Table of Contents

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, 2019

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	90-0019065
(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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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	24,879,350 shares of common stock at August 1, 2019

PROTEO, INC.
AND SUBSIDIARY

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 121,855	$ 89,132
Research supplies	57,168	57,785
Grant funds receivable	31,362	37,562
Prepaid expenses and other current assets	61,504	64,543
Total current assets	271,889	249,022
PROPERTY AND EQUIPMENT, NET	4,187	4,929
Total assets	$ 276,076	$ 253,951
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 104,395	$ 127,217
Total current liabilities	104,395	127,217
LONG TERM LIABILITIES		
Accrued licensing fees	647,885	652,359
Other liabilities	144,353	145,396
Total long term liabilities	792,238	797,755
Total liabilities	896,633	924,972
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDERS' DEFICIT		
Non-voting preferred stock, par value $0.001 per share; 10,000,000 shares authorized;		
Series A, 723,590 shares issued and outstanding at June 30, 2019 and December 31, 2018	724	724
Series B-1, 100,000 shares issued and outstanding at June 30, 2019 and December 31, 2018	100	100
Series B-2, 100,000 shares and 0 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	100	–
Common stock, par value $0.001 per share; 300,000,000 shares authorized; 24,879,350 and 24,379,350 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	24,880	24,380
Additional paid-in capital	9,296,364	9,144,464
Accumulated other comprehensive loss	(31,428)	(31,231)
Accumulated deficit	(9,911,297)	(9,812,564)
Total Proteo, Inc. Stockholders' Deficit	(620,557)	(674,127)
Noncontrolling Interest	–	3,106
Total stockholders' deficit	(620,557)	(671,021)
Total liabilities and stockholders' deficit	$ 276,076	$ 253,951

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2019	2018	2019	2018
REVENUES				
Development Agreement	$ –	$ 40,256	$ –	$ 77,694
Net Grant revenue	–	–	–	129,937
	–	40,256	–	207,631
EXPENSES				
General and administrative	59,453	40,899	109,012	76,895
Research and development, net of grants	3,682	10,648	7,298	–
TOTAL OPERATING EXPENSES	63,135	51,547	116,310	76,895
INCOME (LOSS) FROM OPERATIONS	(63,135)	(11,291)	(116,310)	130,736
INTEREST AND OTHER INCOME (EXPENSE), NET	(5,386)	39,373	14,471	19,642
NET INCOME (LOSS)	$ (68,521)	$ 28,082	$ (101,839)	$ 150,378
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(1,836)	–	(3,106)	–
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (66,685)	$ 28,082	$ (98,733)	$ 150,378
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	1,778	(1,205)	(197)	(2,861)
COMPREHENSIVE INCOME (LOSS)	$ (64,907)	$ 26,877	$ (98,930)	$ 147,517
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ (0.00)	$ 0.00	$ (0.00)	$ 0.01
BASIC AND DILUTED EARNINGS (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS PER SHARE	$ (0.00)	$ 0.00	$ (0.00)	$ 0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	24,879,350	23,879,350	24,840,676	23,879,350

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrolling Interest	Total
BALANCE - December 31, 2017	723,590	$ 724	23,879,350	$ 23,880	$8,988,125	$ (29,827)	$ (9,848,699)	$ –	$(865,797)
Other comprehensive loss	–	–	–	–	–	(1,656)	–		(1,656)
Net income	–	–	–	–	–	–	122,296	–	122,296
BALANCE - March 31, 2018	723,590	$ 724	23,879,350	$ 23,880	$8,988,125	$ (31,483)	$ (9,726,403)	$ –	$(745,157)
Other comprehensive loss	–	–	–	–	–	(1,205)	–		(1,205)
Net income	–	–	–	–	–	–	28,082	–	28,082
BALANCE - June 30, 2018	723,590	$ 724	23,879,350	$ 23,880	$8,988,125	$ (32,688)	$ (9,698,321)	$ –	$(718,280)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrolling Interest	Total
BALANCE - December 31, 2018	823,590	$ 824	24,379,350	$ 24,380	$9,144,464	$ (31,231)	$ (9,812,564)	$ 3,106	$(671,021)
Common stock issued for cash			500,000	$ 500	$ 39,500				40,000
Other comprehensive loss	–	–	–	–	–	(1,975)	–		(1,975)
Net loss	–	–	–	–	–	–	(32,048)	(1,270)	(33,318)
BALANCE - March 31, 2019	823,590	$ 824	24,879,350	$ 24,880	$9,183,964	$ (33,206)	$ (9,844,612)	$ 1,836	$(666,314)
Preferred stock issued for cash	100,000	$ 100			$ 112,400				112,500
Other comprehensive income	–	–	–	–	–	1,778	–		1,778
Net loss	–	–	–	–	–	–	(66,685)	(1,836)	(68,521)
BALANCE - June 30, 2019	923,590	$ 924	24,879,350	$ 24,880	$9,296,364	$ (31,428)	$ (9,911,297)	$ –	$(620,557)

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (101,839)	$ 150,378
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	700	974
Foreign currency transaction (gain) loss	(4,474)	(16,868)
Changes in operating assets and liabilities:		
Research supplies	219	–
Grant funds receivable	5,875	(37,365)
Development agreement receivables	–	5,962
Prepaid expenses and other current assets	2,520	24,623
Accounts payable and accrued liabilities	(22,464)	(100,000)
Deferred revenue	–	(59,808)
Other liabilities	(45)	–
NET CASH USED IN OPERATING ACTIVITIES	(119,508)	(32,104)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	40,000	–
Proceeds from issuance of preferred stock	112,500	–
Deposit for preferred stock	–	42,173
Proceeds from related party loan	–	61,434
NET CASH PROVIDED BY FINANCING ACTIVITIES	152,500	103,607
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(269)	(7,598)
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,723	63,905
CASH AND CASH EQUIVALENTS--BEGINNING OF PERIOD	89,132	113,915
CASH AND CASH EQUIVALENTS--END OF PERIOD	$ 121,855	$ 177,820

SEE ACCOMPANYING NOTES TO THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROTEO, INC. AND SUBSIDIARY
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 (UNAUDITED)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

BASIS OF PRESENTATION

The accompanying condensed consolidated balance sheet as of December 31, 2018, which has been derived from audited financial statements, and the accompanying interim condensed consolidated financial statements as of June 30, 2019 and for the three-month and six-month periods ended June 30, 2019 and 2018, 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, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019, 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, 2018 filed with the SEC on April 15, 2019.

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.

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".

RECLASSIFICATIONS

Certain reclassifications have been made to the unaudited June 30, 2018 financial statements to conform to the 2019 presentation. Intercompany foreign exchange gains approximating $48,000 and $22,000 for the three-month and six-month periods ended June 30, 2018, respectively were reclassified from interest and other income (expense), net to other comprehensive loss.

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 fully 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.

LIQUIDITY

Management expects existing cash to be sufficient to fund the Company's operations for at least twelve months from the issuance date of these interim financial statements.

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, entering into revenue sharing arrangements and obtaining government grants. 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.

OTHER RISKS AND UNCERTAINTIES

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 ("PBAG"), its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company capitalizes the cost of supplies used in its research and development activities if such supplies are deemed to have alternative future uses, usually in other research and development projects. Such costs are expensed as used to research and development expenses in the accompanying condensed consolidated statements of operations.

Nonrefundable advance payments for goods or services that have the characteristics that will be used or rendered for future research and development activities are deferred and capitalized as prepaid expenses. Such amounts are expensed to research and development as the related goods and services are received.

The costs of materials that are acquired for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise) and therefore no separate economic values are expensed as research and development costs at the time the costs are incurred.

The Company may receive grants from the German government which are used to fund research and development activities (see Note 7). Grant funds received or to be received for the reimbursement of qualified research and development expenses are offset against such expenses in the accompanying condensed consolidated statements of operations and comprehensive income (loss) when the related expenses are incurred.

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, 2019 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 six-month periods ended June 30, 2019 and 2018, did not have any assets or liabilities that were measured at fair value on a non-recurring basis.

REVENUE RECOGNITION

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018.

Adoption of the new standard did not result in any change to the Company's opening retained earnings as of January 1, 2018 as product sale revenue is not significant.

In determining the appropriate amount of revenue to be recognized as it fulfills its performance obligations under its agreements, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

As more fully described in Note 5, amounts received under the Development Agreement (as defined below) are initially deferred and recognized as revenue over the projected performance period under the Development Agreement in relation to development expenses incurred.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require, among other things, lessees to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for the Company for the year beginning January 1, 2019. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial statements and related disclosures due to the short-term nature of its leases. For these short-term leases, the Company has elected to not recognize lease assets and lease liabilities. Lease expense for such leases are recognized on a straight-line basis over the lease term.

During the six-months ended June 30, 2019, there have been no other changes to the Company's significant accounting policies as described in the Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

2. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share is computed based on the weighted average number of shares outstanding for the period. Diluted earnings (loss) per common share is computed by dividing net income (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, 2019 and 2018. As such, basic and diluted earnings (loss) per common share equals net income (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 loss and accumulated in a separate component of stockholders' deficit. Accumulated other comprehensive loss approximated ($31,000) and ($31,000) at June 30, 2019 and December 31, 2018, respectively.

4. FOREIGN CURRENCY TRANSACTIONS

The Company records payables related to a certain licensing agreement (see Note 6) in accordance with the Foreign Currency Matters Topic of the Codification. Quarterly commitments under such agreement are denominated in Euro. 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 (losses) of approximately ($8,000) and $37,000 for the three-month periods ended June 30, 2019 and 2018, respectively, and $4,000 and $17,000 for the six-month periods ended June 30, 2019 and 2018, respectively, which are included in interest and other income (expense), net in the accompanying condensed consolidated statements of operations and comprehensive loss.

5. 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 Current Report on 8-K filed with the SEC on May 22, 2014). The third party agreed to 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. 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. Total payments by the third party to the Company were to not exceed 3.5 million Euro (approximately $4.1 million). Through June 30, 2018, the Company received approximately 1,633,000 Euro ($1,989,000) of the 3.5 million Euro maximum.

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 are the payments refundable, even if the drug is never commercialized. As no revenue sharing payments will be made unless Elafin is commercialized, the payments received are being accounted for as payments 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 third party will be deferred and recognized as revenue over the projected performance period under the Development Agreement in relation to expenses incurred.

For the three-month and six-month periods ended June 30, 2019 and 2018, the Company recognized approximately $0 and $40,000, and $0 and $78,000, respectively, of development income under the Development Agreement, which is included in revenues in the accompanying condensed consolidated statements of operations. Deferred revenues approximated $0 at both June 30, 2019 and December 31, 2018. At this time, we believe it is unlikely that the Company will receive any future amounts under the Development Agreement.

6. COMMITMENTS AND CONTINGENCIES

ACCRUED LICENSING FEES - RELATED PARTY

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 Euro 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, February 2012, February 2013, June 2014, April 2017 and again in June 2019, 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 Euro is due on November 15, 2020. While the total amount owed does not currently bear interest, any late payment is 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 26% of the Company's outstanding common stock as of June 30, 2019.

At June 30, 2019, the Company has accrued approximately $648,000 of licensing fees payable to Dr. Wiedow, which are included in long-term liabilities. This is a decrease over the respective accrual of approximately $652,000 at December 31, 2018, which was solely due to changes in foreign currency exchange rates.

OTHER LIABILITIES

Other liabilities at June 30, 2019 and December 31, 2018 consist of employee compensation that was incurred in 2015 to 2017, but for which payment was agreed to be deferred until November 2020.

7. GRANTS

In June 2016, the German State of Schleswig-Holstein granted PBAG approximately 874,000 Euros (approximately $1,021,000) for further research and development of the Company's pharmaceutical product Elafin (the "Grant"). The Grant, as amended, covers 50% of eligible research and development costs incurred from December 1, 2015 through November 30, 2019.

Research and development expenses for the three-month periods ended June 30, 2019 and 2018 were reduced by approximately $31,000 and $42,000, respectively, for Grant funds received and accrued during those periods. For the six-month periods ended June 30, 2019 and 2018, research and development expenses were reduced by Grant funds of approximately $62,000 and $233,000, respectively. Approximately €28,000 ($31,000) and €33,000 ($38,000) of additional eligible expenses that were not previously reimbursed at June 30, 2019 and December 31, 2018, respectively, are included in the accompanying condensed consolidated balance sheets as grant funds receivable.

During the six months ended June 30, 2018, the company received approval from the government to submit certain expenses for reimbursement that had been previously expensed under GAAP. These expenses amounted to $177,000 and resulted in grant revenue exceeding grant expenses for the period. This has resulted in the presentation of net Grant revenue for the six months ended June 30, 2018.

8. RELATED PARTY LOAN

In March 2018, the Company's president provided a short-term loan of 50,000 Euro ($61,000) to the Company. During July 2018, the Company repaid such loan.

9. 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 at June 30, 2019 and December 31, 2018.

There is no material income tax expense recorded for the six-month periods ended June 30, 2019 and 2018, due to the Company's history of net losses and related changes to the full valuation allowance for deferred tax assets.

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, 2019, there were no increases or decreases to liability for income taxes associated with uncertain tax positions.

10. CAPITAL EQUITY TRANSACTIONS

COMMON STOCK

On December 12, 2018, Proteo, Inc., entered into a Common Stock Purchase Agreement (the "Agreement") with Jork von Reden (the "Investor"), who is also a member of the Company's board of directors. Pursuant to the Agreement, the Company agreed to issue and sell to the Investor 1,000,000 shares of the Company's Common Stock (the "Purchase Shares") at the price of $0.08 per share (the "Purchase Price"), for an aggregate purchase price of $80,000. The Purchase Price was equal to the

closing price of the Registrant's common stock as quoted on the OTCQB on December 6, 2018. The initial closing of 500,000 of the Purchase Shares occurred upon the Company's receipt of the initial payment of $40,000 of the Purchase Price in December 2018. A second closing of the remaining 500,000 Purchase Shares occurred in January 2019 (the "Second Closing Date"), at which time the Investor paid the remaining $40,000 Purchase Price.

PREFERRED STOCK

On September 9, 2016, the Company entered into a Preferred Stock Purchase Agreement (the "B-1 Stock Agreement") with a third-party ("B-1 Stock Investor"). Pursuant to the B-1 Stock Agreement, the Company agreed to issue and sell to the B-1 Stock Investor 1,000,000 shares of the Company's Series B-1 Preferred Stock at the price of 1.00 Euro per share, for an aggregate purchase price of 1,000,000 Euro. Further details are described in the Company's Current Report on Form 8-K filed with the SEC on September 13, 2016. The Company received deposits totaling 100,000 Euro ($117,000) through September 30, 2018, including 20,000 Euro ($25,000) received during the three-months ended March 31, 2018. As conditions for the initial closing were met, 100,000 shares of Series B-1 Preferred Stock were issued during September 2018. The Company is currently negotiating with the B-1 Stock Investor to complete the transaction, but at this time the Company believes that it is unlikely that the full transaction will close in the near future.

On April 10, 2019, the Company entered into a Preferred Stock Purchase Agreement (the "B-2 Stock Agreement") with a Swiss corporation (the "B-2 Stock Investor"). Pursuant to the B-2 Stock Agreement, the Company agreed to issue and sell to the B-2 Stock Investor 1,000,000 shares of the Company's Series B-2 Preferred Stock (the "Purchase Shares") at the price of €1.00 per share (the "Purchase Price"), for an aggregate purchase price of €1,000,000. An initial closing of 100,000 of the Purchase Shares occurred on June 30, 2019 (the "Initial Closing Date"). Subsequent closings of the remaining Purchase Shares will occur on the fifth business day after such date or dates that the B-2 Stock Investor delivers all or a portion of the Purchase Price with respect to such Purchase Shares; provided, however, that B-2 Stock Investor shall deliver the Purchase Price for all remaining Purchase Shares on or before June 30, 2020. The transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of the exemptions available under Regulation S and the rules promulgated thereunder. During the six months ended June 30, 2019, the Company received €100,000 ($113,000) pursuant to the B-2 Stock Agreement. As conditions for the initial closing were met, 100,000 shares of Series B-2 Preferred Stock were issued during June 2019.

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.

Assuming the Company's products receive approval for marketing in the future, 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 and for preventing complications of organ transplantation.

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.

The Company 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 Institute of Health (“NIH”) and the British MRC, supported preclinical and clinical studies on Elafin with high volume grants.

The Company currently focuses on the clinical development of Elafin for prophylactic treatment of acute postoperative inflammatory complications in the surgical therapy of esophageal cancer and Elafin for chronical treatment of pulmonary arterial hypertension (“PAH”). Future clinical trials for PAH will be conducted in cooperation with third parties.

The tolerability of Elafin in healthy male subjects was demonstrated in a Phase I clinical intravenous 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. A further Phase II study, EMPIRE (Elafin Myocardial Protection from Ischemia Reperfusion Injury), an investigator-initiated trial at Edinburgh University, was conducted to investigate the safety and efficacy of Elafin in coronary bypass surgery. The

result from the EMPIRE trial which indicates that Elafin has cardioprotective properties by reducing the cardiac troponin I release has been published in 2015 (Alam et al., Heart 2015). Further details are described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on April 15, 2019.

In June 2016, we announced that our subsidiary has been awarded a BFEI grant (the "Grant") from the German State of Schleswig-Holstein. The Grant has a volume of up to Euro 874,000 and will be used for the R&D program to develop a new formulation of Proteo's lead compound Elafin. If effective, a new Elafin formulation would allow Proteo to extend the development pipeline to treat chronic diseases, such as pulmonary arterial hypertension ("PAH"). In June 2018, we received approval from the German State of Schleswig-Holstein to extend the project under the BFEI grant for a further 12 months until November 30, 2019.

In September 2016, we entered into a Preferred Stock Purchase Agreement (the "Agreement") with a third-party ("Investor"). Pursuant to the Agreement, the Company agreed to issue and sell to the Investor 1,000,000 shares of the Company's Series B-1 Preferred Stock at the price of Euro 1.00 per share, for an aggregate purchase price of Euro 1,000,000. The initial Euro 100,000 (approximately $117,000) deposit was fully received by September 2018, and 100,000 shares of Series B-1 Preferred Stock were issued during September 2018. We are currently negotiating with the Investor to complete the transaction, but at this time we believe it is unlikely that the full transaction will close in the near future. See Note 10 to the accompanying condensed consolidated financial statements for additional information.

In April 2017 and August 2017, we received final reports from a respiratory safety pharmacology study and a 28-day toxicity study of Elafin subcutaneous dosage in rats. These studies are part of the animal toxicity program that was discussed at a Pre-Investigational New Drug Application ("PIND") meeting with the US Food and Drug Administration ("FDA") on development strategies for Elafin in pulmonary arterial hypertension ("PAH") and were partially funded by NIH within the framework of our collaboration with Marlene Rabinovitch at Stanford University. Both studies were conducted by a third-party laboratory in the US. They were conducted in accordance with the FDA "Good Laboratory Practice for Nonclinical Laboratory Studies" (GLP). All tested doses were well tolerated.

In August 2017, the Company submitted a Drug Master File ("DMF") for Elafin to the FDA for use in clinical trials within the United States. The DMF supports the investigator-initiated Investigational New Drug ("IND") application of Marlene Rabinovitch at Stanford University. At the end of September 2017, the FDA completed its safety review of the IND application and concluded that Marlene Rabinovitch at Stanford University may proceed with the proposed clinical investigation with Elafin for the treatment of pulmonary arterial hypertension. The conduct of a clinical phase I trial (subcutaneous administration, 7 days in healthy volunteers) will be financed by a new NIH-funded project of our cooperation partners and is planned to start in the second half of 2018. In September 2018, we entered into a Clinical Material Transfer Agreement with our cooperation partners within the framework of the clinical phase I trial, and as well into a Material Transfer Agreement with a third-party laboratory in the US.

In October 2018, our subsidiary established the test site, Proteo R&D, for the operation of an archive in accordance with the principles of Good Laboratory Practice ("GLP") for archiving GLP documents related to our own development products. We have applied for GLP attestation of test category 9 for the test site. The GLP inspection occurred in December 2018. In February 2019, we received the GLP Certificate from the competent authority.

In December 2018, the Company entered into a Common Stock Purchase Agreement with the purchaser of its stock, Jork von Reden, who is also a member of our board of directors. Pursuant to the Agreement, we agreed to issue and sell to the Investor 1,000,000 shares of Proteo's Common Stock at the price of $0.08 per share, for an aggregate purchase price of USD $80,000. The Purchase Price was equal to the closing price of our common stock as quoted on the OTCQB on December 6, 2018. See Note 10 to the accompanying condensed consolidated financial statements for additional information.

During the first half of 2019, the Company continued its discussions to make its Elafin technology available for licensing and partnership with external partners.

In March 2019, we were informed by our research partners at Stanford University School of Medicine that The Duke University Early Phase Research Unit has initiated the recruitment of healthy individuals for the Phase I clinical trial in the U.S. to assess the safety and tolerability of repeated single subcutaneous doses of Elafin. Proteo's research partners and investigators at Stanford University School of Medicine, Dr. Marlene Rabinovitch and Dr. Roham Zamanian, are responsible for the conduct of the investigator-initiated trial. The trial with the title "Safety and Tolerability of Escalating Doses of Subcutaneous Elafin (Tiprelestat) Injection in Healthy Normal Subjects" marks the beginning of the clinical development program of Elafin for chronic use initially focusing on the treatment of patients suffering from the still fatal disease pulmonary arterial hypertension

(PAH). The first two cohorts of subjects received dosing until June 30, 2019. The Drug Safety Monitoring Board reviewed the data and approved continuation of the study as scheduled.

In April 2019, we entered into a Preferred Stock Purchase Agreement with a third-party. Pursuant to the Agreement, the Company agreed to issue and sell to the Investor 1,000,000 shares of the Company's Series B-2 Preferred Stock at the price of Euro 1.00 per share, for an aggregate purchase price of Euro 1,000,000. See Note 10 to the accompanying condensed consolidated financial statements for additional information.

RESULTS OF OPERATIONS

REVENUES

Revenue includes income recognized under the Development Agreement, as described above and in Note 5 to the accompanying condensed consolidated financial statements. Approximately $0 and $40,000 was recognized as development income during the three-month periods ended June 30, 2019 and 2018, respectively. Approximately $0 and $78,000 was recognized as development income during the six-month periods ended June 30, 2019 and 2018, respectively. The Company has not received any payments under the Development Agreement since mid-2018, which has resulted in the decrease in revenue.

Revenue also includes net Grant funds received or accrued in excess of research and development expenses incurred during the period. As more fully discussed below, Grant funds, net of R&D expenses for the six-month period ended June 30, 2018 approximated $130,000. Grant revenues did not exceed research and development expenses in any other period presented.

OPERATING EXPENSES

The Company's operating expenses for the three-month and six-month periods ended June 30, 2019 approximated $63,000 and $116,000, respectively, an increase of approximately $12,000 and $39,000 over the same periods of the prior year, which was mostly driven by increases in general and administrative expenses. General and administrative expenses (mostly accounting and professional fees) for the three-month and six-month periods ended June 30, 2019 increased $19,000 and $32,000, respectively, due primarily to increased financial statement audit, legal and other professional fees.

Research and development expenses decreased $7,000 over the same three-month period ended June 30, 2019, while it increased $7,000 over the six-months then ended. The decrease over the three-month periods is due to cutbacks in 2019 research and development spending, net of Grant funds. The increase in research and development expenses over the six-month periods was primarily due a reduction in the Grant reimbursement reported. Grant funds recorded during the six months ended June 30, 2018 approximated $233,000, which were netted against $103,000 of research and development expenses and presented as net Grant revenue, while during the six months ended June 30, 2019, Grant funds of $62,000 were offset against $69,000 of R&D costs and presented as research and development, net of grants. Certain research expenses that were expensed in prior periods under GAAP were not eligible for reimbursement under the Grant until the first quarter of 2018, resulting in more grant funds being recognized than expenses incurred that period. R&D costs, excluding Grant reimbursements, for the six-month period ended June 30, 2019 decreased from the same period in 2018 by $34,000, primarily due to a reduction in R&D activities in 2019.

INTEREST AND OTHER INCOME (EXPENSE)

Interest and other income (expense), net for the three-month and six-month periods ended June 30, 2019, decreased by approximately $45,000 and $5,000, respectively, over the same periods in 2018. The decreases were driven primarily by foreign currency transaction gains and losses on accrued licensing fees related to the Licensing Agreement, which is denominated in Euro. The U.S. Dollar strengthened compared to the Euro during the six-month periods ended June 30, 2019 and 2018, and the three-month period ended June 30, 2018, while the Euro strengthened during the three-month period ended June 30, 2019.

INCOME TAXES

There is no material income tax expense recorded for the six-month periods ended June 30, 2019 and 2018, due to the Company's history of net losses. The Company had a deferred tax asset of approximately $2,031,000 at June 30, 2019, relating primarily to tax net operating loss carryforwards 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.

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 undergoes 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 other comprehensive gains (losses) related to foreign currency translation adjustments of approximately $2,000 and ($1,000) during the three-month periods ended June 30, 2019 and 2018, respectively and $0 and ($3,000) during the six-month periods ended June 30, 2019 and 2018, 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

The Company owns 100% of Proteo Biotech AG, its operating subsidiary in Germany (the "Subsidiary"). To date the Subsidiary has not had any significant earnings, and it does not expect to have any significant 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 Company.

The Company received approximately $0 and 20,000 Euro ($24,000) under the Development Agreement during the six-month period ended June 30, 2019 and 2018, respectively. At this time, we believe it is unlikely that we will receive further amounts under this agreement in the future.

In June 2016, the German State of Schleswig-Holstein granted the Subsidiary approximately 874,000 Euro (the "Grant") for further research and development of the Company's pharmaceutical product Elafin. The Grant covers 50% of eligible research and development costs incurred from December 1, 2015 through November 30, 2019. Grant funds approximating $62,000 and $233,000 were recorded during the six-month periods ended June 30, 2019 and 2018, respectively. The Company expects to receive approximately 219,000 Euro ($246,000) in future periods under this Grant.

In September 2016, the Company entered into a Preferred Stock Purchase Agreement (the "Agreement") with a third-party ("Investor"). Pursuant to the Agreement, the Company agreed to issue and sell to the Investor 1,000,000 shares of the Company's Series B-1 Preferred Stock at the price of 1.00 Euro per share, for an aggregate purchase price of 1,000,000 Euro. The initial 100,000 Euro (approximately $117,000) deposit was fully received by September 2018, with $20,000 received during the three-months ended September 30, 2018. As conditions for the initial closing were met, 100,000 shares of Series B-1 Preferred Stock were issued during September 2018. However, the Investor failed to deliver the full purchase price. We are currently negotiating with the Investor to complete the transaction. See Note 10 to the accompanying condensed consolidated financial statements for additional information.

In June 2019, Dr. Wiedow agreed to waive any non-payment defaults under the License Agreement and to defer all current payments to November 2020. See Note 6 to the accompanying condensed consolidated financial statements for the payment terms under the License Agreement.

In December 2018, the Company entered into a Common Stock Purchase Agreement with the purchaser of its stock, Jork von Reden (the "Investor"). Pursuant to the Agreement, we agreed to issue and sell to the Investor 1,000,000 shares of Proteo's Common Stock at the price of $0.08 per share, for an aggregate purchase price of USD $80,000. The Company received $40,000 in December 2018 and $40,000 in January 2019.

In April 2019, the Company entered into a Preferred Stock Purchase Agreement with a third-party. Pursuant to the Agreement, the Company agreed to issue and sell to the Investor 1,000,000 shares of the Company's Series B-2 Preferred Stock at the price of 1.00 Euro per share, for an aggregate purchase price of 1,000,000 Euro. The initial 100,000 Euro (approximately $113,000) deposit was fully received by June 2019. As conditions for the initial closing were met, 100,000 shares of Series B-2 Preferred Stock were issued during June 2019.

The Company has cash approximating $122,000 at June 30, 2019. Such cash is held by the Subsidiary in Germany in Euro and is to be used to fund the Subsidiary's continued operations. The Company does not intend to repatriate any amount of this cash to the United States. Given the Company's current cash on hand, anticipated collections under the two Preferred Stock Purchase Agreements and the Grant of the German State of Schleswig-Holstein, management believes the Company will have sufficient cash resources to cover its operations through one year from the filing of this Form 10-Q. As for periods beyond this filing, we expect to continue to direct the majority of our research and development expenses towards the development of Elafin. 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,
- the uncertainty of our ability to raise additional capital to support our future research and development efforts; and the uncertainty of our ability to collect the remaining payments owed under the Preferred Stock Purchase Agreements.

As a result of the foregoing, 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. If we are unable to secure additional financing when needed, we may choose to delay or reduce other spending including Elafin research and development spending.

GRANT FUNDS RECEIVABLE

Grant funds receivable decreased from $38,000 at December 31, 2018 to $31,000 at June 30, 2019. The Company received approximately $68,000 during the six-month period ended June 30, 2019 and submitted an additional $31,000 for reimbursement that wasn’t received by period end.

LONG TERM ASSETS

The Company’s capitalized property and equipment, which are all located in Germany, decreased during 2019, primarily due to depreciation.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities decreased from $127,000 at December 31, 2018 to $104,000 at June 30, 2019, primarily due to the payment of trade payables.

ACCRUED LICENSING FEES - RELATED PARTY

Accrued licensing fees decreased from $652,000 at December 31, 2018 to $648,000 at June 30, 2019, due to a strengthening of the Euro compared to the U.S. Dollar. The Licensing Agreement is denominated in Euro, and the accrued licensing fee was 570,000 Euro at both June 30, 2019 and December 31, 2018. Payment was agreed to be deferred until November 2020.

OTHER LIABILITIES

Other liabilities at June 30, 2019 and December 31, 2018 consist of employee compensation that was incurred in 2015 to 2017, but for which payment was agreed to be deferred until November 2020.

OFF BALANCE SHEET ARRANGEMENTS

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

CAPITAL EXPENDITURES

The Company does not have any material capital expenditures.

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

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 Dr. Oliver Wiedow, 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 Dr. Wiedow 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, 2019. Based on that evaluation, Dr. Wiedow concluded that as of June 30, 2019, 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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management, with the participation of Dr. Wiedow, our 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 have materially affected, or are 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 applicable.

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

All sales of unregistered securities in 2019, if any, have previously been included in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibits:

10.25	Letter Agreement dated August 2, 2019, between Registrant and Dr. Oliver Wiedow
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 5, 2019

By: /s/ Oliver Wiedow
Oliver Wiedow
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 10.25

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

Kiel, on August 2, 2019

Proteo, Inc.
Att: Chief Executive Officer
Mr. Oliver Wiedow
2102 Business Center Drive
Irvine, CA 92612
USA

Re: Elafin License Agreement

This is to confirm certain agreements and understandings reached between me and Proteo, Inc. in June 2019 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 €). In June 2014, Dr. Wiedow agreed in writing to defer the due date of the payments for the outstanding balance of 570,000 Euro to April 2018, and in March 2017 Dr. Wiedow agreed to defer the payment to June 30, 2020.

I herewith confirm that based on the foregoing we have agreed on the following in June 2019:

1. The Parties herewith agree that Licensor defers to November 15, 2020 the total amount of 570,000 Euros payable by Licensee, which otherwise would be due on June 30, 2020 (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 June 2019.

Kind regards,

/s/ Oliver Wiedow
Prof. Dr. Oliver Wiedow

We agree to the foregoing

Proteo, Inc., on August 2, 2019

/s/ Oliver Wiedow
Prof. Dr. Oliver Wiedow, Chief Executive Officer

EXHIBIT 31.1

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

I, Oliver Wiedow, certify that:

1. I have reviewed this quarterly report on Form 10-Q (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: August 5, 2019

By: /s/ Oliver Wiedow
Oliver Wiedow
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, Oliver Wiedow, certify that:

1. I have reviewed this quarterly report on Form 10-Q (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: August 5, 2019

By: /s/ Oliver Wiedow
Oliver Wiedow
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, 2019, as filed with the Securities and Exchange Commission (the "Report"), Oliver Wiedow, 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 5, 2019

/s/ Oliver Wiedow
Oliver Wiedow
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.