in particular after esophageal cancer 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 products that the Company is developing, to the extent they are considered drugs or biologics, are governed by the Federal Food, Drug and Cosmetics Act (in the United States) and the regulations of State and various foreign government agencies. The Company's proposed pharmaceutical products to be used by humans are subject to certain clearance procedures administered by the above regulatory agencies.

Since its inception, the Company has primarily been engaged in the research and development of its proprietary product Elafin. The Company intends to seek the various governmental regulatory approvals for the marketing of Elafin. Management believes that none of its planned products will produce sufficient revenues in the near future. As a result, the Company intends to generate revenue by out-licensing and marketing activities. There are no assurances, however, that the Company will be able to develop such products, or if produced, that they will be accepted in the marketplace.

From time to time, the Company enters into collaborative arrangements for the research and development (R&D), manufacture and/or commercialization of products and product candidates. These collaborations may provide for non-refundable, upfront license fees, R&D and commercial performance milestone payments, cost sharing, royalty payments and/or profit sharing. The Company's collaboration agreements with third parties are generally performed on a “best efforts” basis with no guarantee of either technological or commercial success.

Proteo, Inc.'s common stock is currently quoted on the OTC QB under the symbol "PTEO".

CONCENTRATIONS

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

The Company's operations, including 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 will require substantial additional funding for continuing research and development, obtaining regulatory approval, and for the commercialization of its products. 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 or whether such will 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 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.

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

The Company is exposed to risks related to fluctuations in foreign currency exchange rates. Management does not utilize derivative instruments to hedge against such exposure.

PRINCIPLES OF CONSOLIDATION

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

RESEARCH SUPPLIES

The Company capitalizes the cost of supplies used in its research and development activities. Such costs are expensed as used to research and development expenses in the accompanying condensed consolidated statements of operations.

FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standard Board's ("FASB") Accounting Standards Codification ("ASC" or "Codification") 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, accounts payable and accrued expenses, approximate their fair value at June 30, 2014 due to their short-term nature. The Company does not have any assets or liabilities that are measured at fair value on a recurring basis and, during the three-month and six-month periods ended June 30, 2014 and 2013, did not have any assets or liabilities that were measured at fair value on a non-recurring basis.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the FASB approved Accounting Standards Update 2014-10 ("ASU 2014-10"), *Development Stage Entities*. This Update removes the definition of a development stage entity from the Master glossary of the ASC, thereby removing the financial reporting distinction between development stage entities and other reporting entities from GAAP. In addition, ASU 2014-10 eliminates requirements for development stage entities to:

- Present inception-to-date information in the statements of operations, cash flows and stockholders' deficit,
- Label the financial statements as those of a development stage entity,
- Disclose a description of the development stage activities in which the entity is engaged, and
- Disclose the first year in which the entity is no longer a development stage entity that in prior years it had in the development stage.

ASC 2014-10 also clarifies that the guidance in ASC Topic 275, *Risks and Uncertainties*, is applicable to entities that have not commenced planned principal operations. These amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein, with early adoption permitted. The Company elected to adopt the aforementioned amendments for the financial statements contained within its June 30, 2014 Form 10-Q. As such, information previously required by ASC Topic 915, *Development Stage Entities*, has been excluded from the accompanying condensed consolidated financial statements.

The amendments in ASU 2014-10 also eliminate an exception provided to development stage entities in ASC Topic 810, *Consolidation*, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. This amendment is effective for annual reporting periods beginning after December 2015, and interim periods therein. The Company is currently evaluating the requirements under this amendment, but does not expect it to materially impact the financial statements when adopted.

In the opinion of management, neither the FASB, its Emerging Issues Task Force, the AICPA, nor the SEC have issued any additional accounting pronouncements since the Company filed its December 31, 2013 Form 10-K that are expected to have material impact on the Company's future consolidated financial statements.

2. 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 by the weighted average shares outstanding assuming all dilutive potential common shares were issued. There were no dilutive potential common shares outstanding at June 30, 2014 and 2013. As such, basic and diluted loss per common share equals net loss, as reported, divided by the weighted average number of common shares outstanding for the respective periods.

3. FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's German operations are translated from Euros (the functional currency) into U.S. dollars (the reporting currency) at period-end exchange rates; equity transactions are translated at historical rates; and income and expenses are translated at weighted average exchange rates for the period. Net foreign currency exchange gains or losses resulting from such translations are excluded from the results of operations but are included in other comprehensive income and accumulated in a separate component of stockholders' equity. Accumulated comprehensive income approximated $240,000 at June 30, 2014 and $251,000 at December 31, 2013.

4. FOREIGN CURRENCY TRANSACTIONS

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.

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 gain or loss that is currently recognized. The Company recorded foreign currency transaction gains of approximately $11,000 and $22,000 for the six-month periods ended June 30, 2014 and 2013, which are included in interest and other income (expense), net in the accompanying condensed consolidated statements of operations and comprehensive loss.

5. SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

The Company considers itself to operate in one segment and has not generated any significant operating revenues since its inception. All of the Company's property and equipment is located in Germany.

6. LONG-TERM LIABILITIES

DEFERRED REVENUES

On May 16, 2014, the Company entered into a funding and revenue sharing agreement (the “Development Agreement”) with an unrelated third party (disclosed in the Company’s 8-K filing to the SEC as of May 22, 2014). The third party will fund operational expenses of the Company as well as the development costs related to the clinical development program aimed at receiving regulatory approval for the use of Elafin for the intravenous treatment of patients undergoing esophageal cancer surgery in the European Union. Total payments by the third party to the Company shall not exceed 3.5 million Euros. Revenue participation right payments will be made to the party when and if Elafin is commercialized within the European Union for the intravenous treatment of patients undergoing esophageal cancer surgery. The Development Agreement will terminate after the earlier of 15 years or 10 complete and consecutive years after the first regulatory approval of Elafin for this indication. Under no circumstances is the payment refundable, even if the drug is never commercialized.

Through June 30, 2014, pursuant to the provisions of the Development Agreement, the party made cash payments totaling 446,000 Euros (approximately $612,000) to the Company. As no revenue sharing payments will be made unless Elafin is commercialized, the payments received are being accounted for as a payment for the Company to use reasonable efforts to complete development, obtain regulatory approvals, and to commercialize Elafin (i.e. the performance period). Therefore, amounts received from the party will be initially deferred and recognized as revenue over the projected performance period under the Development Agreement in direct relation to expenses incurred. Through June 30, 2014, the Company recognized approximately $75,000 of development income under the Development Agreement, which is included as a component of other income (expense) in the accompanying condensed consolidated statements of operations.

ACCRUED LICENSING FEES

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. The License Agreement was amended in December 2008 to waive non-payment defaults and to defer the due dates of each payment. In July 2011, in February 2012, February 2013, and again in June 2014, Dr. Wiedow agreed in writing to waive the non-payment defaults and agreed to defer the due dates of the payments for the outstanding balance of 570,000 Euro. As a result, the outstanding balance of 570,000 Euros is due on April 30, 2018. 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 plus six percent. In the event that the Company's financial condition improves, the parties can agree to increase and/or accelerate the payments. Dr. Wiedow, who is a director of the Company, beneficially owned approximately 27% of the Company's outstanding common stock as of June 30, 2014.

At June 30, 2014, the Company has accrued approximately $778,000 of licensing fees payable to Dr. Wiedow which are included in long-term liabilities. This is a decrease over the respective accrual of approximately $785,000 at December 31, 2013, which was solely due to changes in foreign currency exchange rates.

7. INCOME TAXES

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management evaluates the need to establish a valuation allowance for deferred tax assets based upon the amount of existing temporary differences, the period in which they are expected to be recovered and expected levels of taxable income. A valuation allowance to reduce deferred tax assets is established when it is “more likely than not” that some or all of the deferred tax assets will not be realized. Management has determined that a full valuation allowance against the Company’s net deferred tax assets is appropriate.

There is no material income tax expense recorded for the periods ended June 30, 2014 and 2013, due to the Company's net losses and related changes to the full valuation allowance for deferred tax assets.

As of June 30, 2014, the Company has a deferred tax asset and an equal amount of valuation allowance of approximately $2,543,000, relating primarily to federal and foreign net operating loss carryforwards of approximately $597,000 and $1,674,000, respectively, and temporary differences related to the recognition of accrued licensing fees of approximately $272,000.

Based on management’s evaluation of uncertainty in income taxes, the Company concluded that there were no significant uncertain tax positions requiring recognition in its financial statements or related disclosures. Accordingly, no adjustments to recorded tax liabilities or accumulated deficit were required. As of June 30, 2014, there were no increases or decreases to liability for income taxes associated with uncertain tax positions.

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

CAUTIONARY STATEMENTS:

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company intends that such forward-looking statements be subject to the safe harbors created by such statutes. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. Accordingly, to the extent that this Quarterly Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by management in forward-looking statements.

Such differences may be caused by a variety of factors, including but not limited to adverse economic conditions, intense competition, including intensification of price competition and entry of new competitors and products, adverse federal, state and local government regulation, inadequate capital, unexpected costs and operating deficits, increases in general and administrative costs and other specific risks that may be alluded to in this Quarterly Report or in other reports issued by the Company. In addition, the business and operations of the Company are subject to substantial risks that increase the uncertainty inherent in the forward-looking statements. The inclusion of forward looking statements in this Quarterly Report should not be regarded as a representation by management or any other person that the objectives or plans of the Company will be achieved.

Since inception, the Company has generated a relatively minor amount of non-operating revenue from its licensing activities and does not expect to report any significant operating revenue until the successful development and marketing of its planned pharmaceutical and other biotech products. Additionally, after the launch of the Company's products, there can be no assurance that the Company will generate positive cash flow and there can be no assurances as to the level of revenues, if any, the Company may actually achieve from its planned principal operations.

OVERVIEW

Proteo 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 acute postoperative inflammatory complications, in particular after esophageal cancer surgery. Elafin also appears to be a promising compound for the treatment of pulmonary arterial hypertension.

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 benefit/risk balance. There can be no assurance that the Company will receive government approval for the use of Elafin 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 for the treatment of pulmonary arterial hypertension and chronic thromboembolic pulmonary hypertension as well as for the treatment of esophageal cancer. The latter indication, especially the postoperative inflammation, the main reason for postoperative morbidity, will be targeted by Elafin treatment. Within the United States, Proteo has obtained Orphan drug designations for the use of Elafin for the treatment of pulmonary arterial hypertension as well as for the prevention of inflammatory complications of transthoracic esophagectomy.

For the development of its lead product Elafin, Proteo has established a network of globally renowned research institutes, physicians and hospitals in Europe and the US. The development of Elafin has been widely supported by public grants. Worldwide leading funding bodies, such as the American National Institutes of Health (NIH) and the British Medical Research Council (MRC), support preclinical and clinical studies on Elafin with high volume grants.

Proteo currently focuses on the clinical development of Elafin for prophylactic treatment of acute postoperative inflammatory complications in the surgical therapy of esophageal cancer. Clinical trials for further indications and preclinical research into new fields of application are conducted in cooperation with third parties.

The tolerability of Elafin in healthy male subjects was demonstrated in a Phase I clinical single dose escalating study. A 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 transthoracic esophagectomy for esophageal cancer. The trial showed that Elafin had a positive effect on the period of recovery: 63 percent of the Elafin-treated patients required only one day of postoperative intensive care, while all patients in the placebo group needed several days of postoperative intensive medical care. A further Phase II study, EMPIRE (Elafin Myocardial Protection from Ischaemia Reperfusion Injury), an investigator initiated trial, investigates the efficacy and safety of Elafin in coronary bypass surgery. In November 2013, the recruitment period for the EMPIRE study was closed after a total of 87 participants had been recruited. No safety concerns were raised by the Data Monitoring Committee at the two planned interim safety analyses of the study. The study results are expected in 2014.

In February 2014, the Company received Protocol Assistance (scientific advice for orphan medicines) from the Committee for Medicinal Products for Human Use (CHMP) at the European Medicines Agency (EMA) with respect to the strategy for further clinical development and marketing authorization of Elafin for the prophylactic treatment of postoperative complications after resection of esophageal cancer.

In May, 2014, our subsidiary entered into an agreement with an unrelated third party (the “Development Agreement”). Pursuant to the Development Agreement, the party has agreed to support the development of the Company’s orphan medicinal product Tiprelestat (“Elafin”) by providing certain funding to the Company to assist with activities related to research, clinical testing, manufacturing, and preparation and submission of applications for regulatory approvals. The party made upfront payments to the Company and will make ongoing monthly payments toward the development of Elafin, which will provide the Company with total funds of EURO 3.5 million (approximately $4.8 million). In exchange, we will pay the party a share of the net sales of Elafin within the European Union, subject to an aggregate maximum cap. All payments received are non-refundable (see Note 6 to the accompanying condensed consolidated financial statements).

RESULTS OF OPERATIONS

OPERATING EXPENSES

The Company's operating expenses for the three-month and six-month periods ended June 30, 2014 approximated $149,000 and $302,000, respectively, an increase of approximately $12,000 and $59,000 over the respective periods of the prior year. General and administrative expenses (mostly professional and legal fees) for the three-month and six-month periods increased (decreased) $1,000 and ($8,000) respectively. The decrease for the six month periods was due to lower depreciation and lease expenses driven by management’s decision to terminate the month-to-month lease at its pilot research plant during the first quarter of 2013. Research and development expenses increased $11,000 and $66,000 over the same periods. The increase in research and development expenses was primarily driven by an increase in research related wages in 2014 due to increased compensation to existing employees.

OTHER INCOME (EXPENSE)

Total other income (expense) for the three-month and six-month periods ended June 30, 2014 approximated $85,000 and $90,000, respectively, compared to ($20,000) and $14,000 for the respective periods in 2013, a net increase of approximately $105,000 and $76,000, respectively. The increases are primarily due to development income, which represent income recognized under the Development Agreement, as described above and in Note 6 to the accompanying condensed consolidated financial statements. Development income in 2014 increased by approximately $75,000 over the periods in 2013 due to the Development Agreement being signed in May 2014, with no similar agreement in 2013.

Interest and other income (expense), net for the three-month and six-month periods ended June 30, 2014 increased by approximately $31,000 and $2,000, respectively, over the same periods in 2013. The increases are driven primarily by foreign currency transaction gains during 2014, due to a strengthening of the U.S. Dollar compared to the Euro, in excess of the gains during the similar period in 2013.

INCOME TAXES

There is no material income tax expense recorded for the periods ended June 30, 2014 and 2013, due to the Company's net losses. The Company has a deferred tax asset of approximately $2,543,000 at June 30, 2014 relating primarily to tax net operating loss carryforwards, as discussed below, and temporary differences related to the recognition of accrued licensing fees. Full valuation allowances have been established against these deferred tax assets as it is likely that the Company will not be able to utilize them.

As of June 30, 2014, the Company had tax net operating loss carryforwards ("NOLs") of approximately $1,757,000 and $6,694,000 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 NOLs could be restricted.

FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

The Company experienced a net loss of approximately $10,000 and $22,000 in foreign currency translation adjustments during the six-month periods ended June 30, 2014 and 2013, respectively. The changes are primarily due to a fluctuating U.S. Dollar (our reporting currency) compared to the Euro (our functional currency) during the periods.

LIQUIDITY AND CAPITAL RESOURCES

Proteo is a holding company that owns 100% of Proteo Biotech AG, its operating subsidiary in Germany (the "Subsidiary"). To date the Subsidiary has not had any earnings, and it does not expect to have any earnings for several years pending the approval of its first product candidate. In this regard, there were no undistributed earnings of the Subsidiary to repatriate to the U.S. parent (i.e. the Company).

In June 2014, Dr. Wiedow agreed in writing to waive any non-payment defaults under the License Agreement and to defer all current payments to April 2018. See Note 6 to the consolidated financial statements included elsewhere for the payment terms under the License Agreement.

During the six-month period ended June 30, 2014, the Company received payments approximating $612,000 in connection with the Development Agreement.

The Company has cash approximating $693,000 as of June 30, 2014 to support current and future operations. This is an increase of $236,000 over the December 31, 2013 cash balance of approximately $456,000. Such cash is held by the Subsidiary in Germany in Euros. The Company does not intend to repatriate any amount of this cash to the United States as it will be used to fund the Subsidiary's continued operations. Management believes that the Company will not generate any significant revenues in the next few years. Given the Company's current cash on hand and anticipated collections under the Development Agreement, management believes the Company has sufficient cash on hand to cover its operations for the next 2 to 3 years. As for periods beyond the next 3 years, we expect to continue to direct the majority of our research and development expenses towards the development of Elafin, although it is extremely difficult for us to reasonably estimate all future research and development costs associated with Elafin due to the number of unknowns and uncertainties associated with preclinical and clinical trial development.

These unknown variables and uncertainties include, but are not limited to:

- the uncertainty of future clinical trial results;
- the uncertainty of the ultimate number of patients to be treated in any current or future clinical trial;
- the uncertainty of the applicable regulatory bodies allowing our studies to move forward;
- the uncertainty of the rate at which patients are enrolled into any current or future study. Any delays in clinical trials could significantly increase the cost of the study and would extend the estimated completion dates;
- the uncertainty of terms related to potential future partnering or licensing arrangements;
- the uncertainty of protocol changes and modifications in the design of our clinical trial studies, which may increase or decrease our future costs; and
- the uncertainty of our ability to raise additional capital to support our future research and development efforts.

As a result of the foregoing, the Company's success will largely depend on its ability to generate revenues from outside licensing activities and secure additional funding through the sale of its Common/Preferred Stock and/or debt securities. There can be no assurance, however, that the Company will be able to generate revenues from outside 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.

PROPERTY AND EQUIPMENT

The Company's capitalized property and equipment decreased from $21,000 at December 31, 2013 to $19,000 at June 30, 2014, primarily due to depreciation.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities decreased from $151,000 at December 31, 2013 to $68,000 at June 30, 2014, primarily due to the payment of year-end accruals for the 2013 financial statement audit and regulatory filing preparation.

DEFERRED REVENUES

As described above, the Company entered into the Development Agreement during the three-month period ended June 30, 2014. The Company received approximately 446,000 Euros ($612,000) through June 30, 2014, which is non-refundable. No revenue sharing payments will be made unless Elafin is commercialized. Accordingly, the payment received is being accounted for as a payment for the Company to use reasonable efforts to complete development, obtain regulatory approvals, and to commercialize Elafin. Therefore, the amounts received were deferred and will be recognized as revenue over the projected performance period under the agreement. Approximately $75,000 was recognized as development income during the six month-period ended June 30, 2014. Deferred revenues had a translated balance of approximately $535,000 at June 30, 2014.

OFF BALANCE SHEET ARRANGEMENTS

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

CAPITAL EXPENDITURES

None significant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

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

As required by Rule 13a-15 under the Exchange Act, our management, including Birge Bargmann our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2014. Based on that evaluation, Ms. Bargmann concluded that as of June 30, 2014, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were effective.

b) Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS

Not required for SRCs.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibits:

10.22	Letter Agreement dated June 10, 2014, between Registrant and Dr. Oliver Wiedow
10.23	Agreement effective May 16, 2014 between Biotech Development Corp. and Proteo. Incorporated by reference to Proteo's Current Report on Form 8-K dated May 22, 2014 and referred to as Exhibit 10.1.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURES

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

PROTEO, INC.

Dated: August 18, 2014

By: /s/ Birge Bargmann
Birge Bargmann
Principal Executive Officer and Chief Financial Officer
(signed both as an Officer duly authorized to sign on behalf of the Registrant and Principal Financial Officer and Chief Accounting Officer)

EXHIBIT 10.22

Prof. Dr. med. Oliver Wiedow
Forstweg 55
D-24105 Kiel
Germany

Kiel, on June 10th, 2014

Proteo, Inc.
Att: Chief Executive Officer
Ms. Birge Bargmann
2102 Business Center Drive
Irvine, CA 92612
USA

Re: Elafin License Agreement

Dear Ms. Bargmann,

This is to confirm certain agreements and understandings reached between me and Proteo, Inc. in May 2014 based on the following background:

Pursuant to the provisions of the license agreement between Proteo, Inc. (hereinafter "Licensee") and myself (hereinafter "Licensor"; Licensee and Licensor collectively the "Parties") dated December 30th, 2000 as amended on December 23rd, 2008 (hereinafter the "License Agreement"), Licensee promised to pay an aggregate amount of 660,000 Euros in certain installments to Licensor. In December 2007, December 2008 and February 2012, Licensee paid to Licensor 30,000 Euros per year and no other payments were made under the License Agreement to Licensor as of June 10th, 2014. In December 2012, Licensor agreed in writing to waive the non-payment defaults and agreed to defer the due dates of the payments for the outstanding balance of 570,000 Euro with installments due on April 15, 2015 (330,000 €), on December 31, 2015 (120,000 €) and on December 31, 2016 (120,000 €).

I herewith confirm that based on the foregoing we have agreed on the following in May 2014:

1. The Parties herewith agree that Licensor defers to April 30, 2018 the installments payable by Licensee in the total amount of 570,000 Euros, which otherwise would be due on April 15, 2015 (330,000 €), on December 31, 2015 (120,000 €) and on December 31, 2016 (120,000 €) (hereinafter the "Deferral").

2. In the event that the Company's financial condition improves, the Parties would endeavor to enter in good faith negotiations to accelerate the payments.

3. Neither the Deferral under Section 1 hereof nor the willingness to negotiate accelerated payments as provided for in Section 2 hereof, would constitute a waiver of or estoppel to Licensor's rights to already existing or future payment obligations under the License Agreement.

Please confirm by respective countersignature that you are in agreement with this letter and with this confirmation of our agreement from May 2014.

Kind regards,
/s/ Oliver Wiedow
Prof. Dr. med. Oliver Wiedow

We agree to the foregoing
Proteo, Inc., on June 13th , 2014
/s/ Birge Bargmann
Birge Bargmann, Chief Executive Officer

EXHIBIT 31.1

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

I, Birge Bargmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Proteo, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to 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: August 18, 2014

By: /s/ Birge Bargmann
Birge Bargmann
Chief Executive Officer (Principal Executive Officer)

EXHIBIT 31.2

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

I, Birge Bargmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Proteo, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to 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: August 18, 2014

By: /s/ Birge Bargmann
Birge Bargmann
Chief Financial Officer (Principal Accounting Officer)

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Proteo, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission (the "Report"), Birge Bargmann, Chief Executive Officer and Chief Financial Officer, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that to her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: August 18, 2014

/s/ Birge Bargmann
Birge Bargmann
CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906, OR OTHER DOCUMENT AUTHENTICATING, ACKNOWLEDGING, OR OTHERWISE ADOPTING THE SIGNATURE THAT APPEARS IN TYPED FORM WITHIN THE ELECTRONIC VERSION OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906, HAS BEEN PROVIDED TO PROTEO, INC. AND SUBSIDIARY AND WILL BE RETAINED BY PROTEO, INC. AND SUBSIDIARY 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.