IMMTECH INTERNATIONAL INC
Form 10-K/A
October 15, 2003

10/14/03
Fiscal year ended March 31, 2003

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K/A (Amendment 1)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended March 31, 2003.

|_| 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 000-25669

IMMTECH INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	39-1523370
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
150 Fairway Drive, Suite 150, Vernon Hills, Illinois	60061
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (847) 573-0033

Securities registered pursuant to Section 12(b) of the Act:
None
(Title of class)

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of class)

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, computed by reference to the price at which the common equity was sold, or the average bid and asked price of such Common Stock as of October 10, 2003, was $139,323,518.

As of October 10, 2003, the total number of shares of the registrant's Common Stock outstanding was 9,163,847 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual report and in the documents incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements frequently, but not always, use the words "intends," "plans," "believes," "anticipates" or "expects" or similar words and may include statements concerning our strategies, goals and plans. Forward-looking statements involve a number of significant risks and uncertainties that could cause our actual results or achievements or other events to differ materially from those reflected in such forward-looking statements. Such factors include, among others described in this annual report, the following: (i) we are in an early stage of product development, (ii) our technology is in the research and development stage and therefore its potential benefits for human therapy are unproven, (iii) the possibility that favorable relationships with collaborators cannot be established or, if established, will be abandoned by the collaborators before completion of product development, (iv) the possibility that we or our collaborators will not successfully develop any marketable products, (v) the possibility that advances by competitors will cause our product candidates not to be viable, (vi) uncertainties as to the requirement that a drug product be found to be safe and effective after extensive clinical trials and the possibility that the results of such trials, if completed, will not establish the safety or efficacy of our drug product candidates, (vii) risks relating to requirements for approvals by governmental agencies, such as the Food and Drug Administration, before products can be marketed and the possibility that such approvals will not be obtained in a timely manner or at all or will be conditioned in a manner that would impair our ability to market our product candidates successfully, (viii) the risk that our patents could be invalidated or narrowed in scope by judicial actions or that our technology could infringe upon the patent or other intellectual property rights of third parties, (ix) the possibility that we will not be able to raise adequate capital to fund our operations through the process of commercializing a successful product or that future financing will be completed on unfavorable terms, (x) the possibility that any products successfully developed by us will not achieve market acceptance and (xi) other risks and uncertainties that may not be described herein. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

Overview

Immtech International, Inc. is a pharmaceutical company focused on the development and commercialization of oral drugs to treat infectious diseases. The Company has development programs that include fungal infections, Malaria, Tuberculosis, Hepatitis C, Pneumocystis carinii pneumonia and tropical medicine diseases, including African sleeping sickness (a parasitic disease also known as Trypanosomiasis) and Leishmaniasis (a parasitic disease that destroys the liver). We hold worldwide patents, patent applications, licenses and rights to license worldwide patents, patent applications and technologies from a scientific

consortium and exclusive rights to commercialize products from those patents and licenses that are integral to our business.

Since our formation in October 1984, we have engaged in research and development programs, expanding our network of scientists and scientific

advisors, licensing technology agreements and advancing the commercialization of the dication technology platform. We use the expertise and resources of strategic partners and third parties in a number of areas, including (i) laboratory research, (ii) pre-clinical and human clinical trials and (iii) manufacture of pharmaceutical drugs. We have licensing and exclusive commercialization rights to a dicationic pharmaceutical platform and are developing drugs intended for commercial use based on that platform. Dication pharmaceutical drugs work by blocking life-sustaining enzymes from binding to key sites in the "minor groove" of an organism's deoxyribonucleic acid ("DNA"), killing the infectious organisms that cause fungal, parasitic, bacterial and viral diseases. The key site on an organism's DNA is an area where enzymes interact with the infectious organism's DNA as part of their normal life cycle. Structurally, dications are chemical molecules that have two positively charged ends held together by a chemical linker. The composition of the dications, with positive charges on both ends (shaped like molecular barbells), allows dications to bind (similar to a band-aid) to the negatively charged key sites of an infectious organism's DNA. The bound dications block life sustaining enzymes from attaching to the DNA's key sites, thereby killing the infectious organism.

The dication technology is the result of a research program developed by scientists at The University of North Carolina at Chapel Hill ("UNC"), Georgia State University ("Georgia State"), Duke University ("Duke University") and Auburn University ("Auburn University") (collectively, the "Scientific Consortium"). We entered into an agreement with the Scientific Consortium, dated January 15, 1997, as amended, and a License Agreement, dated as of January 28, 2002 (collectively, the "Consortium Agreement"), to commercialize product candidates resulting from the Scientific Consortium's research, including the dication technology. The cost of the dicationic drug discovery program has been and will continue to be funded by governmental and charitable grants to the Scientific Consortium. The Company funds the cost of pre-clinical and human clinical trial costs and commercialization of the compounds it chooses to develop. The proceeds from the sales of dication technology and commercialized products resulting from dication technology will be distributed among us and the Scientific Consortium pursuant to the terms of the License Agreement (see Research Agreement - page 5).

We have commenced a 350-patient, open label Phase IIb human clinical trial with our first oral drug candidate, DB289, to treat African sleeping sickness (Trypanosomiasis). In an open label clinical trial, all patients in the study receive the active compound and no patients receive a placebo. Assuming results consistent with our prior trials, we believe we will be able to accept orders for sales of DB289 for limited distribution in certain African countries in the fourth quarter of calendar year 2003 or first quarter 2004. We believe we will be able to synthesize and deliver commercial quantities of DB289 within nine months after orders for sales are accepted. We anticipate engaging our existing and new pharmaceutical manufacturers to produce DB289 for the above referenced sales. We will concurrently seek final foreign regulatory approvals to distribute the product into the selected countries which we expect may take several months or longer to complete.

We have entered into an arrangement with a Hong Kong entity, whereby we acquired real property located in a "free trade zone" in the People's Republic of China ("PRC") on which we have the option, through an entity named Immtech Hong Kong Limited, to construct a pharmaceutical manufacturing facility to produce our future products. We do not have any commercially available products, nor do we expect to have any commercially available products for sale

until after March 31, 2004, if at all.

For the fiscal year ended March 31, 2003, we had revenues of $1,608,849 and a net loss of $4,679,069. The management of the Company believes it has sufficient capital for operations through August 2004. There is no guarantee that we will not need additional funds before then or that sufficient funds will be available after June 2004 to fund further operations.

A predecessor of the Company was incorporated under the laws of the State of Wisconsin on October 15, 1984, and subsequently merged into the current Delaware corporation on April 1, 1993. Our executive offices are located at 150 Fairway Drive, Suite 150, Vernon Hills, Illinois 60061, telephone number (847) 573-0033 or toll-free (877) 898-8038.

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (the "SEC"), under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our reports, proxy statements and other documents filed electronically with the SEC are available at the website maintained by the SEC at http://www.sec.gov. We also make available free of charge on or through our Internet website, http://www.immtech-international.com, our annual, quarterly and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13(a) of the Exchange Act, as soon as reasonably practicable after we electronically file such reports with the SEC. Information on our website is not a part of this report.

Generally, when we use the words "we," "our," "us," "Company" or "Immtech" in this report, we are referring to Immtech International, Inc.

Grants and Funding

Gates Foundation Grant to the Research Group

In November 2000, The Bill & Melinda Gates Foundation ("The Gates Foundation") awarded a $15.1 million grant to a research group led by UNC to develop under a research agreement new drugs to treat African sleeping sickness and Leishmaniasis, endemic in sub-Sahara Africa..

In April 2003, The Gates Foundation granted to the research group an additional $2.7 million to accelerate DB289 testing to treat African sleeping sickness.

Trypanosomiasis is a parasitic disease that is spread by tsetse flies in sub-Sahara Africa where 60 million people live. There are an estimated 750,000 new cases of African sleeping sickness in this region each year. It is estimated by Doctors Without Borders that

65,000 people die each year from the disease. Existing treatments for Trypanosomiasis can be highly toxic and cannot be administered orally. Trypanosomiasis is fatal if left untreated.

Human Trypanosomiasis is also endemic in South America (16-18

million people infected) and animal Trypanosomiasis has been found in China and other parts of Asia. To date, the Company has not tested the effectiveness of its drug candidates on non-African Trypanosomiasis. The Company may in the future develop a program to target these other forms of Trypanosomiasis but has no current intent to do so.

Leishmaniasis is a parasitic disease that affects more than twelve million people in arid and tropical regions of the world. The leishmania parasite is often spread by sand flies.

The Gates Foundation grant funds research and development of potential treatments for these two diseases through a research group led by UNC and consisting of Immtech and five other universities and research centers around the world which collectively employ scientists considered to be the foremost experts in one or both of these diseases.

Clinical Research Subcontract with UNC

On March 29, 2001, we entered into a clinical research subcontract ("Clinical Research Subcontract") with UNC, funded by The Gates Foundation $15.1 million grant, under which UNC is to pay to us $9.8 million in installments over a period not to exceed five years based on our achieving certain milestones (approximately $7.7 million of which has been paid to us to date). Under the terms of the Clinical Research Subcontract, we are responsible for the oversight of Phase II and Phase III human clinical trials of the drug candidate DB289 for potential use to treat Trypanosomiasis. The terms of the Clinical Research Subcontract require us to segregate the Clinical Research Subcontract funds from our other funds and to use the proceeds only for developing a drug for treatment of Trypanosomiasis. We have or will receive The Gates Foundation grant funds under the Clinical Research Subcontract as follows: (a) $4.3 million has been received to fund Phase II clinical trials to test DB289's effectiveness against Trypanosomiasis in 30 to 40 patients, (b) $1.4 million was paid to us in September 2002 upon the successful completion of our Phase IIa clinical trial, (c) $2.0 million was paid to us in December 2002 upon the delivery of the final Phase IIa report in respect of the Phase II clinical trial and (d) we anticipate receipt of $2.1 million to fund Phase IIb and Phase III clinical trials to test compound DB289's effectiveness against Trypanosomiasis on a larger, more diverse group of patients in calendar years 2003 and 2004.

We have received a $1,025,201 initial payment of a $2,466,475 million research sub-contract from UNC based on the $2.7 million grant from The Gates Foundation to be used to accelerate the development of DB289 to treat African sleeping sickness (Trypanosomiasis). These funds will be used to (i) expand on-going Phase IIb/III clinical trials of DB289 for treatment of African sleeping sickness by adding additional clinical sites and increasing patient enrollment in several sub-Sahara African nations, (ii) implement an improved method of synthesizing DB289 to reduce drug manufacturing costs and (iii) improve DB289's formulation to facilitate increased drug delivery concentration into blood circulation.

In September 2002, we completed our Phase IIa study of DB289 in the Democratic Republic of the Congo for treatment of Trypanosomiasis. Initial results showed that the compound was well tolerated and over 95% of the patients treated were cured (patients evaluated three and six months after treatment were still parasite free). Based upon the promising results obtained in the Phase IIa

clinical trials, The Gates Foundation granted an additional $2.7 million to accelerate the enrollment of the Phase IIb/III clinical trials.

In the ongoing Phase IIb Trypanosomiasis human clinical trials, patients are being monitored to determine DB289's safety and effectiveness. Phase IIb monitoring includes EKG monitoring, blood sampling to check clinical chemistry and hematology parameters and various other clinical measurements and tests (including the clearance of parasites from blood). The Phase IIb Trypanosomiasis trial is an open label randomized study currently conducted in approximately 350 patients at two large clinical sites in Maluku and Vanga in the Democratic Republic of the Congo. At the conclusion of these trials, we intend to commence a Phase III trial that will include patients from additional sites in Africa. Three new sites in remote villages will be added after 80 patients have completed their treatment in the two larger centers. We intend the clinical sites in the remote villages to have up to 250 patients enrolled with lower levels of monitoring applied. We hope to obtain governmental approvals for compassionate use to commercially distribute DB289 to treat Trypanosomiasis in several African nations (the nations where we currently are conducting human trials) before the end of 2004.

We expect later this year, based on input from the scientists who conducted pre-clinical animal studies of certain dication compounds and on other factors, including our economic appraisals of the leading compound candidates, to select a compound to be tested for potential use against Leishmaniasis. If a compound is not selected, The Gates Foundation has indicated that it will allow the UNC-led research group to drop the program and invest the funds ear-marked for this project in other research programs that are agreed to by The Gates Foundation.

The Clinical Research Subcontract will continue in effect until November 17, 2005, unless otherwise terminated by a material breach by either party.

Research Agreement

On January 15, 1997, we entered into a Consortium Agreement with UNC and Pharm-Eco Laboratories, Inc. ("Pharm-Eco") (to which each of Georgia State, Duke University and Auburn University agreed shortly thereafter to become a party). The Consortium Agreement provided that dications developed by the Scientific Consortium-members were to be exclusively licensed to us for global commercialization. As contemplated by the Consortium Agreement, on January 28, 2002, we entered into a License Agreement with the Scientific Consortium whereby we received the exclusive license to commercialize all future technology and compounds ("future compounds") developed or invented by one or more of the Scientific Consortium scientists after January 15, 1997, and which also incorporated into such License Agreement our license with the Scientific Consortium with regard to compounds developed on or prior to January 15, 1997 ("current compounds").

The Scientific Consortium members have thus far designed, synthesized and tested approximately 1,600 dications and are continuing to develop more dications using proprietary technology. One or more of the universities comprising the Scientific Consortium have patents covering the molecular structure of the dications, as well as in some cases particular uses

of a compound for potential treatment of a disease or infection. Pursuant to the Consortium Agreement, Pharm-Eco agreed to transfer to us the worldwide exclusive license to use, manufacture, have manufactured, promote, sell, distribute or otherwise dispose of any and all products based directly or indirectly on dications developed by the Scientific Consortium on or prior to January 15, 1997 and previously licensed (together with related technology and patents) to Pharm-Eco. In March 2001, Pharm-Eco assigned the license to us. The January 28, 2002, License Agreement grants to us a similar worldwide exclusive license covering products based on dicationic technology developed by the Scientific Consortium after January 15, 1997 and incorporates the exclusive license assigned to us by Pharm-Eco in March 2001. The Consortium Agreement has provided us with rights to the Scientific Consortium's library of approximately 1,600 existing dications and to all future technology be designed by the Scientific Consortium. The Scientific Consortium scientists are considered to be among the world's leading experts in infectious diseases, computer modeling of dicationic pharmaceutical drugs and computer-generated drug designs.

The Consortium Agreement provides that we are required to pay to UNC on behalf of the Scientific Consortium reimbursement of patent and patent-related fees, certain milestone payments and royalty payments based on revenue derived from the Scientific Consortium's dication technology. Each month on behalf of the inventor scientist or university, as the case may be, UNC submits to us for payment an invoice for patent-related fees related to current compounds or future compounds incurred prior to the invoice date. For the fiscal year ended March 31, 2003, we reimbursed UNC $208,286 for such patent and patent-related costs, and in the past, the Company has reimbursed to UNC approximately $940,000 in the aggregate in patent and patent-related costs. The Company is also required to make milestone payments in the form of issuance of 100,000 shares of its common stock to the Consortium when the Company files its initial New Drug Application ("NDA") or an Abbreviated New Drug Application ("ANDA") based on Consortium technology and is required to pay to UNC on behalf of the Scientific Consortium (other than Duke) (i) royalty payments of up to 5% of its net worldwide sales of "current products" and "future products" (products based directly or indirectly on current compounds and future compounds, respectively) and (ii) a percentage of any fees it receives under sublicensing arrangements. With respect to products or licensing arrangements emanating from Duke technology, the Company is required to negotiate in good faith with UNC (on behalf of Duke) royalty, milestone or other fees at the time of such event, consistent with the terms of the Consortium Agreement.

Members of the Scientific Consortium have laboratory testing systems for screening dications for activity against specific microorganisms (using both laboratory and animal models). UNC and Georgia State have over 25 years of experience in making dication compounds and have developed proprietary computer models which simulate the binding of dications to DNA. Georgia State's proprietary computer modeling technology enhances the understanding of how dications bind to DNA, which improves our ability to custom design drugs with anti-infective activity against specific diseases. Generally, patents for the dication structures and uses are issued to the scientist who "invents" the dication or use. Then, pursuant

to the scientist's employment arrangements, the patents are assigned to the employing university, and, through the License Agreement, to us through an exclusive worldwide license to such dication structures or use for commercialization. Under the License Agreement, we must reimburse the cost of obtaining patents and assume liability for future costs to maintain and defend

patents so long as we choose to retain the license to such patents.

Confidentiality, Testing and Option Agreement with Neurochem, Inc.

On April 22, 2002, we entered into a Confidentiality, Testing and Option Agreement (the "Confidentiality, Testing and Option Agreement") with Neurochem, Inc. ("Neurochem"), a Canadian corporation, to supply Neurochem with selected cationic compounds for the testing, evaluation and potential future licensing of such compounds for (i) the treatment and diagnosis of amyloidosis and the related underlying conditions of Alzheimer's Disease, cerebral amyloid angiopathy, primary amyloidosis, diabetes and rheumatic diseases and (ii) the treatment of conditions related to secondary amyloidosis. Prior to entering into this Confidentiality, Testing and Option Agreement, Neurochem had identified certain of our patented cationic compounds with positive activity regarding the above diseases and diagnostic programs. Pursuant to the terms of the Confidentiality, Testing and Option Agreement, Neurochem had ten months to exercise its right to license for the uses identified any or all of the tested compounds that showed positive activity in exchange for certain milestone and royalty payments to us.

On April 4, 2003, Immtech sent a letter to Neurochem indicating that the Confidentiality, Testing and Option Agreement had expired. In addition, Immtech notified Neurochem that it discovered that Neurochem had, in breach of the terms of the Confidentiality, Testing and Option Agreement, filed a patent application without Immtech's knowledge or consent that contained information concerning compounds delivered to Neurochem pursuant to the Confidentiality, Testing and Option Agreement. Immtech informed Neurochem that it intended to investigate Neurochem's actions and reserved all of its legal rights. Since April 4, 2003, Immtech has held discussions with Neurochem to attempt to understand and resolve the situation. Immtech has since discovered that Neurochem has filed other patents, which may affect Immtech and the Scientific Consortium's intellectual property rights. Immtech has retained litigation and patent counsel and intends to vigorously defend its property and rights.

Clinical Trial Sites

On March 28, 2002, the Food and Drug Administration ("FDA") approved the export of the drug candidate DB289 to the Democratic Republic of the Congo ("DRC") for Phase IIb testing of the effectiveness of the dicationic compound against African sleeping sickness. The Phase IIb clinical trial will be conducted in 5 sites in the DRC, including two larger sites currently performing extensive monitoring of patients; and three future sites in smaller remote commercial villages, that will perform less extensive monitoring of patients. The added testing sites will permit increased enrollment patent rates for the Phase IIb and III clinical trials.

In April 2002, we received approval from the government of Peru and completed a pilot Phase IIa clinical trial of DB289 to treat Pneumocystis carinii pneumonia ("PCP") in June

2003. PCP is a fungus that overgrows the air sacs in the lungs of immunosuppressed patients, causing pneumonia that can be life-threatening if not treated. A second Peruvian trial in 30 to 40 PCP patients is being conducted using a higher drug dosage than the pilot study. We believe the increased dosage will reduce the time it takes for patients to demonstrate lung capacity

improvement.

A third Phase IIa trial to treat Malaria patients with the drug DB289 was commenced in Thailand in June 2003. We expect the Thailand Malaria clinical trial in 32 patients to take approximately four months to complete.

Immtech Hong Kong Limited

On January 13, 2003, we entered into an agreement with an investor who owned, through Lenton Fibre Optics Development Limited ("Lenton"), a Hong Kong company, a 1.6+ acre commercial real estate parcel located in a "free-trade zone" called the Futian Free Trade Zone, Shenzhen, in the PRC. The company operates under the name Immtech Hong Kong Limited and plans to construct and operate a pharmaceutical manufacturing facility capable of producing commercial quantities of our future pharmaceutical products on the commercial property. We believe Immtech Hong Kong Limited will benefit by constructing its manufacturing plant in the Futian Free Trade Zone because it will be allowed to import equipment and materials, export products and sell products produced there in the PRC all on a tax-free basis. We intend, once the facility is built and government approvals are obtained, to engage Immtech Hong Kong Limited to manufacture for commercial distribution our pharmaceutical products intended for sale in Asia, Africa and other selected regions.

We purchased an 80% interest in Lenton pursuant to the terms of a Share Purchase Agreement by issuing to the investor 1,200,000 unregistered shares of our Common Stock, $0.01 par value ("Common Stock"). The parties have also entered into a Shareholders' Agreement that sets forth the parties' agreement as to the affairs of Immtech Hong Kong Limited and the conduct of its business.

Market Listing

On December 2, 2002, we were notified by a NASDAQ Listing Qualifications Panel (the "Panel") that the Panel had determined to delist our Common Stock from the NASDAQ SmallCap Market effective with the open of business on December 3, 2002. In its notice, the Panel stated that we failed to maintain NASDAQ SmallCap Market continued listing requirements and failed to meet the terms of an exception under which we had remained listed. Our Common Stock commenced trading on the NASDAQ OTC Bulletin Board on December 3, 2002.

The Company's Common Stock is listed on The American Stock Exchange under the ticker symbol "IMM". Trading on the AMEX commenced on August 11, 2003.

Product Candidates

Pharmaceutical Products - Dications

Our pharmaceutical program focuses on the development and commercialization of oral drugs to treat fungal, parasitic, bacterial and viral diseases. This technology is the result of extensive research at several universities focused on understanding how dications bind to the "key sites" in the "minor groove" of the DNA of infectious microorganisms. Dications have two positively charged ends that are held together by a chemical linker. The structure of the dications, with positive charges on both ends (shaped like molecular barbells), allows dications to bind to the negatively charged key

sites in the minor groove (the sites where enzymes interact with DNA) of an organism's DNA (covering the site like a band-aid). When dications bind to the DNA key sites, life-sustaining enzymes that interact with the DNA are prevented from attaching, thus killing the infectious organism.

Pentamidine (a drug marketed by several pharmaceutical companies) was the prototype drug used by researchers at UNC to understand the mechanism by which dications interact with DNA. Pentamidine, which can only be administered intravenously or via inhalation, is difficult to administer and distribute and has a narrow dosage margin of safety and tolerance. Pentamidine has been shown to be toxic if incorrectly administered and after prolonged use.

Researchers at UNC discovered that much of Pentamidine's toxicity was the result of bi-products formed when the drug breaks down within the body. This discovery led Scientific Consortium researchers to design a new class of compounds with a more stable molecular structure. Laboratory and animal testing demonstrated that the compound we have chosen to treat PCP and Trypanosomiasis is less toxic than Pentamidine. These newly designed dications also proved in laboratory and animal tests to be more effective in some cases than Pentamidine. The methodology used by UNC and the other Scientific Consortium researchers to develop these new dications evolved into the Scientific Consortium's platform technology for designing dications. The Scientific Consortium is using this platform technology to design new treatments for a wide range of infectious diseases.

We completed a multi-dose Phase I human clinical trial of our lead dication DB289 in May 2001. In this trial, DB289 was shown to be safe to humans at dosage levels expected to be effective in treatment of the diseases targeted. In the DB289 Phase I study, of the 72 volunteers who completed the study, 26 were given a single oral dose, 24 multiple oral doses, and 22, a placebo. The study was designed to evaluate the safety and pharmacokinetics (pharmacokinetics is the study of a drug's effect on the body from absorption until excretion) of three dosage levels of DB289 administered twice a day over a period of six days. In addition to the safety studies, 12 of the approximately 40 volunteers that were given the active drug participated in a secondary study to determine whether food affected absorption through the digestive membranes. The studies showed that DB289 passed easily through the digestive membrane and the drug was active (as designed) for several hours in the bloodstream. In addition, volunteers tested at the highest dosage levels in the multi-dose segment of the trial did not display any specific side effects, and the post-test EKGs, clinical chemistry and hematology parameters of those volunteers were all within normal ranges. The drug concentration levels in

the blood were similar to levels that showed effectiveness in animal models on both PCP and Trypanosomiasis.

In September 2002, we completed Phase IIa human clinical trials of DB289 to treat Trypanosomiasis. Initial trial results demonstrated that DB289 was well tolerated by trial participants and approximately 95% of the patients treated were cured. Phase IIa trial participants were requested to attend a follow-up exam three and six months after the conclusion of their treatment; all the patients who returned continued to be free of the Trypanosomiasis parasite. The remainder of the patients studied did not return for the three and six month exams and were therefore excluded from the "percentage cured"; actual results are unknown.

We have commenced a Phase IIb human clinical trial of DB289 in the Democratic Republic of the Congo and are planning to add sites in several other

African nations. The Phase IIb human clinical trial is to be conducted at five testing sites, one of which recently concluded the Phase IIa human clinical trial and at one new site near an industrial center. The original site and the new site near the industrial center commenced testing in March 2003 and will continue high level testing and monitoring of patients. The other three sites will be added in the second and third calendar quarters of 2003 and will be located in remote villages, where a lower level of monitoring is planned. We intend to include approximately 350 patients in the Phase IIb, open label, randomized clinical trial.

"Prodrug" Technology

One of our most significant research developments was the discovery of drug delivery technology to make dication drugs orally deliverable. This proprietary technology temporarily masks the positive charges of the dication, enabling the active compound to move easily across digestive membranes into blood circulation. Once the drug is in blood circulation, the masking charges are removed by naturally occurring enzymes (found in the blood) thereby releasing the active drug. Dications do not readily pass through digestive membranes without this proprietary "Prodrug" technology because the stomach lining is also negatively charged and therefore most dications would remain in the intestinal tract and in time be excreted from the body. Until now, the inability to deliver the active compound across the digestive membrane into the bloodstream had reduced the attractiveness of dications as oral treatments for diseases via the body's bloodstream. Scientists from Scientific Consortium universities have patented four Prodrug synthesis methods that temporarily mask or reduce dications' positive charges while in the digestive system. This oral delivery system has made dications as a group significantly more attractive for commercial development.

On February 26, 2003, Scientific Consortium members were granted a patent by the U.S. Patent Office entitled "Prodrugs for Antimicrobial Amidines" for a new proprietary technology to synthesize and manufacture dication and other compounds with Prodrug technology. This patent protects a substantially advanced process for economically producing orally deliverable drugs designed to treat infectious diseases such as fungal infections, Malaria, Tuberculosis, Hepatitis C, Pneumocystis carinii pneumonia and tropical medicine diseases, including African sleeping sickness (Trypanosomiasis) and Leishmaniasis. Application of Prodrug technology is not limited to our products, and the Company may sub-license the Prodrug

process to other drug manufacturers for use on other compounds designed to be ingested and then activated in the blood stream.

DB289

DB289 is a dication that utilizes Prodrug oral delivery technology to deliver the active drug to the blood circulation. With Prodrug technology, DB289 is designed to be self-administered making it practical in developing countries and substantially less expensive to administer than drugs like Pentamidine, which may only be delivered either through inhalation or intravenously. In May 2001, we completed a Phase I safety trial of DB289 in human volunteers. The single and multi-dose trials demonstrated that DB289 was well tolerated by the volunteers. The drug reached blood levels in the Phase I volunteers that were equivalent to those shown to be effective in animal trials of disease treatment. We are conducting the following DB289 Phase II human trials:

Clinical Trial	Trial Design / Phase	Expected Result	Sites
DB289			
o Trypanosomiasis	o Phase IIb o 350 patients - stage 1 disease o Oral dosing for 5 days (BID) o Open label - randomized comparison to pentamidine	o Safety o Clearance of parasite from blood	o Democratic Republic of the Congo (5 sites)
o Malaria	o Phase IIa o 30-40 patients o Oral dosing for 5 days o Open label	o Safety o Clearance of parasite from blood	o Thailand
o PCP	o Phase IIa o 30 patients who failed standard treatment o Oral dosing up to 21 days o Multiple dose levels	o Safety o Improved lung function o Improved clinical signs	o Peru

Based upon successful results of the Trypanosomiasis Phase II/III clinical trials currently underway, we believe we will obtain regulatory approval to deliver DB289 for treatment of Trypanosomiasis in the countries where our clinical test sites are located and in other African nations. We anticipate commencing a Phase III trial of DB289 for treatment of Trypanosomiasis at the conclusion of the Phase IIb trial expected in late 2003. This Phase III trial is to test the drug's effectiveness in a larger population of patients in different regions of Africa.

DB075

DB075, the parent drug of DB289, is a dication compound designed to be active in the intestinal tract to treat the infectious disease Cryptosporidiosis (one of the most common infections of the intestinal tract). DB075 is made up of two positively charged ions connected by a chemical linker and since it is desirable for DB075 to remain and be active in the intestinal tract, the natural negative charge of digestive membranes prevents high levels of absorption of the drug candidate into the blood stream.

We are seeking a governmental or foundation sponsor to support a Phase I human trial of DB075 for treatment of Cryptosporidiosis. Subject to obtaining funding support, DB075 is scheduled to begin clinical trials in 2003 according to the parameters listed below.

Clinical Trial	Trial Design / Phase	Expected Result

DB075 (parent drug of DB289)		
o Diarrhea/Cryptosporidiosis (outside funding required)	o Phase I/IIa o 30-40 people in normal health o Oral dosing - dose levels o Multiple dose (5-10 days)	o Safety o Pharmacokinetics (absorption and distribution in the body) o Decrease severity and length of diarrhea

Strategy

Our strategy is to develop oral drugs effective against infectious diseases by utilizing the dicationic platform technology. Infectious diseases in the global population have increased significantly during the past 20 years and are the most common cause of death worldwide according to the World Health Organization. Relatively few new drugs for treatment of infectious diseases have been brought to market during this period. New antibiotics are needed to overcome the problems of multi-drug resistance and the increasing number of new pathogens that are causing diseases in the world.

We intend to proceed with the development and commercialization of dications for drug products pursuant to our agreement with the Scientific Consortium as follows:

- Conclude DB289 Phase II and Phase III trials targeting PCP and Trypanosomiasis;
- Conclude Phase IIa trials of DB289 for treatment of Malaria before evaluating next steps;
- Generate revenues through the sales of drug products;
- Identify additional dications to take into human clinical trials to further our TB and antifungal programs;
- Create joint ventures with pharmaceutical and biotechnology companies interested in developing treatments with the dicationic platform to treat other diseases; and
- Co-develop our pharmaceutical cancer program with a joint venture partner or a pharmaceutical company partner.

Our strategy is to commercialize dications and generate revenues first in niche markets through selling drugs for compassionate use and taking advantage of fast track FDA or corollary foreign approvals where permitted and to work with academic institutions and foundations to support drug development. We seek to simultaneously develop treatments for infectious diseases, such as fungal infections, with substantial markets that afflict large populations of people through strategic joint ventures. We believe that our first product candidates demonstrate the power and versatility of the dication and Prodrug platform

technologies to expedite acceptance and regulatory approval of our product candidates in "main stream" markets.

We will continue to manage and oversee the results of research by the Scientific Consortium and to use business-sponsored research programs, government grants, strategic joint ventures and other forms of collaborative programs to advance product commercialization. We consider our current collaborative relationships significant to the successful development of our business and we plan to enter into additional arrangements in the future to develop, manufacture and market not only the product candidates on which we are currently focused, but also those dications which the Scientific Consortium members are developing for future commercialization.

Target Markets

Trypanosomiasis

The World Health Organization estimates that there are 500,000 to 750,000 active cases of human Trypanosomiasis in central Africa. A World Health Organization survey suggests that an "epidemic situation" for Trypanosomiasis exists in the sub-Sahara region of Africa with epidemic levels being approached in Angola, Sudan, Uganda and the Democratic Republic of the Congo. Trypanosomiasis is fatal if left untreated.

Human African Trypanosomiasis takes two forms, depending upon the parasite that transmits the disease: (1) West African Sleeping Sickness, caused by trypanosoma brucei gambiense, and (2) East African Sleeping Sickness, caused by trypanosoma brucei rhodesiense. We have tested DB289 as a treatment for the first of the two forms, West African Sleeping Sickness. The geographical range in sub-Sahara Africa where human Trypanosomiasis occurs encompasses 36 countries, wherein over 60 million persons are at risk of contracting the disease. Distribution of the gambiense subspecies occurs primarily in Western and Central Africa concentrated in the vegetation associated with drainage lines, rivers, and other permanent bodies of water located within those regions. While exact figures on the number of people infected with Trypanosomiasis are not known due to logistical and political quagmires, the WHO estimates that the West African Sleeping Sickness is the more prevalent of the two forms of Trypanosomiasis due to the larger geographic area where the disease exists and the greater population in that area. The countries where the disease is known to be moderately to highly epidemic include Angola, Democratic Republic of the Congo, Uganda, Sudan, Cameroon, Chad, Congo, Cote d'Ivoire, Central African Republic, Guinea, Mozambique, and Tanzania. Trypanosomiasis is also known to exist in low or poorly documented levels in Benin, Burkina-Faso, Gabon, Ghana, Equatorial Guinea, Kenya, Mali, Nigeria, Togo, Zambia, Burundi, Botswana, Ethiopia, Liberia, Namibia, Rwanda, Senegal, and Sierra Leone.

In September 2002, we completed a Phase IIa study of DB289 for treatment of Trypanosomiasis in the Democratic Republic of the Congo. In this study, we confirmed the effectiveness of DB289 to treat Trypanosomiasis; over 95% of the patients treated were cured (patients evaluated three and six months after treatment were still parasite free). UNC, through the Clinical Research Subcontract funded by The Gates Foundation, advanced approximately $3.4 million in milestone payments to us for the continuation of this study on an additional 300 to 350 patients. The Gates Foundation has also granted an additional $2.7 million to a research

group led by UNC (of which the Company is to receive $2.4 million under the Clinical Research Subcontract), in addition to the $15.1 million granted to UNC, to accelerate the enrollment of our Phase IIb study.

If results of our Phase IIb clinical trials for Trypanosomiasis currently underway are similar to our previous human trial results, we believe we will obtain regulatory approval to deliver DB289 in the countries where our clinical test sites are located and in other African nations for treatment of Trypanosomiasis.

Malaria

In June 2003, we commenced a Phase IIa clinical trial of DB289 targeting the Malaria parasite (Plasmodium vivax and Plasmodium falciparum, the most common and drug-resistant deadly strains) at a clinical site in Thailand. In safety and efficacy studies conducted in humans and in vitro studies performed at the Swiss Tropical Institute, DB289 reached levels in the blood expected to be effective to treat Malaria in humans. DB289 demonstrated positive activity against several forms of Malaria used as surrogates for the human disease in animal model studies (mice). DB289 has shown positive activity against both common and known drug resistant strains of Malaria, including activity against chloroquine-resistant strains of Malaria. Chloroquine is the drug most frequently used to treat Malaria in developing countries. The dose proposed for the Phase IIa trial is similar to the dosage proven safe in our Trypanosomiasis studies.

Malaria is the second most deadly infectious disease in the world and is a significant problem for over 2.4 billion people in the world exposed to the mosquito-borne disease. Malaria, which affects 300 to 500 million people each year, is especially devastating to children under the age of five. In Africa and other areas of the world with high incidences of Malaria, the fatality rate in children is very high. It is estimated by the World Health Organization that over one million children die every year from Malaria in countries where the disease is endemic. The Global Fund to Fight AIDS, Tuberculosis and Malaria, of which The Gates Foundation is a member, is supporting the development of new oral drugs for safe and effective treatment of patients with drug-resistant forms of Malaria.

We have received a funding commitment of approximately $668,000 from Medicine for Malaria Ventures and in June 2003 we commenced Phase IIa human clinical trials of DB289 for treatment of Malaria in Thailand.

Antifungal Program

In cooperation with scientists from Duke University, UNC and Georgia State, we are progressing on the selection of a new antifungal drug candidate. Scientific Consortium scientists have identified several compounds with potential to treat both Candida and Aspergillus, two infections that in the aggregate account for over 90% of the systemic fungal infection drug market. Our goal is to advance a lead compound into pre-clinical development in 2003.

In vitro laboratory studies conducted at Duke University have identified over 30 dications that display positive antifungal activity across three types of fungi (Candida,

Aspergillus and Cryptococcus), including activity against fungi which had

previously been shown to be drug resistant. Duke has developed animal models for testing these lead dication candidates for antifungal activity in laboratory and computer model studies.

Duke researchers have developed an animal model of Aspergillus and are testing dication compounds in this model. In addition, Duke University continues to evaluate new compounds in an animal model of Candida. Our goal is to identify an active compound in 2003 that will be advanced to human clinical trials.

The market for an effective antifungal drug is estimated in 2003 to be $4 billion annually and growing rapidly due to the increasing number of patients who are susceptible to fungal diseases, such as patients undergoing cancer chemotherapy, patients with HIV and those who have undergone organ transplants. In addition, the frequency of nosocomial infection (infection acquired while being treated in a hospital) caused by fungi has increased drastically and is now the third most common cause of sepsis, replacing Escherichia coli ("E. coli"). Sepsis is an infection that quickly overwhelms the immune system and can lead to sudden death. Recently, strains of fungi have developed that are resistant to currently available treatments. There is a significant opportunity for new orally-deliverable drugs effective against specific strains of fungi as well as drugs with broad spectrum effectiveness across fungal strains.

Tuberculosis

We are working with Dr. Scott G. Franzblau's laboratory, The Institute for Tuberculosis Research at the University of Illinois-Chicago ("UIC"), to develop a new drug to combat drug-resistant strains of Mycobacterium Tuberculosis ("TB"). Tests conducted at Dr. Franzblau's laboratory have identified dication compounds with positive activity against the most common and drug resistant forms of TB. We are working with UIC to obtain grants to further its TB research and ongoing studies with dication compounds.

TB is the world's number one killer among infectious diseases and is the cause of over two million deaths per year worldwide, according to the World Health Organization and the U.S. Centers for Disease Control (the "CDC"). The CDC reports that about two billion people, including 15 million Americans, are infected with TB. The disease is spreading rapidly in developing countries in Asia, Africa and South America, and is becoming increasingly problematic in developed countries. Japan declared TB as its most threatening disease. Even the United States is seeing an alarming increase in TB cases. The combination of the rapid spread of TB and the appearance of multi-drug resistant strains of the TB organism make TB a major health threat throughout the world. TB is an elusive infection to treat. The organisms that cause the disease can "hide" inside white blood cells and tissues where exposure to drugs is avoided. To be effective, a drug must locate and eliminate the TB organisms inside infected white blood cells.

The World Health Organization and the National Institutes of Health ("NIH") have significantly increased research efforts to discover drugs to treat TB. Their research is focused on developing oral drugs that are effective against drug resistant strains of TB and the creation of therapies to shorten the treatment period required to eradicate the disease. Their

overall target is to reduce the current nine- to eighteen-month treatment period down to a two- to six- month period.

NIH researchers have screened over 500 of the Scientific Consortium's dication compounds as potential treatments of TB. NIH screening tests have identified approximately 10 to 15 dications with activity comparable or superior in performance to drugs currently available to treat TB. Our goal is to identify an oral drug candidate potent against TB and safe to the patient within the next 12 months.

Dr. Franzblau is a leading expert in TB treatment. For six years prior to joining the UIC, Dr. Franzblau led the NIH-funded, anti-TB screening program at the National Hansen's Disease Center at Louisiana State University. Georgia State and UNC are designing and synthesizing the compounds for testing at UIC based on the substantial information gleaned from in vitro and in vivo testing of various compounds.

Cryptosporidiosis parvum

Cryptosporidiosis parvum is one of the most common infections of the intestinal tract. Cryptosporidium is a parasite that causes severe diarrhea and wasting and is often fatal in immunosuppressed patients. Currently, no drug is available to treat Cryptosporidiosis. DB075, the parent drug of DB289, is designed to block life-sustaining enzymes from binding to the key sites of Cryptosporidium's DNA, thereby killing the organism. DB075, which is not a Prodrug (Prodrug is a drug delivery technology designed to make dications orally deliverable), is designed to remain and work directly in the digestive tract where the Cryptosporidiosis parasite is resident, with limited absorption across the digestive membranes into the bloodstream. Restricting DB075 to the digestive tract substantially reduces the possibility of adverse side effects. We have specifically targeted finding a treatment for Cryptosporidiosis because the FDA permits "fast-track" approvals of drugs that treat diseases like Cryptosporidiosis for which there currently exists no acceptable treatment.

Hepatitis C

A report by the CDC found that 4.5 million people in the United States are infected with the Hepatitis C Virus ("HCV"), the most common chronic blood-borne infection in the United States and a leading cause of liver disease. The World Health Organization has estimated that 170 million people worldwide have chronic HCV infections and that five million people in Western Europe are chronically infected with the HCV. The prevalence of the disease is expected to remain high for several decades due to the lack of drugs to treat or a vaccine to prevent transmission of the disease, according to the Medscope Resource Center.

Currently, no test exists which will accurately predict the effectiveness of a drug for treatment of HCV. Scientists at Auburn have screened some of the Consortium's dicationic compounds using a bovine viral diarrhea virus ("BVDV") as a surrogate virus for HCV to gauge the potential effectiveness of dications. Auburn scientists have screened over 150 of those compounds using the surrogate assay to identify dications with potential activity against HCV. The Company plans to screen the active compounds identified at Auburn in a newly developed HCV assay developed by the National Institutes of Health ("NIH"). The NIH assay replicates a

part of the HCV virus that can be used to identify compounds which have activity against the human HCV virus. The screening program with the NIH should be completed in calendar year 2003.

Leishmania

Over 355 million people in 88 countries are exposed to Leishmania and 12 million people in arid and tropical countries have the disease. Leishmania is caused by a parasite spread by sand flies that bite and infect humans.

As part of the Clinical Research Subcontract under The Gates Foundation grant, we are working with The London School of Hygiene and Tropical Medicine in England ("The London School"), Ohio State University ("Ohio State"), UNC and Georgia State to develop a drug to treat Leishmaniasis. Initial work on Leishmania was sponsored by a grant from the Walter Reed Hospital, U.S. Army. The U.S. military is interested in developing a new treatment for Leishmaniasis because U.S. soldiers are often sent to places where the Leishmania parasite is prevalent and soldiers sometimes return home infected with the disease. The London School and Ohio State have subcontracted with the Scientific Consortium to screen drug candidates supplied by UNC and Georgia State. The London School and Ohio State researchers have performed laboratory screening of 150 Scientific Consortium compounds for activity, have tested over 20 dicationic compounds for activity in animal tests and have identified several compounds with activity equivalent to drugs currently used to treat Leishmaniasis. The program scientists will evaluate drug candidates through 2003 and if a suitable candidate is not then identified, the grant funds otherwise allocated to the Leishmania program will be used to support one of our other grant-restricted programs.

Manufacturing

Pharmaceutical Products

We have an agreement with Regis Technologies, Inc. ("Regis") to produce eight kilograms of good manufacturing practices ("GMP") grade DB289 for clinical testing and early commercialization needs. Regis has produced a one kilogram GMP batch of DB289 which we are using in clinical trials for Trypanosomiasis, PCP and other diseases. Regis is a full-service drug synthesis and chemical services company that has synthesized numerous compounds and advanced them into clinical testing and commercialization. Regis is known internationally for providing quality contract manufacturing services to large pharmaceutical firms. Regis has experience in manufacturing pharmaceuticals under FDA guidelines.

Scientific Consortium

Scientific Consortium members, specifically the combinatorial chemistry laboratory at Georgia State University and the synthetic chemistry laboratory at UNC, have the capability to produce and inventory small quantities of all of the dications under license to us. To date, Georgia State University and UNC have produced and supplied all of the dications requested in the quantities required under the testing agreement with a third party. The third party tested over 100 dication compounds for activity against and diagnosis of amyloidosis and the related underlying conditions of Alzheimer's Disease, cerebral amyloid angiopathy, primary

amyloidosis, diabetes, rheumatic diseases and treatment of conditions related to secondary amyloidosis. We believe Scientific Consortium members will produce and deliver small quantities of compounds as needed for testing and commercialization purposes.

Immtech Hong Kong Limited

We have entered into an arrangement with an investor, whereby we acquired an 80% interest in a Hong Kong company that holds title to developable commercial real property located in a "free trade zone" in the PRC on which we intend, through the entity Immtech Hong Kong Limited, to construct and operate a pharmaceutical manufacturing facility to produce commercial quantities of our future products.

Competition

Competition in the pharmaceutical and biotechnology industries is intense. Factors such as scientific and technological developments, the procurement of patents, timely governmental approval for testing, manufacturing and marketing, availability of funds, the ability to commercialize product candidates in an expedient fashion and the ability to obtain governmental approval for testing, manufacturing and marketing play a significant role in determining our ability to effectively compete. Furthermore, our industry is subject to rapidly evolving technology that could result in the obsolescence of any product candidates prior to profitability.

Due to the strategy the Company has taken (see Strategy, pages 12 & 13), our competitors may have substantially greater financial, technical and human resources than we have and may be better equipped to develop, manufacture and market products. Many of our competitors have concentrated their efforts in the development of human therapeutics and developed or acquired internal biotechnology capabilities. The Company has utilized the Scientific Consortium as its Research and Development arm. In addition, many of these companies have extensive experience in pre-clinical testing and human clinical trials and in obtaining regulatory approvals. Our competitors may succeed in obtaining approval for products more rapidly than us and in developing and commercializing products that are safer and more effective than those that we propose to develop. Competitors, as well as academic institutions, governmental agencies and private research organizations, also compete with us in acquiring rights to products or technologies from universities, and recruiting and retaining highly qualified scientific personnel and consultants. The timing of market introduction of our potential products or of competitors' products will be an important competitive factor. Accordingly, the relative speed with which we can develop products, complete pre-clinical testing, human clinical trials and regulatory approval processes and supply commercial quantities to market will influence our ability to bring a product to market.

Our competition will be determined in part by the potential indications for which our products are developed and ultimately approved by regulatory authorities. We rely on our collaborations with the Scientific Consortium members and other joint venture partners to enhance our competitive edge by providing manufacturing, testing and commercialization support. Currently, DB289 is in clinical trials to treat Trypanosomiasis, PCP, and Malaria. The following table lists major competitors and their drugs by indication:

Trypanosomiasis	PCP	Malaria
o Pentamidine (Aventis)	o Bactrim (Hoffman LaRoche)	o Quinine (Watson Pharmaceuticals)
o Melarsoprol (Aventis)	o Pentamidine	o Chloroquine (Aventis) (Sanofi-Synthelabo Inc.)
o Eflornithine (Aventis)		o Mefloquine (Hoffman LaRoche)
o Suramin (Bayer)		o Amodiaquine (Pfizer)

We are developing products to treat infectious and other diseases. Our program closest to commercialization, development of a treatment for Trypanosomiasis, has been funded in large part by a grant from The Bill & Melinda Gates Foundation. The Gates Foundation has chosen to support the Trypanosomiasis program because there currently exists no effective treatment for the disease. We believe the Gates Foundation has financed this project because the likelihood that a major pharmaceutical company would develop a treatment for the disease is small because treatments for diseases that affect this population, without charitable assistance, are less profitable than treatments for diseases that affect more developed nations.

We have listed in the table above current treatments and the names of the manufacturers of those products used to treat Trypanosomiasis, however, each of the products listed has limitations in terms of effectiveness to treat the disease, toxicity, severity of side effects, and/or difficulty of delivery (for example, Pentamidine must be administered either intravenously or by inhalation, both methods impractical in the remote areas where the disease is endemic). We therefore believe that competition for our product candidates has yet to be developed or approved.

Patents and Licenses

Our pharmaceutical dications, including DB289 and DB075, are protected by patents secured by members of the Scientific Consortium. We have, pursuant to the terms of the Consortium Agreement, assumed the defense of all patents covering the dications we license.

We consider the protection of our proprietary technologies and products to be important to the success of our business and rely on a combination of patents, licenses, copyrights and trademarks to protect these technologies and products. To date, we have obtained exclusive licensing rights to 181 dication patents, 101 of which have been issued in the United States and in various global markets as of June 2003. In addition to the 181 dication patents previously mentioned we own seven additional patents. Generally, U.S. patents have a term of 17 years from the date of issue for patents issued from applications submitted prior to June 8, 1995, and 20 years from the date of filing of the application in the case of patents issued from applications submitted on or after June 8, 1995. Patents in most other countries have a term of 20 years from the date of filing the patent application. 132 of our licensed

patents, and 7 owned patents, which includes 33 licensed U.S. patents, and 7 owned U.S. patents, were submitted after

June 8, 1995, including patents covering DB289, DB075 and our latest Prodrug formulation processes.

Our policy is to file patent applications and defend the patents licensed to us covering the technology we consider important to our business in all countries where such protection is available and feasible. We intend to continue to file and defend patent applications we license or develop. Although we pursue and encourage patent protection and defend our patents and those licensed to us, obtaining patents for pharmaceutical drugs and their specific uses involves complex legal and factual questions and consequently involves a high degree of uncertainty. In addition, others may independently develop similar products, duplicate our potential products or design around the claims of any of our potential products. Because of the time delay in patent approval and the secrecy afforded the U.S. patent applications, we do not know if other applications, which might have priority over our applications, have been filed. We also rely on trade secrets, unpatented know-how and continuing technological innovation to develop and maintain our competitive position.

Publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by at least several months. As a result, there can be no assurance that patents will be issued from any of our patent applications or from applications licensed to us. The scope of any of our issued patents may not be sufficiently broad to offer meaningful protection. In addition, our issued patents or patents licensed to us could be successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier. We also rely in part on trade secret, copyright and trademark protection of our intellectual property. We protect our trade secrets by entering into confidentiality agreements with third parties, employees and consultants. Employees and consultants sign agreements to assign to us their interests in patents and copyrights arising from their work for us. Key employees also agree not to engage in unfair competition with us after their employment by using our confidential information. We have additional secrecy measures as well. However, these agreements can be breached and, if they were, there might not be an adequate remedy available to us. Also, a third party could learn our trade secrets through means other than by breach of our confidentiality agreements, or our trade secrets could be independently developed by our competitors.

Patents

Patents and patent applications for the chemical substance and use of pharmaceutical compounds to treat infections caused by PCP, TB, Cryptosporidium parvum, Giardia lamblia, Leishmania mexicana amazonesis, Trypanosoma brucei rhodesienes, various fungi, Plasmodium falciparum, HCV, BVDV and HIV have been filed by the scientists of the Scientific Consortium members. We have exclusively licensed, or have the right to exclusively license, any of such patents for commercialization. We are obligated to reimburse or pay for patent protection of any such drugs that we license for commercialization. Patents and patent applications also protect certain processes for making Prodrugs and the uses of compounds to detect and treat specific diseases as well as a patent for a new method for making chemical compounds that form dimers when they are bound to DNA. Dimers are two identical chemical molecules that attach

to a DNA's key site in series to cover a larger section (double) of a DNA's key site.

On February 26, 2003, Scientific Consortium members were granted a patent by the U.S. Patent Office entitled "Prodrugs for Antimicrobial Amidines" for a proprietary technology to synthesize and manufacture Prodrugs. The patent protects a substantially advanced process for economically producing orally deliverable drugs. This newly patented process, licensed to Immtech under the Consortium Agreement, reduces the number of steps required to make dications orally available and thereby reduces the cost to manufacture Prodrug enhanced drugs. We are investigating the potential to sub-license this new Prodrug process to other drug manufacturers for use with their compounds designed to be taken orally and then activated in the blood stream.

a) Patent Licenses

Pursuant to the Consortium Agreement, licenses and options to license patents for the dications developed by the Scientific Consortium prior to January 15, 1997, which were previously licensed or optioned to Pharm-Eco, were transferred to us by Pharm-Eco as of March 2001. In accordance with the terms of the Consortium Agreement, we have obtained license rights to the patents covering the technology platform for making dicationic pharmaceutical drugs and to treat certain microbial infections with such products. To date, we have exclusively licensed 181 patents, which includes 51 U.S. patents. All of the patents on our dicationic product candidates have been filed by UNC jointly with the other academic institutions of the Scientific Consortium.

b) Patent Rights

Since January 1997, as required under the Consortium Agreement, we have filed, together with Scientific Consortium members, approximately 94 patent applications, of which approximately 34 have been granted. The Consortium Agreement grants us the right to license for commercialization product candidates underlying the patents and patent applications for dications produced by the Scientific Consortium.

Government Regulation

The development, manufacture and commercialization of drug products is subject to extensive regulation by both U.S. federal and, to a lesser extent, state governments and foreign governmental authorities in the areas in which our product candidates are tested and manufactured, and in which potential products may be manufactured or sold. The Federal Food, Drug and Cosmetic Act ("FDCA") and other federal statutes and regulations govern or influence, among other things, the development, testing, manufacture, safety, labeling, storage, recordkeeping, approval, advertising, promotion, sale and distribution of pharmaceutical drugs. Pharmaceutical manufacturers are also subject to certain recordkeeping and reporting requirements, establishment registration and product listing, as well as FDA inspections.

With respect to any non-biological "new drug" product with active ingredients not previously approved by the FDA, a prospective manufacturer must submit a full New Drug Application ("NDA"), including complete reports of pre-clinical, clinical and other studies, to prove the product's safety and efficacy. A full NDA may also need to be submitted for a drug product with a previously approved active ingredient if, among other things, the drug will be

used to treat an indication for which the drug was not previously approved, or if the abbreviated procedure is otherwise not available. A manufacturer intending to conduct clinical trials in humans for a new drug may be required first to submit a Notice of Claimed Investigational Exception for an Investigational New Drug ("IND") to the FDA containing information relating to pre-clinical and clinical studies. INDs and full NDAs may be required to be filed to obtain approval of certain of our products, including those that do not qualify for abbreviated application procedures. The full NDA process, including clinical development and testing, is expensive and time consuming.

Products being developed by us for sale in the United States may be regulated by the FDA as drugs or biologics. New drugs are subject to regulation under the FDCA, and biologics, in addition to being subject to certain provisions of the FDCA, are regulated under the Public Health Service Act. We believe that drug products developed by us or our collaborators will be regulated either as biologics or as new drugs. Both statutes and the regulations promulgated thereunder govern, among other things, the testing, manufacturing, safety, effectiveness, labeling, storage, record keeping, advertising and other promotional practices involving biologics or new drugs. FDA approval or other clearances must be obtained before clinical testing and before manufacturing and marketing of biologics and drugs.

Obtaining FDA approval has historically been a costly and time consuming process. Generally, in order to gain FDA pre-market approval, a developer first must conduct pre-clinical studies in the laboratory and in animals to gain preliminary information on a drug candidate's effectiveness and to identify any safety problems. The results of these studies are submitted as a part of an IND application, which the FDA must review before human clinical trials of a drug candidate can begin. The IND application includes a detailed description of the pre-clinical data and investigations to be undertaken.

In order to commercialize any potential product, we or our collaborators must sponsor and file an IND and be responsible for initiating and overseeing clinical studies that demonstrate the safety and effectiveness necessary to obtain FDA approval. For Company or collaborator-sponsored INDs, the sponsor will be required to select qualified investigators (usually physicians within medical institutions) to supervise the administration of the products and ensure that the investigations are conducted and monitored in accordance with FDA regulations, including the general investigational plan and protocols contained in the IND. Clinical trials are normally done in three phases, although the phases may overlap. Phase I trials are concerned primarily with the safety of the drug, involve fewer than 100 subjects and may take from six months to over one year to complete. Phase II trials normally involve a few hundred patients and are designed primarily to demonstrate effectiveness in treating or diagnosing the disease or condition for which the drug is intended, although short-term side-effects and risks in people whose health is impaired may also be examined. Phase III trials are expanded clinical trials with larger numbers of patients which are intended to evaluate the overall benefit-risk relationship of the drug and to gather additional information for proper dosage and labeling of the drug. In total, clinical trials generally take two to five years to complete, but may take longer. The FDA receives reports on the progress of each phase of clinical testing and the FDA may require the modification, suspension or termination of a clinical trial if it concludes that an unwarranted risk is presented to patients.

If clinical trials of a new product are completed successfully, then the product sponsor may seek FDA marketing approval. If the product is regulated as a biologic, the FDA will require the submission and approval of both a Product License Application ("PLA") and an Establishment License Application ("ELA") before commercial marketing can commence. If the product is classified as a new drug, then the product sponsor must file an NDA with the FDA and receive approval before commencing commercial marketing. The NDA or PLA and ELA must include detailed information about the pharmaceutical drug or biologic and its manufacture and the results of product development, pre-clinical studies and clinical trials. The testing and approval processes require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. NDAs and PLAs submitted to the FDA can take, on average, two to five years to receive approval. If questions arise during the FDA review process, then approval can take more than five years. Notwithstanding the submission of relevant data, the FDA may ultimately decide that the NDA or PLA does not satisfy the FDA's regulatory criteria for approval and deny approval or require additional clinical studies. In addition, the FDA may condition marketing approval on the conduct of specific post-marketing studies to further evaluate safety and effectiveness. Even if FDA regulatory clearances are obtained, a marketed product is always subject to continual review and later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market, as well as possible civil or criminal sanctions.

The Drug Price Competition and Patent Restoration Act of 1984, known as the Waxman-Hatch Act, established abbreviated NDA ("ANDA") procedures for obtaining FDA approval for generic versions of many non-biological drugs for which patent or marketing exclusivity rights have expired and which are bioequivalent to previously approved drugs. "Bioequivalence" for this purpose, with certain exceptions, generally means that the proposed generic formulation is absorbed by the body at the same rate and extent as a previously approved "reference drug." Approval to manufacture these drugs is obtained by filing abbreviated applications, such as ANDAs. As a substitute for clinical studies, the FDA requires data indicating the ANDA drug formulation is bio-equivalent to the previously approved reference drug. The advantage of the ANDA approval mechanism, compared to an NDA, is that an ANDA applicant is not required to conduct pre-clinical and clinical studies to demonstrate that the product is safe and effective for its intended use and may rely, instead, on studies demonstrating bioequivalence to a previously approved reference drug.

In addition to establishing ANDA approval mechanisms, the Waxman-Hatch Act fosters pharmaceutical innovation through such incentives as non-patent exclusivity and patent restoration. This Act provides two distinct exclusivity provisions that either preclude the submission or delay the approval of an ANDA. A five-year exclusivity period is provided for new chemical compounds and a three-year marketing exclusivity period is provided for changes to previously approved drugs that are based on new clinical investigations essential to the approval. The three-year marketing exclusivity period may be applicable to the approval of a novel drug delivery system. The marketing exclusivity provisions apply equally to patented and non-patented drug products. These provisions do not delay or otherwise affect the approvability of full NDAs even when effective ANDA approvals are not available. For drugs covered by patents, patent extension may be provided for up to five years as compensation for reduction of

the effective life of the patent resulting from time spent in conducting clinical trials and in FDA review of a drug application.

In addition to obtaining pre-market approval for certain of our products, we will be required to maintain all facilities that produce our product candidates for commercial consumption in the United States in compliance with the FDA's current Good Manufacturing Practice ("cGMP") requirements. In addition to compliance with cGMP, each pharmaceutical manufacturer's facilities must be registered with the FDA. Manufacturers must also be registered with the Drug Enforcement Agency, or DEA, and similar state and local regulatory authorities if they handle controlled substances, and with the Environmental Protection Agency, or EPA, and similar state and local regulatory authorities if they generate toxic or dangerous wastes. Noncompliance with applicable requirements can result in fines, recall or seizure of products, total or partial suspension of production and distribution, refusal of the government to enter into supply contracts or to approve NDAs, ANDAs or other applications and criminal prosecution. The FDA also has the authority to revoke for cause drug approvals previously granted.

For international markets, a pharmaceutical company is subject to regulatory requirements, inspections and product approvals substantially the same as those in the United States. In connection with any future marketing, distribution and license agreements that we may enter, our licensees may accept or assume responsibility for such foreign regulatory approvals. The time and cost required to obtain these international market approvals may be greater or lesser than those required for FDA approval.

Product development and approval within this regulatory framework takes a number of years, involves the expenditure of substantial resources and is uncertain. Many drug products ultimately do not reach the market because they are not found to be safe or effective or cannot meet the FDA's other regulatory requirements. In addition, the current regulatory framework may change and additional regulations may arise at any stage of our product development that may affect approval, delay the submission or review of an application or require additional expenditures by us. We may not be able to obtain necessary regulatory clearances or approvals on a timely basis, if at all, for any of our products under development, and delays in receipt or failure to receive such clearances or approvals, the loss of previously received clearances or approvals or failure to comply with existing or future regulatory requirements could have a material adverse effect on our business.

Research and Development

Our future success will depend in large part on our ability to commercialize products based upon the platform technology for developing dications currently licensed to us through the Consortium Agreement and future dications for which we have the exclusive worldwide rights to license from the Scientific Consortium.

In November 2000, The Gates Foundation awarded $15,114,000 in a grant to a research group led by UNC to develop new drugs to treat African sleeping sickness and Leishmaniasis. On March 29, 2001, UNC entered into an agreement with us whereby $9,800,000 will be paid to us over a five- year period to conduct certain studies ("Clinical Research

Subcontract"). On March 29, 2001, we received the first installment of $4,300,000, on September 24, 2002, we received approximately $1,364,000, and on

December 31, 2002, we received approximately $2,016,000, of which approximately $791,000, $2,946,000 and $1,389,000 was utilized for clinical and research purposes and expensed during the fiscal years ended March 31, 2001, 2002 and 2003, respectively. All of the funds received under the Clinical Research Subcontract to date have been spent on the development of DB075 and its "prodrug" formulation DB289. In August 2001, we were awarded an additional Small Business Innovation Research Grant ("SBIR grant") from the NIH, in the amount of approximately $144,000, as the third year grant to continue research on "Novel Procedures for Treatment of Opportunistic Infections." During the years ended March 31, 2002 and 2003, approximately $65,000 and $70,000, respectively, was utilized for clinical and research purposes and expensed.

In June 2003, the Gates Foundation awarded $2.7 million in a grant to a research group led by UNC to (i) expand ongoing Phase IIb/III clinical trials of DB289 for treatment of African sleeping sickness by adding additional clinical sites and increasing patient enrollment in several sub-Sahara African nations, (ii) implement an improved method of synthesizing DB289 to reduce drug manufacturing costs and (iii) improve DB289's formulation to facilitate increased drug delivery concentration in blood circulation. Under the research subcontract, we are to receive $2,466,475 million, $1,025,201 of which has been received for our part to advance the tasks set forth above.

During the past three fiscal years, we estimate that we have spent approximately $5,340,000, $581,000 and $1,111,000, respectively, in fiscal years ended March 31, 2001, 2002 and 2003, on Company sponsored research and development and approximately $1,355,000, $3,377,000 and $1,459,000, respectively, in fiscal years ended March 31, 2001, 2002 and 2003, on research and development sponsored by others. All research and development activity for fiscal years ended March 31, 2002 and 2003 has been in support of our pharmaceutical commercialization effort.

Pharmaceutical Products

We are seeking to commercialize dications for treatment of infectious diseases. Positive results from the Phase I and Phase II trials of DB289 have paved the way for us to advance our Malaria, TB and antifungal programs.

We are conducting multiple clinical trials using dication drugs. Specifically:

- In May 2001, we completed a Phase I safety trial on DB289 as an orally active Prodrug formulation to treat African sleeping sickness and PCP.
- In May 2003, we received approval and began Phase IIa testing of the drug on 30 to 40 patients with PCP in South America. This Phase II test of DB289 is being conducted on PCP-infected AIDS patients who have failed treatment with other therapies.
- Phase IIb tests of DB289 targeting Trypanosomiasis in 300-350 patients has commenced in the Democratic Republic of the Congo.

- In June 2003, a third Phase IIa trial to treat Malaria patients with the drug DB289 was commenced in Thailand.

- Subject to obtaining foundation or government support, we plan a safety Phase I trial of DB075 for oral treatment of patients afflicted with severe diarrhea caused by the intestinal parasite Cryptosporidium parvum. Final plans are in place for synthesis, final toxicology testing prior to human use, absorption, distribution, metabolism and excretion analyses, formulation for administration, and regulatory approvals of DB075. This study is intended to establish that DB075 reduces the duration of Cryptosporidium caused diarrhea, associated weight loss and the number of Cryptosporidium parvum organisms excreted in the patient's stool.

Employees

We currently have 11 employees, five of whom hold advanced degrees. Five work in support of clinical trials, research and development and regulatory compliance, while six work in general and administrative capacities which includes business development, investor relations, finance and administration. Through our agreement with the Scientific Consortium, approximately 55 scientists are engaged in the research and development of the dications. We expect to add new employees in our regulatory and clinical development departments as our programs advance.

Risk Factors

There is no assurance that we will successfully develop a commercially viable product.

We are at an early stage of human, clinical and in some cases pre-clinical development activities required for drug approval and commercialization. Since our formation in October 1984, we have engaged in research and development programs, expanding our network or scientists and scientific advisors, licensing technology agreements and advancing the commercialization of the dication technology platform. We have generated no revenue from product sales and do not have any products currently available for sale, and none are expected to be commercially available for sale until after March 31, 2004, if at all. There can be no assurance that the research we fund and manage will lead to commercially viable products.

We have a history of losses and an accumulated deficit; our future profitability is uncertain.

We have experienced significant operating losses since our inception and we expect to incur additional operating losses as we continue research, development, clinical trial and commercialization efforts. As of June 30, 2003, we had an accumulated deficit of approximately $44,491,000.

As a result of our negative cash flow, we will need substantial additional funds in future years to continue our research and development; if financing is not available, we may be required to reduce our research programs or cease operations.

Our operations to date have consumed substantial amounts of cash. Negative cash flow from operations is expected to continue in the foreseeable future. Our cash requirements may vary materially from those now planned because of results of research and development, results of pre-clinical and clinical testing, responses to our grant requests, relationships with strategic partners, changes in the focus and direction of our research and development programs, competitive and technological advances, the FDA and foreign regulatory process and other factors. In any of these circumstances, we may require substantially more funds than we currently have available or currently intend to raise to continue our business. We may seek to satisfy future funding requirements through public or private offerings of securities, by collaborative or other arrangements with pharmaceutical or biotechnology companies or from other sources. Additional financing may not be available when needed or may not be available on acceptable terms. If adequate financing is not available, we may not be able to continue as a going concern or may be required to delay, scale back or eliminate certain research and development programs, relinquish rights to certain technologies or product candidates, forego desired opportunities or license third parties to commercialize our products or technologies that we would otherwise seek to develop internally. To the extent we raise additional capital by issuing equity securities, ownership dilution to existing stockholders will result.

We receive funding primarily from charitable grants and sales of our equity securities. To date we have directed all of such funds not used for general and administrative overhead toward our research, development and commercialization programs (including preparation of test results for submission to regulatory agencies for product approval). Until one or more of our product candidates is approved for sale, our revenues are limited to funds received for testing and research, licensing of our technology and potential fees associated with interim leasing of our properties while we develop them for expansion and product manufacture.

Our dependence on key personnel could adversely affect our business.

Our business depends to a significant degree on the continuing contributions of our key management, scientific and technical personnel, as well as on the continued discoveries of scientists, researchers and specialists at UNC, Georgia State University, Duke University and Auburn University (collectively, the "Scientific Consortium") who have entered into a Consortium Agreement, dated January 15, 1997, and a License Agreement, dated as of January 28, 2002, with us by which the Scientific Consortium has given us exclusive world-wide rights to commercialize certain pharmaceutical product candidates developed in the Scientific Consortium members' laboratories related to the dication technology. There can be no assurance that the loss of certain members of management or the scientists, researchers and technicians from the Scientific Consortium universities would not materially adversely affect our business. We do not have "key-man" life insurance policies on any of our executives.

Our CEO, T. Stephen Thompson, has been with the Company since April 1, 1991; his relationship with the Scientific Consortium and ability to guide the research team may not be easily replaced.

We rely heavily on our in-house and consortium related scientists. From the discovery stage through development and commercialization, the Immtech

scientists and Consortium scientists are among the foremost authorities in their respective fields. While the body of science may develop without any one particular scientist, our assembled team has a unique talent to advance both the science and the business of medicine. The financial aspects of the Company, including investor relations and intellectual property control, reside with two highly talented employees, Cecilia Chan and Gary Parks. Ms. Chan and Mr. Parks together hold a wealth of institutional knowledge that assist the Company to forge new relationships without diminishing or undermining existing obligations and opportunities.

Additional research grants used to fund our operations may not be available or on terms acceptable to the Company.

We will continue to apply for new grants to support continuing research and development of our dication platform technology and other product candidates. The process of obtaining grants is extremely competitive and there can be no assurance that any of our grant applications will be acted upon favorably. Some charitable organizations may request licenses to our proprietary information or may impose price restrictions on the products we develop with grant funds. We may not be able to negotiate terms that are acceptable to us with such organizations. In the event we are unable to raise sufficient funds to advance our product developments with grants we may seek to sell additional equity to raise such funds. There can be no assurance that we will be able to sell equity on terms acceptable to the Company and, if we do, existing stockholders may suffer dilution (see Risk Factors, this section, entitled "Sales of our Common Stock may adversely affect our ability to sell equity securities in the future," and "Our Outstanding Common Stock options and warrants may adversely affect our ability to consummate future equity financings and may cause dilution to our current stockholders").

We do not know if our product candidates will be approved by any regulatory agency because are in early stage clinical trials.

All of our product candidates, including DB289 and DB075, require additional clinical testing, regulatory approval and development of marketing and distribution channels, all of which are expected to require substantial additional investment prior to commercialization. There can be no assurance that any of our product candidates will be successfully developed, prove to be safe and effective in human clinical trials, meet applicable regulatory standards, be capable of being produced in commercial quantities at acceptable costs, be eligible for third party reimbursement from governmental or private insurers, be successfully marketed or achieve market acceptance. If we are unable to commercialize any of our product candidates in a timely manner, we may be required to seek additional funding, charge our development programs, sell some of our proprietary information or cease operations.

We do not have employment contracts with any employees other than our CEO, T. Stephen Thompson.

We have an employment agreement with our CEO, T. Stephen Thompson that renews annually in May of each year. Mr. Thompson renewed his employment with the Company this year and has not expressed any indication that he desires to leave the Company or retire. All other Company employees are "at will" employees and may leave at any time, however, none have as of this date expressed an intention to do so. Much of our proprietary information is developed by scientists who are employed by the universities that comprise the

Scientific Consortium. We do not have control over, knowledge of, or access to those employment arrangements. We have not been advised by any of the key members of the Scientific Consortium of any intention to leave their employ or the program.

There are substantial uncertainties related to clinical trials that may result in the extension, modification or termination of one or more of our programs.

In order to obtain required regulatory approvals for the commercial sale of our product candidates, we must demonstrate through human clinical trials that our product candidates are safe and effective for their intended uses.

We may find, at any stage of our research and development, that product candidates that appeared promising in earlier clinical trials do not demonstrate safety or effectiveness in later clinical trials and therefore do not receive regulatory approvals. Despite the positive results of our pre-clinical testing and early human clinical trials those results may not be predictive of the results of later clinical trials and large-scale testing. Companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in various stages of clinical trials, even after promising results had been obtained in early stage human clinical trials. Completion of the clinical trials may be delayed by many factors, including slower than anticipated patient enrollment, difficulty in securing sufficient supplies of clinical trial materials or adverse events occurring during clinical trials. Completion of testing, studies and trials may take several years, and the length of time varies substantially with the type, complexity, novelty and intended use of the product. Delays or rejections may be based upon many factors, including changes in regulatory policy during the period of product development. No assurance can be

given that any of our development programs will be successfully completed, that any Investigational New Drug "(IND") appplication filed with the FDA (or any foreign equivalent filed with the appropriate foreign authorities) will become effective, that additional clinical trials will be allowed by the FDA or other regulatory authorities, or that clinical trials will commence as planned. There have been delays in our testing and development schedules due to funding and patient enrollment difficulties and there can be no assurance that our future testing and development schedules will be met.

We do not currently have pharmaceutical manufacturing capability, which could impair our ability to develop commercially viable products at reasonable costs.

Our ability to commercialize product candidates will depend in part upon our ability to have manufactured the product candidates, either directly or through third parties, at a competitive cost and in accordance with FDA and other regulatory requirements. We currently lack facilities and personnel to manufacture our product candidates. There can be no assurance that we will be able to acquire such resources, either directly or through third parties, at reasonable costs, if we develop commercially viable products.

Construction and operation of a pharmaceutical manufacturing plant with Immtech Hong Kong Limited in the People's Republic of China ("PRC") is subject to various governmental approvals, which may be difficult or impossible to obtain. There can be no guarantee that products manufactured at this facility, if built, will be accepted in the countries where we desire to sell

our future products.

We are dependent on third-party relationships for critical aspects of our business; problems that develop in these relationships may increase costs and slow our ability to develop new products.

We use the expertise and resources of strategic partners and third parties in a number of key areas, including (i) research and development, (ii) pre-clinical and human clinical trials and (iii) manufacture of pharmaceutical drugs. We have licensing and exclusive commercialization rights to a dicationic pharmaceutical platform and are developing drugs intended for commercial use based on that platform. This strategy creates risks by placing critical aspects of our business in the hands of third parties, whom we may not be able to control. If these third parties do not perform in a timely and satisfactory manner, we may incur costs and delays as we seek alternate sources of such products and services, if available. Such costs and delays may have a material adverse effect on our business, hampering our ability to develop new products, jeopardizing our license from the Scientific Consortium, and hampering our potential to earn revenues and profits.

We may seek additional third-party relationships in certain areas, particularly in clinical testing, marketing, manufacturing and other areas where pharmaceutical and biotechnology company collaborators will enable us to develop particular products or geographic markets that are otherwise beyond our resources and/or capabilities. There is no assurance that we will be able to obtain any such collaboration or any other research and development, manufacturing or clinical trial arrangements. Our inability to obtain and maintain satisfactory relationships with third parties may have a material adverse effect on our business by slowing

our ability to develop new products, forcing us to expand our in-house capabilities, increasing our expenses and hampering future growth opportunities.

We are uncertain about the ability to protect or obtain necessary patents and protect our proprietary information from both competitors and third-party collaborators.

There can be no assurance that any particular patent will be granted or that issued patents will provide us, directly or through licenses, with the intellectual property protection contemplated. Patents and licenses of patents can be challenged, invalidated or circumvented. It is also possible that competitors will develop similar products simultaneously. Our breach of any license agreement or the failure to obtain a license to any technology or process which may be required to develop or commercialize one or more of our product candidates may have a material adverse effect on our business including lost business opportunities, need for additional capital and lessened expectation of potential future revenues.

The pharmaceutical and biotechnology fields are characterized by a large number of patent filings, and a substantial number of patents have already been issued to other pharmaceutical and biotechnology companies. Third parties may have filed applications for, or may have been issued, certain patents and may obtain additional patents and proprietary rights related to products or processes competitive with or similar to those that we are attempting to develop and commercialize. We may not be aware of all of the patents potentially adverse

to our interests that may have been issued to others. No assurance can be given that patents do not exist, have not been filed or could not be filed or issued, which contain claims relating to or competitive with our technology, product candidates or processes. If patents have been or are issued to others containing preclusive or conflicting claims, then we may be required to obtain licenses to one or more of such patents or to develop or obtain alternative technology. There can be no assurance that the licenses or alternative technology that might be required for such alternative processes or products would be available on commercially acceptable terms, or at all.

Because of the substantial length of time and expense associated with bringing new drug products to market through the development and regulatory approval process, the pharmaceutical and biotechnology industries place considerable importance on patent and trade secret protection for new technologies, products and processes. Since patent applications in the United States are confidential until patents are issued and since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we cannot be certain that we (or our licensors) were the first to make the inventions covered by pending patent applications or that we (or our licensors) were the first to file patent applications for such inventions. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions and, therefore, the breadth of claims allowed in pharmaceutical and biotechnology patents, or their enforceability, cannot be predicted. There can be no assurance that any patents under pending patent applications or any further patent applications will be issued. Furthermore, there can be no assurance that the scope of any patent protection will exclude competitors or provide us competitive advantages, that any of our (or our licensors') patents that have been issued or may be issued will be held valid if subsequently challenged, or that others, including competitors or current or former employers of our employees, advisors and consultants, will not claim rights in, or ownership to, our (or our licensors') patents and other proprietary rights. There can be no assurance that others will not

independently develop substantially equivalent proprietary information or otherwise obtain access to our proprietary information, or that others may not be issued patents that may require us to obtain a license for, and pay significant fees or royalties for, such proprietary information.

At times we may enter into confidentiality agreements with other companies, allowing them to test our compounds for potential future licensing, in return for milestone and royalty payments should any discoveries result from the use of our proprietary information. We cannot be assured that such parties will honor these confidentiality agreements.

The pharmaceutical and biotechnology industries have experienced extensive litigation regarding patent and other intellectual property rights. We could incur substantial costs in defending suits that may be brought against us (or our licensors) claiming infringement of the rights of others or in asserting our (or our licensors') patent rights in a suit against another party. We may also be required to participate in interference proceedings declared by the U.S. Patent and Trademark Office or similar foreign agency for the purpose of determining the priority of inventions in connection with our (or our licensors') patent applications.

Adverse determinations in litigation or interference proceedings could require us to seek licenses (which may not be available on commercially reasonable terms) or subject us to significant liabilities to third parties, and could therefore have a material adverse effect on our business by increasing our expenses and having an adverse effect on our stock price. Even if we prevail in an interference proceeding or a lawsuit, substantial resources, including the time and attention of our officers, will be required.

We also rely on trade secrets, know-how and technological advancement to maintain our competitive position. Although we use confidentiality agreements and employee proprietary information and invention assignment agreements to protect our trade secrets and other unpatented know-how, these agreements may be breached by the other party thereto or may otherwise be of limited effectiveness or enforceability.

Our proprietary information is developed in an academic environment.

We are licensed to commercialize technology from a dication platform developed by a scientific consortium, comprised primarily of scientists employed by universities in an academic setting. The academic world is improved by the sharing of information. As a business, however, the sharing of information whether through publication of research, academic lectures or general intellectual discourse among contemporaries is not conducive to protection of proprietary information. Our proprietary information may fall into the possession of unintended parties without our knowledge through customary academic information sharing.

Our business has significant competition; our product candidates may become obsolete prior to commercialization due to alternative technologies.

The pharmaceutical and biotechnology fields are characterized by extensive research efforts and rapid technological progress. Competition from other pharmaceutical and biotechnology companies and research and academic institutions is intense and other companies are engaged in research and product development for treatment of the same diseases that we target. New developments in pharmaceutical and biotechnology fields are expected to continue

at a rapid pace in both industry and academia. There can be no assurance that research and discoveries by others will not render some or all of our programs or products non-competitive or obsolete.

We are aware of other companies and institutions dedicated to the development of therapeutics similar to those we are developing, including Eli Lilly and Company, Hoffman-LaRoche Ltd., Chiron Corporation, Cubist Pharmaceuticals, Inc., Schering-Plough Corporation and Abbott Laboratories. Many of our existing or potential competitors have substantially greater financial and technical resources than we do and therefore may be in a better position to develop, manufacture and market pharmaceutical drugs and biologics. Many of these competitors are also more experienced with regard to pre-clinical testing, human clinical trials and obtaining regulatory approvals. The current or future existence of competitive products may also adversely affect the marketability of

our product candidates.

In the event some or all of our programs are rendered non-competitive or obsolete, we do not currently have alternative strategies to develop new product lines or financial resources to pursue such a course of action.

There is no assurance that we will receive FDA or corollary foreign approval for any of our product candidates for any indication; government regulation may impede, delay or prevent the commercialization of our product candidates.

All new pharmaceutical drugs and biologics, including our product candidates, are subject to extensive and rigorous regulation by the federal government, principally the FDA under the Federal Food, Drug and Cosmetic Act ("FDCA") and other laws including, in the case of biologics, the Public Health Services Act, and by state, local and foreign governments. Such regulations govern, among other things, the development, testing, manufacture, labeling, storage, pre-market clearance or approval, advertising, promotion, sale and distribution of pharmaceutical drugs and biologics. If drug products or biologics are marketed abroad, they are subject to extensive regulation by foreign governments. Failure to comply with applicable regulatory requirements may subject us to administrative or judicially imposed sanctions such as civil penalties, criminal prosecution, injunctions, product seizure or detention, product recalls, total or partial suspension of production and FDA refusal to approve pending applications.

Each of our product candidates must be approved for each indication for which we believe it to be viable. We have not determined from which regulatory bodies we will seek approval for our product candidates or indications. Once determined, the approval process could be hampered by changes in those agencies' policies or acceptance of those agencies' approvals in the countries where we intend to market our product candidates.

We have not received regulatory approval in the United States or any foreign jurisdiction for the commercial sale of any of our product candidates.

The process of obtaining FDA and other required regulatory approvals, including foreign approvals, often takes many years and varies substantially based upon the type, complexity and novelty of the products involved and the indications being studied. Furthermore, the approval process is extremely expensive and uncertain. There can be no assurance that our

product candidates will be approved for commercial sale in the United States by the FDA or regulatory agencies in foreign countries. The regulatory review process can take many years and we will need to raise additional funds prior to completing the regulatory review process for our current and future product candidates. Therefore, the failure to receive FDA approval would have a material adverse effect on our business by precluding us from marketing and selling such products in the United States and negatively impacting our ability to generate future revenues. Even if regulatory approval of a product is granted, there can be no assurance that we will be able to obtain the labeling claims (a labeling claim is a product's description and its FDA permitted uses) necessary or desirable for the promotion of such product. FDA regulations prohibit the

marketing or promotion of a drug for unapproved indications. Furthermore, regulatory marketing approval may entail ongoing requirements for post-marketing studies if regulatory approval is obtained; we will then be subject to ongoing FDA obligations and continued regulatory review. In particular, we, or our third party manufacturers, will be required to adhere to regulations setting forth Good Manufacturing Practices ("GMP"), which require us (or our third party manufacturers) to manufacture products and maintain records in a prescribed manner with respect to manufacturing, testing and quality control activities. Further, we (or our third party manufacturers) must pass a manufacturing facilities pre-approval inspection by the FDA before obtaining marketing approval. Failure to comply with applicable regulatory requirements may result in penalties, such as restrictions on a product's marketing or withdrawal of the product from the market. In addition, identification of certain side effects after a drug is on the market or the occurrence of manufacturing problems could cause subsequent withdrawal of approval, reformulation of the drug, additional pre-clinical testing or clinical trials and changes in labeling of the product.

Prior to the submission of an application for FDA approval, our product candidates must undergo rigorous pre-clinical and clinical testing, which may take several years and the expenditure of substantial financial and other resources. Before commencing clinical trials in humans, we must submit to the FDA and receive clearance of an IND. There can be no assurance that submission of an IND for future clinical testing of any of our product candidates under development or other future product candidates would result in FDA permission to commence clinical trials or that we will be able to obtain the necessary approvals for future clinical testing in any foreign jurisdiction. Further, there can be no assurance that if such testing of product candidates under development is completed, any such drug compounds will be accepted for formal review by the FDA or any foreign regulatory body or approved by the FDA for marketing in the United States or by any such foreign regulatory bodies for marketing in foreign jurisdictions. Future federal, state, local or foreign legislation or administrative acts could also prevent or delay regulatory approval of our product candidates.

Prior to the submission of an application for FDA approval, our pharmaceutical drugs and biologics must undergo rigorous pre-clinical and clinical testing, which may take several years and the expenditure of substantial resources. Before commencing clinical trials in humans in the United States, we must submit to the FDA and receive clearance of an IND. If clinical trials of a new product are completed successfully, then we may seek FDA marketing approval. If the product is regulated as a biologic, the FDA will require the submission and approval of both a Product License Application ("PLA") and an Establishment License Application ("ELA") before commercial marketing can commence. The PLA must include detailed information about the biologic, its manufacture and the results of product development,

pre-clinical studies and clinical trials. The FDA's time to review PLAs and ELAs averages two to five years. The FDA may ultimately decide that the PLA and ELA do not satisfy the regulatory criteria for approval and deny approval or require additional clinical studies. Future federal, state, local or foreign legislation or administrative acts could also prevent or delay regulatory approval of our pharmaceutical drug and biologic candidates.

There is uncertainty regarding the availability of health care reimbursement for purchasers of our anticipated products; health care reform may negatively impact the ability of prospective purchasers of our anticipated products to pay for such products.

Our ability to commercialize any of our product candidates will depend in part on the extent to which reimbursement for the costs of the resulting drug or biologic will be available from government health administration authorities, private health insurers, charities and others. Many of our product candidates, including treatments for Trypanosomiasis, Malaria and Tuberculosis, would be in the greatest demand in developing nations, many of which do not maintain comprehensive health care systems with the financial resources to pay for such drugs. We do not know to what extent governments, private charities, international organizations and others would contribute toward bringing newly developed drugs to developing nations. Even among drugs sold in developed countries, significant uncertainty exists as to the reimbursement status of newly approved health care products. There can be no assurance of the availability of third-party insurance reimbursement coverage enabling us to establish and maintain price levels sufficient for realization of a profit on our investment in developing pharmaceutical drugs and biologics. Government and other third-party payers are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new drug or biologic products approved for marketing by the FDA and by refusing, in some cases, to provide any coverage for uses of approved products for disease indications for which the FDA has not granted marketing approval. If adequate coverage and reimbursement levels are not provided by government and third-party payers for uses of our anticipated products, the market acceptance of these products would be adversely affected.

Health care reform proposals have previously been introduced in Congress and in various state legislatures and there is no guarantee that such proposals will not be introduced in the future. We cannot predict when any proposed reforms will be implemented, if ever, or the effect of any implemented reforms on our business. Implemented reforms may have a material adverse effect on our business by affecting the availability of third-party reimbursement for our anticipated products and limiting price levels at which we are able to sell such products. In addition, if we are able to commercialize products in overseas markets, then our ability to achieve success in such markets may depend, in part, on the health care financing and reimbursement policies of such countries.

Confidentiality agreements may not adequately protect our intellectual property.

We require our employees, consultants and third-parties with whom we share proprietary information to execute confidentiality agreements upon the commencement of their relationship with us. The agreements generally provide that trade secrets and all inventions conceived by the individual and all confidential information developed or made known to the individual during the term of the relationship will be our exclusive property and will be kept

confidential and not disclosed to third parties except in specified circumstances. There can be no assurance, however, that these agreements will provide meaningful protection for our proprietary information in the event of unauthorized use or disclosure of such information. If our unpatented

proprietary information is publicly disclosed before we have been granted patent protection, our competitors could be unjustly enhanced and we could lose the ability to profitably develop products from such information.

Sales of our Common Stock may adversely affect our ability to sell equity securities in the future.

Sales of our Common Stock (including the issuance of shares upon conversion of preferred stock and the exercise of outstanding options and warrants at prices substantially below our current market price) in the public market could materially and adversely affect the market price of shares of our Common Stock. Such sales also might make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that we deem appropriate.

As of August 22, 2003, we had 8,780,374 shares of Common Stock outstanding (not including 575,791 shares of Common Stock reserved for conversion of Series A Convertible Preferred Stock, 197,031 shares of Common Stock reserved for conversion of Series B Convertible Preferred Stock, 708,998 shares of Common Stock reserved for conversion of Series C Convertible Preferred Stock, 712,924 shares of Common Stock reserved for exercise of outstanding options and 3,047,862 shares of Common Stock reserved for exercise of outstanding warrants held by certain investors). Of the shares outstanding, 5,751,040 shares of Common Stock are freely tradable without restriction. All of the remaining 3,029,334 shares are restricted from resale, except pursuant to certain exceptions under the Securities Act of 1933, as amended (the "Securities Act").

As of August 30, 2003 we had outstanding (i) 99,000 shares of series A Convertible preferred stock, convertible into approximately 559,964 shares of Common Stock at the conversion rate of 1:5.6562, (ii) 30,725 shares of Series B Convertible Preferred stock convertible into approximately 192,031 shares of Common Stock at the conversion rate of 1:6.25, (iii) 125,352 shares of Series C Convertible Preferred Stock convertible into approximately 708,998 shares of Common Stock at the conversion rate of 1:5.6562, (iv) 712,924 options to purchase shares of Common Stock with a weighted-average exercise price of $4.59 per share and (v) 2,876,552 warrants to purchase shares of Common Stock with a weighted-average exercise price of $6.81.

Our outstanding Common Stock options and warrants may adversely affect our ability to consummate future equity financings and may cause dilution to our current stockholders.

We have outstanding options and warrants for the purchase of shares of our Common Stock which may adversely affect our ability to consummate future equity financings. Further, the holders of such warrants and options may exercise them at a time when we would otherwise be able to obtain additional equity capital on more favorable terms. To the extent any such options and warrants are exercised, the outstanding shares of our Common Stock will be diluted.

Due to the number of shares of Common Stock we are obligated to sell pursuant to outstanding options and warrants described above at prices below our current market price, new investors may not purchase our future equity offerings

at market price due to the potential dilution such investors may suffer as a result of the exercise of outstanding options and warrants at prices below our market price. As of October 9, 2003 we had options to purchase 712,924 shares of Common Stock outstanding at a weighted-average exercise price of $4.59.

The market price of our Common Stock may experience significant volatility.

The securities markets from time to time experience significant price and volume fluctuations unrelated to the operating performance of particular companies. In addition, the market prices of the common stock of many publicly traded pharmaceutical and biotechnology companies have been and can be expected to be especially volatile. For example, our common stock price in the 52-week period ending October 7, 2003, has had a low of $1.58 and high of $18.82. The range during the same period for two of our competitors, EntreMed Inc. and Encysive Pharmaceuticals was $0.82 to $6.53 and $0.72 to $6.98, respectively. Announcements of technological innovations or new products by us or our competitors, developments or disputes concerning patents or proprietary rights, publicity regarding actual or potential clinical trial results relating to products under development by us or our competitors, regulatory developments in both the United States and foreign countries, delays in our testing and development schedules, public concern as to the safety of pharmaceutical drugs or biologics and economic and other external factors, as well as period-to-period fluctuations in our financial results, may have a significant impact on the market price of our Common Stock. The realization of any of the risks described in these "Risk Factors" may have a significant adverse impact on such market prices.

We routinely pay vendors in stock as consideration for their services; this may result in shareholder dilution, additional costs and difficulty retaining certain vendors.

In order for us to preserve our limited cash resources, we often pay vendors in shares of Immtech Common Stock rather than cash. Payments for services in stock may materially adversely affect our shareholders by diluting the value of outstanding shares of our Common Stock. In addition, in situations where we have agreed to register the shares issued to a vendor, this will generally cause us to incur additional expenses associated with such registration. Paying vendors in stock may also limit our ability to contract with the vendor of our choice should that vendor decide it is opposed to payment in the form of Illiquid Stock.

We do not pay dividends on our Common Stock.

We have never declared or paid dividends on our Common Stock and we do not intend to pay any Common Stock dividends in the foreseeable future. Our Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Convertible Preferred Stock earn dividends of 6%, 8% and 8% per annum, respectively, each payable semi-annually on each April 15 and October 15 while outstanding, and which, at our option, may be paid in cash or in shares of our Common Stock. On April 15, 2002, October 15, 2002 and April 15, 2003, we paid dividends to the holders of our Series A Convertible Preferred Stock and on October 15, 2002

and April 15, 2003, we paid dividends to the holders of our Series B Convertible Preferred Stock in shares of Common Stock, with fractional shares paid in cash.

There are limitations on the liability of our directors, and we may have to indemnify our officers and directors in certain instances.

Our Certificate of Incorporation limits, to the maximum extent permitted by Delaware law, the personal liability of our directors for monetary damages for breach of their fiduciary duties as directors. Our Bylaws provide that we will indemnify our officers and directors and may indemnify our employees and other agents to the fullest extent permitted by law. We have entered into indemnification agreements with our officers and directors containing provisions that are in some respects broader than the specific indemnification provisions under Delaware law. The indemnification agreements may require us, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified and to obtain directors' and officers' insurance, if available on reasonable terms. Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify a director, officer, employee or agent made or threatened to be made a party to an action by reason of the fact that he or she was a director, officer, employee or agent of the corporation or was serving at the request of the corporation, against expenses actually and reasonably incurred in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. Delaware law does not permit a corporation to eliminate a director's duty of care and the provisions of our Certificate of Incorporation have no effect on the availability of equitable remedies, such as injunction or rescission, for a director's breach of the duty of care.

We believe that the limitation on director liability will assist us to attract and retain qualified directors. However, in the event a director or the board commits an act that may legally be indemnified under Delaware law, the Company will be responsible to pay for such director(s) legal defense and potentially any damages resulting there from. Furthermore, the limitation on director liability may reduce the likelihood of derivative litigation against directors, and may discourage or deter stockholders from instituting litigation against directors for breach of their fiduciary duties, even though such an action, if successful, might benefit the Company and its stockholders. However, given the difficult environment and potential for incurring liabilities currently facing directors of publicly-held corporations, we believe that director indemnification is in the best interests of the Company and its stockholders, because it should enhance our ability to retain highly qualified directors and reduce a possible deterrent to entrepreneurial decision-making. In addition, the Board of Directors believes that director indemnification has a favorable impact over the long term on the availability, cost, amount and scope of coverage of directors' liability insurance.

Nevertheless, limitations or director liability may be viewed as limiting the rights of stockholders, and the broad scope of the indemnification provisions of the Delaware Certificate could result in increased expense to the Company. The Board of Directors believes,

however, that these provisions will provide a better balancing of the legal obligations of, and protections for, directors and will contribute to the quality and stability of our corporate governance. The Board of Directors has concluded that the benefit to stockholders of improved corporate governance outweighs any possible adverse effects on stockholders of reducing the exposure of directors to liability and broadening indemnification rights.

Product liability exposure may expose us to significant liability.

We face an inherent business risk of exposure to product liability and other claims and lawsuits in the event that the development or use of our technology or prospective products is alleged to have resulted in adverse effects. We may not be able to avoid significant liability exposure. We may not have sufficient insurance coverage and we may not be able to obtain sufficient coverage at a reasonable cost. An inability to obtain product liability insurance at acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our products. A product liability claim could hurt our financial performance. Even if we avoid liability exposure, significant costs could be incurred that could hurt our financial performance.

Changes to financial accounting standards may affect our reported results of operations.

We prepare our financial statements in conformity with U.S. accounting principles generally accepted in the United States, or GAAP. GAAP are subject to interpretation by the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before a change is announced. Accounting policies affecting many other aspects of our business, including rules relating to the carrying value of long-lived assets, employee stock option grants and revenue recognition have recently been revised or are under review. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. In addition, our preparation of financial statements in accordance with GAAP requires that we make estimates and assumptions that affect the recorded amounts of assets and liabilities, disclosure of those assets and liabilities at the date of the financial statements and the recorded amounts of expenses during the reporting period. A change in the facts and circumstances surrounding those estimates could result in a change to our estimates and could impact our future operating results. Additionally, certain provisions of the Sarbanes-Oxley Act of 2002 will impact our business. In particular, the creation by the SEC of an independent accounting oversight board to oversee and regulate audits will affect us and all public companies.

ITEM 2. PROPERTIES

Our administrative offices and research laboratories are located at 150 Fairway Drive, Suite 150, Vernon Hills, Illinois 60061. We occupy approximately 9,750 square feet of space under a lease that expires on March 14, 2005. Our annual rent for the Vernon Hills facility was $12,100 per month through March 2003, increasing to $12,800 from April 2003 through March 2005. We are also charged by the landlord a portion of the real estate taxes and common area operating expenses. Our New York offices are located at One North End Avenue, New

York, New York 10282. We pay rent of approximately $8,800 per month, on a month-to-month basis, for approximately 2,500 square feet of space for our New York office. (See Item 13. "Certain Relationships and Related Transactions.") We believe our current facilities are adequate for our needs for the foreseeable future and, in the opinion of our management, the facilities are adequately insured.

We purchased an 80% interest in a Hong Kong entity that holds a commercial real estate parcel located in a "free-trade zone" called the Futian Free Trade Zone, Shenzhen, in the PRC. We intend to operate the Hong Kong entity under the name Immtech Hong Kong Limited and to construct and operate a pharmaceutical manufacturing facility capable of producing commercial quantities of our future pharmaceutical drugs on the commercial real estate parcel.

ITEM 3. LEGAL PROCEEDINGS

We are parties to the following legal proceeding:

Dale M. Geiss v. Immtech International, Inc. and Criticare Systems, Inc.:

On January 14, 2002 plaintiff filed a complaint in the Circuit Court of the Nineteenth Judicial Circuit, Lake County, State of Illinois against the Company and Criticare Systems, Inc. ("Criticare"). Plaintiff's complaint alleged that defendants refused to authorize the Company's transfer agent to remove the restrictive legends from plaintiff's Immtech stock certificates. Plaintiff sought relief in the form of monetary compensation in excess of $364,000, punitive damages, prejudgment interest and costs.

On April 5, 2002, the Company and Criticare each filed a motion to dismiss the plaintiff's January 14, 2002 complaint. On May 9, 2002, plaintiff filed opposition papers to the Company's and Criticare's motions to dismiss. The Company and Criticare each filed a reply memorandum on May 30, 2002.

On June 13, 2002, the Court granted Immtech's motion to dismiss, without prejudice. Plaintiff was given thirty days within which to file and serve an amended complaint, which plaintiff so filed on July 10, 2002, alleging the same claims previously filed.

On September 19, 2002 the Court granted Immtech's motion to dismiss plaintiff's amended complaint, but gave plaintiff another opportunity to file and serve an amended complaint, if he so chose. Plaintiff filed a Second Amended Complaint dated November 1, 2002 against the Company and Criticare alleging the same allegations as before. On December 6, 2002, the Company and Criticare again filed motions to dismiss plaintiff's Second Amended Complaint. On February 6, 2003, the Court denied the motions to dismiss and granted Criticare and Immtech 30 days to answer or otherwise plead to the Second Amended Complaint.

On June 5, 2003, the Company served an Answer and Affirmative Defenses to the plaintiff's Second Amended Complaint. The Company believes the plaintiff's claims are meritless and intends to vigorously defend against this proceeding.

Immtech International, Inc. v. Neurochem Inc.

On April 4, 2003, Immtech notified Neurochem that it discovered that Neurochem had, in breach of the terms of the Confidentiality, Testing and Option Agreement, filed a patent application without Immtech's knowledge or consent that contained information concerning compounds delivered to Neurochem pursuant to the Confidentiality, Testing and Option Agreement. Since April 4, 2003, Immtech has discovered that Neurochem has filed other patents, which may affect Immtech and the Scientific Consortium's intellectual property rights.

On August 12, 2003, Immtech brought suit against Neurochem in the United States District Court for the Southern District of New York seeking to (i) enjoin Neurochem from using proprietary information or property owned by, or licensed to, Immtech and (ii) demand payment for damages incurred by Immtech resulting from Neurochem's fraudulent actions. Specifically, Immtech's claims include (1) misappropriation of trade secrets, (2) breach of contract and (3) fraud.

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

No matters were submitted to a vote of the security holders in the fiscal quarter ended March 31, 2003.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our Common Stock is quoted on the NASDAQ OTC Bulletin Board under the symbol "IMMT" (our Common Stock was quoted on the NASDAQ National Market System under the Symbol "IMMT" from April 26, 1999 to March 8, 2002, and on the NASDAQ SmallCap Market from March 9, 2002 to December 2, 2002). Following are the reported high and low share trade prices as reported by IDD Information Services, NASDAQ Online and Lexis/Nexis for each of the quarters set forth below since the fiscal quarter ended June 30, 2000.

	High	Low
2000		
Quarter ended June 30, 2000	$ 28.500	$ 10.563
Quarter ended September 30, 2000	$ 23.000	$ 11.563
Quarter ended December 31, 2000	$ 17.500	$ 8.625
2001		
Quarter ended March 31, 2001	$ 11.750	$ 5.750
Quarter ended June 30, 2001	$ 11.210	$ 4.050
Quarter ended September 30, 2001	$ 11.500	$ 5.000
Quarter ended December 31, 2001	$ 7.485	$ 4.250

2002		
Quarter ended March 31, 2002	$ 7.400	$ 4.000
Quarter ended June 30, 2002	$ 5.990	$ 2.800
Quarter ended September 30, 2002	$ 5.150	$ 2.390
Quarter ended December 31, 2002	$ 3.800	$ 2.120
2003		
Quarter ended March 31, 2003	$ 4.850	$ 1.580

Shareholders

As of August 30, 2003, there were approximately 189 shareholders of record of our Common Stock and the number of beneficial owners of shares of Common Stock as of such

date was approximately 1,007. As of August 30, 2003, there were approximately 8,808,917 shares of Common Stock issued and outstanding.

Dividends

We have never declared or paid dividends on our Common Stock and we do not intend to pay any Common Stock dividends in the foreseeable future. Our Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Convertible Preferred Stock earn dividends of 6%, 8% and 8% per annum, respectively, each payable semi-annually on each April 15 and October 15 while outstanding, and which, at our option, may be paid in cash or in shares of our Common Stock. On April 15, 2002, October 15, 2002 and April 15, 2003, we paid dividends to the holders of our Series A Convertible Preferred Stock and on October 15, 2002 and April 15, 2003, we paid dividends to the holders of our Series B Convertible Preferred Stock in shares of Common Stock, with fractional shares paid in cash.

Recent Sales of Unregistered Securities

We issued unregistered securities in the following transactions during the fiscal quarter ended March 31, 2003:

- On January 13, 2003, 1,200,000 unregistered shares of Common Stock valued at $2.38 were issued to Mr. Chan Kon Fung for an 80% interest in Lenton Fibre Optics Development Limited, the Hong Kong company operating under the name Immtech Hong Kong Limited. The closing market price of Common Stock on this date was $2.30.
- In connection with the Immtech Hong Kong Limited arrangement mentioned above, on January 13, 2003, we issued 30,000 shares of Common Stock at $2.38 to each of Pacific Dragons Group, Ltd. ("Pacific Dragons") and Champion Traders Investment Limited

("Champion"), respectively, for their assistance with the agreement. We have agreed to use reasonable efforts to register the resale by Pacific Dragons and Champion of the Common Stock and to keep the registration effective for the lesser of two years or until all of such shares of Common Stock are sold. The closing market price of Common Stock on this date was $2.30.

- On March 21, 2003, we entered into an agreement with Wyndham Associates Limited ("Wyndham") for assistance to be provided to identify potential strategic partners and to assist us to raise up to $20 million in equity financing. For its services, Wyndham was granted (i) 100,000 shares of our Common Stock valued at $4.475, (ii) a cash fee of equal to 4% of funds raised prior to June 30, 2003 through sales of our Series C Convertible Preferred Stock, (iii) 40,000 shares of Common Stock valued at $4.475 for each full $1 million invested prior to June 30, 2003 through sales of our Series C Convertible Preferred Stock to investors introduced to us by Wyndham and (iv) a cash fee equal to 8% of any equity investment, other than Series C Convertible Preferred Stock (on terms acceptable to us in our sole discretion), after June 30, 2003 by investors introduced to us by Wyndham if such investors invest at least $10 million in

equity. We have agreed to use our best efforts to register on Form S-3 all shares of Common Stock issued or issuable to Wyndham under the agreement. The closing market price of Common Stock on this date was $4.60.

- On March 21, 2003, we entered into media production agreements with "winmaxmedia," an operating division of Winmax Trading Group, Inc. ("Winmax"), to produce digital and video media materials to be used in connection with our fundraising efforts. In connection with the services rendered we (i) issued 100,000 shares of our Common Stock valued at $4.475 to Gladden Consultants, Ltd., one of the vendors providing services under the media production agreement and (ii) accrued expenses of approximately $80,000 in the aggregate to various entities providing location production services for reimbursement of expenses. The closing market price of Common Stock on this date was $4.60.

- On March 21, 2003, we entered into an investors relation agreement with Fulcrum Holdings of Australia, Inc. ("Fulcrum") to assist the Company to list its securities on a broadly recognized stock exchange or the NASDAQ. In connection with the services rendered we granted Fulcrum (i) 100,000 shares of our Common Stock, and (ii) Warrants to purchase 100,000 shares of our Common Stock at $6.00, 125,000 at $10.00 and 125,000 at $15.00, respectively. All shares and warrants vest in twelve equal monthly installments. The warrants are exercisable for two years from the date of grant. The closing market price of Common Stock on this date was $4.60.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of March 31, 2003, regarding compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Plan category (in thousands)	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights(1) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders(2)	698,474	$4.49	630,750
Equity compensation plans not approved by security holders(3)	2,426,227	$7.07	0
Total	3,124,701	$6.49	630,750

(1) As adjusted for reverse stock splits that occurred on each of July 24, 1998 and January 25, 1999.

(2) This category consists solely of options.

(3) This category consists solely of warrants.

Series C Convertible Preferred Stock Private Placements

On June 6, 2003, we filed a Series C Convertible Preferred Stock Certificate of Designation ("Series C Certificate of Designation") with the Secretary of State of the State of Delaware, designating 160,000 shares of our 5,000,000 authorized shares of preferred stock as Series C Convertible Preferred Stock, $0.01 par value, with a stated value of $25.00 per share ("Series C Preferred Stock"). Dividends on the Series C Preferred Stock accrue at a rate of 8% on the $25.00 stated value per share and are payable semi-annually on April 15 and October 15 of each year while the shares are outstanding. We have the option to pay the dividend either in cash or in equivalent shares of Common Stock. If Common Stock is to be used to pay the dividend, such Common Stock is to be valued at the 10-day volume weighted average price immediately prior to the date of payment.

Each share of Series C Preferred Stock is convertible by the holder at any time into shares of our Common Stock at a conversion rate determined by dividing the $25.00 stated value, plus any accrued and unpaid dividends (the "Liquidation Price"), by a $4.42 conversion price (the "Conversion Price"), subject to antidilution adjustment. We may at any time after the first anniversary of the date of issuance require that any or all outstanding shares of Series C

Preferred Stock be converted into shares of our Common Stock, provided that the shares of Common Stock into which the Series C Preferred Stock is convertible is registered pursuant to an effective registration statement. The number of shares of Common Stock will be determined by (i) dividing the Liquidation Price by the Conversion Price, provided that the closing bid price for our Common Stock exceeds $9.00 for 20 consecutive tracking days within 180 days prior to notice of conversion, or (ii) if the requirements of (i) above are not met, the number of shares of Common Stock is determined by dividing 110% of the Liquidation Price by the Conversion Price. The Conversion Price is subject to antidilution adjustments, as set forth in the Series C Certificate of Designation.

We may, upon 30 days' notice, redeem any or all outstanding shares of the Series C Preferred Stock by payment of the Liquidation Price to the holder of such shares, provided that the holder does not convert the Series C Preferred Stock into shares of Common Stock during the 30-day period. The Series C Preferred Stock has a preference in liquidation equal to $25.00 per share, plus any accrued and unpaid dividends. Each issued and outstanding share of Series A Preferred Stock is entitled to 5.6561 votes with respect to any and all matters presented to our stockholders for their action or consideration. Except as provided by law or by the provisions establishing any other series of preferred stock, holders of our Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Preferred Stock vote together with the holders of our Common Stock as a single class.

From June 6, 2003 through June 9, 2003, we issued an aggregate of 125,352 shares of our Series C Preferred Stock in private placements to certain accredited and non-U.S. investors in reliance on Regulation D and Regulation S, respectively, under the Securities Act of 1933, as amended (the "Securities Act"). The gross proceeds of the offering were $3,133,800 as of June 18, 2003. The securities were sold pursuant to exemptions from registration under the Securities Act and we intend to register the shares under the Securities Act.

Subject to adjustment for dilution, each share of Series C Preferred Stock is convertible into 5.6561 shares of Common Stock.

ITEM 6 SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data that was derived from our financial statements:

	(in thousands except for per			
	Years Ended March 3			
	2003	2002	2001	
Statement of Operations:				
REVENUES	$ 1,609	$ 3,522	$ 1,355	$

EXPENSES:				
Research and development	2,570	3,958(6)	6,695	
General and administrative	3,732(8)	2,928	4,719(5)	
Equity in loss of joint venture				
Total expenses	6,302	6,886	11,414	
LOSS FROM OPERATIONS	(4,693)	(3,364)	(10,059)	
OTHER INCOME(EXPENSE):				
Interest income	14	41	199	
Interest expense				
Loss on sales of investment securities - net			(3)	
Cancelled offering costs				
Gain on extinguishment of debt				
Other income (expense) - net	14	41	196	
NET LOSS	(4,679)	(3,323)	(9,863)	
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(452)	(938)(7)		
REDEEMABLE PREFERRED STOCK CONVERSION, PREMIUM AMORTIZATION AND DIVIDENDS				
NET (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (5,131)	$ (4,261)	$ (9,863)	$

(in thousands except for per

	Years Ended March 3			
	2003	2002	2001	
BASIC AND DILUTED NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:				
Net loss	(0.71)	(0.55)	(1.78)	
Convertible preferred stock dividends	(0.07)	(0.16)		
Redeemable preferred stock conversion, premium amortization and dividends				
BASIC AND DILUTED NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (0.78)	$ (0.71)	$ (1.78)	$
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED LOSS PER SHARE	6,565,495	6,011,416	5,545,190	5

(in thousands except for per

	Years Ended March 3			
	2003	2002	2001	
Balance Sheet Data:				
Cash and cash equivalents	112	2,038	2,098	
Restricted funds on deposit	2,740	602	3,813	
Investment securities available for sale				
Working capital (deficiency)	(115)	1,567	663	
Total assets	6,610	2,876	6,168	
Convertible preferred stock	5,138	4,032		
Deficit accumulated during development stage	(42,167)	(37,036)	(32,775)	
Stockholders' equity (deficiency)	3,192	1,736	859	

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(1) Includes $2,220 of costs related to the issuance of warrants to purchase 750,000 shares of Common Stock to RADE Management Corporation as compensation for management consulting, market analysis and strategic advisory services.

(2) See Note 10 to Notes to Financial Statements for discussion on the extraordinary gain on extinguishment of debt.

(3) Includes $3,713 of benefit related to the difference between the carrying value of the redeemable preferred stock and the estimated fair value of shares of Common Stock exchanged which was credited to deficit accumulated during the development stage upon conversion (see Note 10 to Notes to Financial Statements).

(4) Includes $6,113 of research and development costs related to the acquisition of rights to technology and dications which were acquired through the issuance of 611,250 shares of Common Stock (see Note 8 to Notes to Financial Statements).

(5) Includes $1,288 of costs related to the issuance of warrants to purchase 300,000 shares of Common Stock as compensation for financial consulting services (see Note 7 to Notes to Financial Statements).

(6) Includes $1,159 credit to (reduction in) research and development costs for the settlement of certain disputed costs previously expensed during the year ended March 31, 2000 (see Note 8 to Notes to Financial Statements).

(7) See Note 7 to Notes to Financial Statements for a discussion on the convertible preferred stock dividends.

(8) Includes $758 of costs related to the issuance of 150,000 shares of Common Stock to Cheung Ming Tak to act as the Company's non-exclusive agent to develop and qualify potential strategic partners for the purpose of testing and/or the commercialization of Company products in the PRC; and $188 of costs related to the issuance of 40,000 shares of Common Stock to

The Gabriele Group, L.L.C., for assistance with respect to management consulting, strategic planning, public relations and promotions.

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

Overview

We are a pharmaceutical company focused on the development and commercialization of oral drugs to treat infectious diseases. We have development programs that include fungal infections, Malaria, Tuberculosis, Hepatitis C, Pneumocystis carinii pneumonia and tropical medicine diseases, including African sleeping sickness (Trypanosomiasis) and Leishmaniasis. We hold worldwide patents, patent applications, licenses and rights to license worldwide patents, patent applications and technologies from a scientific consortium and exclusive rights to commercialize products from patents and licenses that are integral to our business.

Since our formation in October 1984, we have engaged in research and development programs, expanding our network of scientists and scientific advisors, licensing technology agreements and advancing the commercialization of the dication technology platform. We use the expertise and resources of strategic partners and third parties in a number of areas, including (i) laboratory research, (ii) pre-clinical and human clinical trials and (iii) manufacture of pharmaceutical drugs. We have licensing and exclusive commercialization rights to a dicationic anti-infective pharmaceutical platform and are developing drugs intended for commercial use based on that platform. Dication pharmaceutical drugs work by blocking life-sustaining enzymes from binding to the key sites in the "minor groove" of an organism's DNA, thereby killing the infectious organisms that cause fungal, parasitic, bacterial and viral diseases. The key site on an organism's DNA is an area where enzymes interact with the infectious organism's DNA as part of their normal life cycle. Structurally, dications are chemical molecules that have two positively charged ends held together by a chemical linker. The composition of the dications, with positive charges on both ends (shaped like molecular barbells) allows dications to bind (similar to a band-aid) to the negatively charged key sites of an infectious microorganism's DNA. The bound dications block the life-sustaining enzymes from attaching to the DNA's key sites, thereby killing the infectious organism. We do not have any commercially available products nor do we expect to have any commercially available products until after March 31, 2004, if at all.

With the exception of certain research funding agreements and certain grants, we have not generated any revenue from operations. For the period from inception (October 15, 1984) to March 31, 2003, we incurred cumulative net losses of approximately $43,147,000. We have incurred additional losses since such date and we expect to incur additional operating losses for the foreseeable future. We expect that our cash sources for at least the next year will be limited to:

- research grants, such as Small Business Technology Transfer Program ("STTR") grants and Small Business Innovation Research ("SBIR") grants;

- payments from The University of North Carolina at Chapel Hill, charitable foundations and other research collaborators under arrangements that may be entered into in the future; and

o borrowing funds or the issuance of securities.

The timing and amounts of grant and payment revenues, if any, will likely fluctuate sharply and depend upon the achievement of specified milestones, and results of operations for any period may be unrelated to the results of operations for any other period.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 to the Notes to the Financial Statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to the fair value of our preferred and Common Stock and related options and warrants, the recognition of revenues and costs related to our research contracts, and the useful lives or impairment of our property and equipment. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis of judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Grants to perform research are the Company's primary source of revenue and are generally granted to support research and development activities for specific projects or drug candidates. Revenue related to grants to perform research and development is recognized as earned based on the performance requirements of the specific grant. Upfront cash payments from research and development grants are reported as deferred revenue until such time as the research and development activities covered by the grant are performed.

Research and Development Expenses

All research and development costs are expensed as incurred. Research and development expenses include, but are not limited to, payroll and personnel expense, lab supplies, preclinical studies, raw materials to manufacture clinical trial drugs, manufacturing costs, sponsored research at other labs, consulting, and research-related overhead. Accrued liabilities for raw materials to manufacture clinical trial drugs, manufacturing costs, and sponsored research reimbursement fees are included in accrued liabilities and included in research and development expenses. Specific information pertaining to each of our major research and development projects follows. This information includes to the extent ascertainable project status, costs incurred for the relevant fiscal years (including costs to date), nature, timing and estimated costs of project completion, anticipated completion dates, and the period in which material net cash inflows from projects is expected to commence, if at all.

All of our research and development projects contain high levels of risk. Even if development is completed on schedule, there is no guarantee that any of our products will be licensed for sale. Human trials conducted in foreign

and developing countries have additional risks, including governmental and local militia uprisings that may interrupt or displace our work. The Company is unable to quantify the impact to the Company's operations, financial position or liquidity if it is unable to complete on schedule, or at all, any of its product commercialization programs.

Trypanosomiasis

An African sleeping sickness ("Trypanosomiasis") human Phase II/III clinical trial using DB289 to treat patients is underway at two sites in The Democratic Republic of Congo. The trial is conducted on 350 patients, each with stage one of the disease, who are randomly assigned to receive either DB289 or pentamidine (the standard treatment for Trypanosomiasis). Approximately 175 patients, or 50%, are receiving DB289, and the other 175 patients, comprising the other 50%, are receiving pentamidine.

To date, approximately 50-70 patients have enrolled at one site and we expect to expand the trial to three additional sites once 100 patients are enrolled. The Company anticipates completion of enrollment in the first half of calendar year 2004. The Company then plans to make a request of the regulatory agencies for a limited registration of DB289 for distribution of the drug to treat Trypanosomiasis in endemic areas of sub-Sahara Africa where clinical trials are not being conducted.

If the drug DB289 continues to have efficacy without safety issues, clinical trials (including any after market trials) are expected to conclude in the first six months of calendar year 2005. The remaining trial costs, which are expected to be underwritten by the Bill and Melinda Gates Foundation, are expected to be approximately $5-7 million. If trials continue at the current pace, the Company anticipates receipt of a purchase order for commercial quantities of the DB289 in the first half of calendar year 2004 with delivery expected six to nine months after the initial purchase order is received. The Company expects that the initial purchase order may be valued at between $5-15 million.

Research and development costs expensed by the Company for the Trypanosomiasis project for the fiscal years ended March 31, 2001, March 31, 2002, and March 31, 2003 have been approximately $747,000, $2,530,000, and $1,228,000, respectively. Since inception of the Company through August 2003, approximately $5,410,000 has been expensed on DB289 for treatment of Trypanosomiasis.

Malaria

The Company is conducting in Thailand a pilot Phase IIa clinical study in 32 patients with acute and uncomplicated Malaria. The Company expects to conclude the trial in December 2003. Depending on the final safety and efficacy data from the trial, the Company plans to conduct a Phase IIb trial in a larger population of patients in the same geographic area. Based upon the results of the Phase IIa study, the Phase IIb trial could include changes in dosage level, timing, and potential combined testing with other malaria drugs. Malaria patients are

readily available at the clinical site in Thailand and in other endemic areas of the world, therefor the Company does not anticipate any difficulties in achieving the requisite level of patient enrollment. The Company expects to

begin the Phase IIb study in the first quarter of calendar year 2004 and to conclude by the end of calendar year 2004 (based on receiving regulatory approval in order to begin the studies and on continued availability of patients).

The Company estimates that it will take approximately two years to conduct clinical trials of DB289 for treatment of Malaria through Phase III, at a cost of approximately $15-17 million. The Company is in final negotiations with a foundation that proposes to fund both clinical and human trials. The results from the clinical trials, particularly the drug's ability on its own or in combination with other drugs to solve the problem with multi-drug resistant Malaria, will determine whether the drug is eligible to receive rapid regulatory approval, which would make the drug eligible for commercial sale as early as calendar year 2006.

Research and development costs expensed by the Company for the Malaria project for the fiscal years ended March 31, 2001, March 31, 2002, and March 31, 2003 have been approximately $0, $0, and $45,000, respectively. Since inception of the Company through August 2003, approximately $67,000 has been expensed.

Pneumocystis carinii pneumonia ("PCP")

The pilot Phase IIa study conducted in Peru on AIDS patients with chronic PCP demonstrated that the drug was safe and efficacious in the eight patients tested who had previously failed standard treatment. All of the patients experienced improved lung function and several of the patients were able to clear the fungi resident in their lungs. A second trial in 30 patients at a higher dose commenced in May 2003. Enrollment has been slow since patients must fail an existing therapy in order to qualify for this Phase IIa trial. The Company estimates that at the current pace enrollment will be completed in the first half of calendar year 2004. Depending on results of the Phase IIa trial, a new trial in a larger number of patients (approximately 30-50) intended to test DB289 as a first line therapy is planned to be commenced in early 2005.

The Company believes that the small number of patients in the trial, given the need for a new oral drug in AIDS patients who cannot tolerate the current treatment, will be sufficient to apply for registration of the drug for sale. The cost of the trial is estimated to be approximately $750,000 and is estimated to take approximately 18 months to conclude. Initial drug sales for treatment of PCP, if test results continue to show efficacy without adverse safety concerns, could begin in calendar year 2006.

Research and development costs expensed by the Company for the PCP project for the fiscal years ended March 31, 2001, March 31, 2002, and March 31, 2003 have been approximately $0, $30,000, and $194,000, respectively. Since inception of the Company through August 2003, approximately $256,000 has been expensed on the PCP project.

Anti-fungal Program & Tuberculosis ("TB")

The Company is conducting research with the Scientific Consortium to develop lead compounds which it intends to advance into human trials for treatment of fungal diseases

and TB. The Company has advanced lead compounds into animal models in both

diseases and expects to select in calendar year 2004 both an anti-fungal and TB compound that can be taken into regulatory pre-clinical trials, which are required prior to conducting human studies. The pre-clinical studies are expected to take approximately six to nine months to complete. Human phase I safety trials would begin shortly after the conclusion of the pre-clinical studies and regulatory approval that is required to start these trials. The Company estimates that it could take three years to complete the pre-clinical studies and human trials. Each of those studies is estimated to cost between $25-40 million dollars (including manufacturing and formulation of their respective drugs). The Company is unable to calculate when initial drug sales for the anti-fungal and TB treatments may commence because of the early stage of trials.

Research and development costs expensed by the Company for the anti-fungal project for the fiscal years ended March 31, 2001, March 31, 2002, and March 31, 2003 have been approximately $214,000, $0, and $1,000, respectively. Since inception of the Company through August 2003, approximately $350,000 has been expensed.

Research and development costs expensed by the Company for the TB project for the fiscal years ended March 31, 2001, March 31, 2002, and March 31, 2003 have been approximately $15,000, $50,000, and $10,000 respectively. Since inception of the Company through August 2003, approximately $80,000 has been expensed.

Hepatitis C and Leishmania

Our Hepatitis C and Leishmaniasis programs are in the discovery and early development stages of research. These programs have greater risk because lead compounds have yet to be identified. The Company estimates that it will take at least 12-18 months to identify lead candidates, if at all. The cost estimates for pre-clinical and human trials for each drug are similar to the anti-fungal and TB drugs, which are estimated at between $25-40 million for each trial phase. The Company is unable to calculate when initial drug sales for the Hepatitis C and Leishmaniasis treatments may commence because of the early stage of research.

Research and development costs expensed by the Company for the Hepatitis C project for the fiscal years ended March 31, 2001, March 31, 2002, and March 31, 2003 have been approximately $0, $47,000, and $13,000, respectively. Since inception of the Company through August 2003, approximately $60,000 has been expensed.

No research or development costs have been incurred or expensed by the Company for the Leishmania program to date.

Stock Based Compensation

We use the intrinsic-value method of accounting for stock based awards granted to employees in accordance with Accounting Principles Board Opinion No. 25 and its related interpretations. We record stock based compensation expense for non-employees at the fair value of the options granted in accordance with Statement of Financial Accounting Standards No. 123 ("SFAS 123") and Emerging Issues Task Force No. 96-18 ("EITF 96-18"). The fair value of options granted to non-employees is estimated using a Black-Scholes option valuation model. The model considers a number of factors, including the market price and volatility of our

common stock at the date of measurement. We periodically re-measure the compensation expense for options granted to non-employees as the underlying options vest. The compensation expense related to all grants is being amortized using the graded vesting method, in accordance with SFAS 123, EITF 96-18 and FASB Interpretation No. 28, over the vesting period of each respective stock option.

We believe that the accounting policies affecting these estimates are our critical accounting policies.

Liquidity and Capital Resources

From inception through March 31, 2003, we have financed our operations with:

- proceeds from various private placements of debt and equity securities, an initial public offering and other cash contributed from stockholders, which in the aggregate raised approximately $28,755,000,

- payments from research agreements, foundation grants and SBIR grants and STTR program grants of approximately $8,843,000, and

- the use of stock, options and warrants in lieu of cash compensation.

From June 6, 2003 through June 9, 2003, we issued an aggregate of 125,352 shares of our Series C Preferred Stock in private placements to certain accredited and non-U.S. investors in reliance on Regulation D and Regulation S, respectively, under the Securities Act. The securities were sold pursuant to exemptions from registration under the Securities Act and we intend to register the shares under the Securities Act. The gross proceeds of the offering were $3,133,800.

On September 25, 2002 and October 28, 2002, we issued an aggregate of 76,725 shares of our Series B Convertible Preferred Stock and 191,812 related warrants in private placements to certain accredited and non-U.S. investors in reliance on Regulation D and Regulation S, respectively, under the Securities Act. The warrants have an exercise period of five years from the date of issuance and an exercise price of 6.125 per share. The securities were sold pursuant to exemptions from registration under the Securities Act and were subsequently registered on Form S-3 (Registration Statement No. 333-101197). The gross proceeds of the offering were $1,918,125 and the net proceeds were approximately $1,859,000.

On February 14, 2002 and February 22, 2002, we issued an aggregate of 160,100 shares of our Series A Convertible Preferred Stock and 400,250 related warrants in private placements to certain accredited and non-U.S. investors in reliance on Regulation D and Regulation S, respectively, under the Securities Act. In connection with this offering, we issued in the aggregate 60,000 shares of Common Stock and 760,000 warrants to purchase shares of Common Stock to consultants assisting in the private placements. The warrants have an exercise period of five years from the date of issuance and exercise prices of (i) $6.00 per share for 500,000 warrants, (ii) $9.00 per share for 130,000 warrants and (iii) $12.00 per share for 130,000 warrants. The $9.00 and $12.00 warrants will not vest, and therefore will not be exercisable,

unless our Common Stock meets or exceeds the respective exercise price for 20 consecutive trading days prior to January 31, 2003. The offerings raised approximately $3,849,000 of additional net equity.

On December 8, 2000, we completed a private placement offering that raised net proceeds of approximately $4,306,000 of additional net equity capital through the issuance of 584,250 shares of Common Stock.

On April 26, 1999, we issued 1,150,000 shares of Common Stock through an initial public stock offering ("IPO"), resulting in net proceeds of approximately $9,173,000. The underwriters received warrants to purchase 100,000 additional shares of Common Stock at $16.00 per share. Those warrants expired on April 30, 2003. We used $110,000 of the net proceeds of the IPO to repay amounts due to the State of Illinois and Northwestern University. Substantially all of the remaining net proceeds of the IPO were used to fund our research and development efforts, including clinical and pre-clinical studies. Any net proceeds not applied to our research and development efforts were used for working capital and general corporate purposes, including hiring additional employees.

Our cash resources have been used to finance research and development, including sponsored research, capital expenditures, expenses associated with the efforts of the Scientific Consortium and general and administrative expenses. Over the next several years, we expect to incur substantial additional research and development costs, including costs related to early-stage research in pre-clinical and clinical trials, increased administrative expenses to support research and development operations and increased capital expenditures for expanded research capacity, various equipment needs and facility improvements or relocation.

As of March 31, 2003, we had federal net operating loss carryforwards of approximately $33,639,000, which expire from 2006 through 2023. We also had approximately $30,967,000 of stated net operating loss carryforwards as of March 31, 2003, which expire from 2009 through 2023, available to offset certain future taxable income for state (primarily Illinois) income tax purposes. Because of "change of ownership" provisions of the Tax Reform Act of 1986, approximately $920,000 of our net operating loss carryforwards for federal purposes are subject to an annual limitation regarding utilization against taxable income in future periods. As of March 31, 2003, we had federal income tax credit carryforwards of approximately $701,000, which expire from 2008 through 2023.

We believe our existing resources, but not including proceeds from any grants we may receive, are sufficient to meet our planned expenditures through June 2004, although there can be no assurance that we will not require additional funds. In addition, we have received approximately $1 million so far and anticipate the receipt of approximately an additional $728,000 payment (restricted funds) under the Clinical Research Subcontract with the University of North Carolina at Chapel Hill ("UNC") (funded by The Gates Foundation) in calendar year 2003. Our working capital requirements will depend upon numerous factors, including the progress of our research and development programs (which may vary as product candidates are added or abandoned), pre-clinical testing and clinical trials, achievement of regulatory milestones, our corporate partners fulfilling their obligations to us, the timing and cost of seeking regulatory approvals, the level of resources that we devote to the development of manufacturing,

our ability to maintain existing, and establish new, collaborative arrangements with other companies to provide funding to us to support these activities and other factors. In any event, we will require substantial funds in addition to our existing working capital to develop our product candidates and otherwise to meet our business objectives.

The Company has, through its purchase of an interest in Lenton, obtained real property on which it intends to construct a pharmaceutical manufacturing facility. The Company's partner in Lenton has extensive experience in real estate and construction in the PRC and is spearheading the effort to construct a building in which to install the pharmaceutical production line. The Company is considering constructing a multi-tenant facility with partners to defray the cost of construction and therefore does not currently have cost estimates available for the building. With respect to the purchase and installation of the pharmaceutical production line, the Company has received estimates of $8 to $12 million from several consultants for the initial equipment and installation based on requirements for capacity and quality supplied by the Company. The Company is seeking partners both in China and domestically to fund part or all of the capital cost of construction of the building and the pharmaceutical production line.

Results of Operations

Year Ended March 31, 2003 Compared with Year Ended March 31, 2002

Revenues under collaborative research and development agreements were approximately $1,609,000 and $3,522,000 in the years ended March 31, 2003 and 2002, respectively. In 2003, we recognized revenues of approximately $1,389,000 relating to a clinical research subcontract agreement with UNC funded by a grant that UNC received from The Gates Foundation, compared to approximately $2,946,000 in 2002. Revenue in 2003 from the Confidentiality, Testing and Option Agreement with Neurochem was $150,000. We also recognized approximately $70,000 from SBIR grants in 2003, while in 2002 there were grant revenues of approximately $576,000 through STTR and SBIR programs from the NIH.

Research and development expenses decreased from approximately $3,958,000 in 2002 to approximately $2,570,000 in 2003. The decrease in research and development costs of approximately $1,388,000 is primarily attributable to the decrease in the revenues relating to the clinical research subcontract agreement between the Company and UNC and the decrease in the grant revenues from SBIR grants from the NIH.

General and administrative expenses were approximately $3,732,000 in 2003, compared to approximately $2,928,000 in 2002. In the year ended 2003, there were general and administrative compensation expenses of approximately $758,000 related to the issuance of 150,000 shares of Common Stock to Cheung Ming Tak to act as the Company's non-exclusive agent to develop and qualify potential strategic partners for the purpose of testing and/or commercializing Company products in the PRC.

We incurred a net loss of approximately $4,679,000 for the year ended March 31, 2003, as compared to a net loss of approximately $3,323,000 for the year ended March 31, 2002.

In 2002 and 2003, respectively, we also charged deficit accumulated

during the development stage of approximately $938,000 and $452,000 in convertible preferred stock dividends.

Year Ended March 31, 2002 Compared with Year Ended March 31, 2001

Revenues under collaborative research and development agreements were approximately $3,522,000 and $1,355,000 in the years ended March 31, 2002 and 2001, respectively. In 2002, we recognized revenues of approximately $2,946,000 relating to a clinical research subcontract agreement with UNC funded by a grant that UNC received from The Gates Foundation, compared to approximately $791,000 in 2001. We also recognized approximately $576,000 from SBIR grants in 2002, while in 2001 there were grant revenues of approximately $564,000 through STTR and SBIR programs from the NIH.

Research and development expenses decreased from approximately $6,695,000 in 2001 to $3,958,000 in 2002. The decrease is primarily attributable to an April 20, 2001, settlement agreement with Pharm-Eco Laboratories, Inc. ("Pharm-Eco"), whereby we received from Pharm-Eco a cash payment of $1,000,000 and certain accounts payable obligations to Pharm-Eco of approximately $159,000 were forgiven. The cash payment received and the accounts payable obligation forgiven were recorded as a credit to (reduction of) research and development expenses because we had previously expensed to research and development the estimated fair value of the shares of our Common Stock received by Pharm-Eco at the time of our initial public offering on April 26, 1999, and the accounts payable obligations. We had significant expenses relating to pre-clinical studies required for regulatory filings in the year ended March 31, 2001, which were not incurred in 2002.

General and administrative expenses were approximately $2,928,000 in 2002, compared to approximately $4,719,000 in 2001. In the year ended March 31, 2001, there were general and administrative compensation expenses of approximately $1,308,000 related to services by Stonegate Securities, Inc. and The Kriegsman Group for warrants issued for advisory services for which there was no comparable charge in 2002. The remaining reduction in general and administrative expenses was a decrease in legal fees of approximately $419,000.

We incurred a net loss of approximately $3,323,000 for the year ended March 31, 2003, as compared to a net loss of approximately $9,863,000 for the year ended March 31, 2002.

In 2002, we also charged deficit accumulated during the development stage of approximately $938,000 in convertible preferred stock dividends.

Impact of Inflation

Although it is difficult to predict the impact of inflation on our costs and revenues in connection with our operations, we do not anticipate that inflation will materially impact our costs of operation or the profitability of our products when and if marketed.

Unaudited Selected Quarterly Information

The following table sets forth certain unaudited selected quarterly information:

	Fiscal Quarters Ended (in thousands except for per share data)			
	2003			
	March 31, 2003	December 31, 2002	September 30, 2002	June 200
Statements of Operations Data:				
REVENUES	$585	$234	$360	$
EXPENSES:				
Research and development	706	402	711	
General and administrative	673	724	883(4)	1,
Total expenses	1,379	1,126	1,594	2,
LOSS FROM OPERATIONS	(794)	(892)	(1,234)	(1,
OTHER INCOME(EXPENSE):				
Interest income	1	3	2	
LOSS BEFORE EXTRAORDINARY ITEM	(793)	(889)	(1,232)	(1,
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(89)	(96)	(207)	
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(882)	$(985)	$(1,439)	$(1,
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:				

	Fiscal Quarters Ended (in thousands except for per share data)			
	2002			
	March 31, 2002	December 31, 2001	September 30, 2001	June 200
Statements of Operations Data:				
REVENUES	$607	$955	$837	$1,
EXPENSES:				
Research and development	970	1,206	1,237	
General and administrative	558	689	712	

Total expenses	1,528	1,895	1,949	1,
LOSS FROM OPERATIONS	(921)	(940)	(1,112)	(
OTHER INCOME(EXPENSE):				
Interest income	2	2	11	
NET LOSS	(919)	(938)	(1,101)	(
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(938)(2)			
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(1,857)	$(938)	$(1,101)	$(

	Fiscal Quarters Ended (in thousands except for per share data)			
	2003			
	March 31, 2003	December 31, 2002	September 30, 2002	June 200
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:				
Net loss	$(0.11)	$(0.14)	$(0.20)	$(0
Convertible preferred stock dividends	(0.01)	(0.02)	(0.03)	(0
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(0.12)	$(0.16)	$(0.23)	$(0

	Fiscal Quarters Ended (in thousands except for per share data)			
	2002			
	March 31, 2002	December 31, 2001	September 30, 2001	June 200
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:				
Net loss	$(0.15)	$(0.16)	$(0.18)	$(0
Convertible preferred stock dividends	(0.16)			
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(0.31)	$(0.16)	$(0.18)	$(0

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(1) Includes $1,159 credit to (reduction in) research and development costs for the settlement of certain disputed costs previously expensed during the year ended March 31, 2001 (see Note 8 to Notes to Financial Statements).

(2) See Note 7 to Notes to Financial Statements for a discussion on the convertible preferred stock dividends.

(3) Includes $758 of costs related to the issuance of 150,000 shares of common stock to Cheung Ming Tak to act as the Company's non-exclusive agent to develop and qualify potential strategic partners for the purpose of testing and/or the commercialization of Company products in the PRC.

(4) Includes $188 of costs related to the issuance of 40,000 shares of common stock to The Gabriele Group, L.L.C. for assistance with respect to management consulting, strategic planning, public relations and promotions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The exposure of market risk associated with risk-sensitive instruments is not material, as our operations are conducted primarily in U.S. dollars and we invest primarily in short-term government obligations and other cash equivalents.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements appear following Item 16 of this report and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information Regarding Directors and Executive Officers

The table below sets forth the names and ages of the directors and executive officers of the Company as of June 20, 2003, as well as the positions and offices held by such persons. A summary of the background and experience of each of these individuals is set forth after the table.

Name	Age	Position(s)

T. Stephen Thompson	56	Director, President and Chief Executive Officer
Cecilia Chan	40	Director and Executive Vice President
Gary C. Parks	53	Treasurer, Secretary and Chief Financial Officer
Harvey R. Colten, MD	64	Director
Eric L. Sorkin	43	Director
Frederick W. Wackerle	64	Director

T. Stephen Thompson, President, Chief Executive Officer and Director. Mr. Thompson has served as a Director since November 27, 1991. He joined Immtech in April 1991 from Amersham Corporation, where he was President and Chief Executive Officer. He was responsible for Amersham Corporation's four North American divisions: Life Sciences, Radiopharmaceuticals, Diagnostics and Quality and Safety Products. In addition, he had direct responsibility for the Clinical Reagent (in vitro diagnostic) Division in the United Kingdom. He was employed by Amersham Corporation from 1986 to 1991. Mr. Thompson has 20 years' experience in healthcare, with previous positions as President of a small diagnostic start-up, General Manager of the Infectious Disease and Immunology Business Unit in the Diagnostic Division of Abbott Laboratories from 1981 to 1986, and Group Marketing Manager for the Hyland Division of Baxter International Inc. from 1978 to 1981. Mr. Thompson is a member of the Board of Directors of Matritech, Inc. (NASDAQ: NMPS). Mr. Thompson holds a B.S. from the University of Cincinnati and an MBA from Harvard University.

Cecilia Chan, Executive Vice President and Director. Ms. Chan has served as Director since November 16, 2001. She has 18 years of experience in making investments and business development. She began working on Immtech's growth strategy in 1998 as a private investor, spearheading Immtech's initial public offering in April 1999. She joined the Company as Vice President in July, 1999 and was elected to our board of directors in November 2001. Ms. Chan is responsible for strategic development, creating joint ventures and licensing agreements, fund raising and directing the Company's uses of capital resources as it advances through its milestones and various growth stages. Prior to joining Immtech, Ms. Chan was a Vice President at Dean Witter Realty, Inc. until 1993 and thereafter concentrated her efforts as a private investor until she joined Immtech. During her eight years at Dean Witter, Ms. Chan completed over $500 million in investments and was vice-president of public partnerships having

assets in excess of $800 million. Since 1993, Ms. Chan has developed and funded investments in the United States and the People's Republic of China. She graduated from New York University in 1985 with a Bachelor of Science degree in International Business.

Gary C. Parks, Treasurer, Secretary and Chief Financial Officer. Mr. Parks joined Immtech in January 1994, having previously served at Smallbone, Inc., from 1989 until 1993, where he was Vice President, Finance. Mr. Parks was a Division Controller with International Paper from 1986 to 1989. Prior to that,

he was Vice President, Finance, of SerckBaker, Inc., a subsidiary of BTR plc, from 1982 to 1986 and a board member of SerckBaker de Venezuela. Mr. Parks holds a B.A. from Principia College and an MBA from the University of Michigan.

Harvey Colten, MD, Director. Dr. Colten has served as Director since October 30, 2000. He is currently Vice President and Senior Associate Dean for Translational Research at Columbia University Health Sciences Division and College of Physicians and Surgeons. Prior to this, he served as Chief Medical Officer at iMetrikus, Inc., a healthcare Internet company focused on improving the communication between the patient, physician and the medical industry from 2000 until 2002, and prior to that he was the Dean of the Medical School and Vice President for Medical Affairs at Northwestern University from 1997 to 2000. He previously served as the Harriet B. Spoehrer Professor and Chair of the Department of Pediatrics and Professor of Molecular Microbiology at Washington University School of Medicine, St. Louis, Missouri, whose faculty he joined in 1986. He earned a B.A. at Cornell University in 1959, an MD from Western Reserve University in 1963, and an M.A. (honorary) from Harvard in 1978. Following his clinical training, he was a researcher at the National Institutes of Health from 1965 to 1970. In 1970, he was appointed to the faculty at the Harvard Medical School, where he was named Professor of Pediatrics in 1979 and Chief of the Division of Cell Biology, Pulmonary Medicine, and Director of the Cystic Fibrosis Program at Children's Hospital Medical Center, Boston. He is a member of the Institute of Medicine and was Vice-Chair of its Council. He is a member of the American Society for Clinical Investigation, the Society for Pediatric Research, the Association of American Physicians, the American Pediatric Society, the American Association of Immunologists (former secretary and treasurer), and the American Society for Biochemistry and Molecular Biology. He is also a Fellow of the American Association for the Advancement of Science, the American Academy of Allergy and Immunology and the American Academy of Pediatrics. Dr. Colten is a Diplomat of the American Board of Pediatrics, served on the American Board of Allergy and Immunology, was a member of the National Heart, Lung, and Blood Institute Advisory Council, and serves on the Board of Directors of the Oasis Institute and the March of Dimes Scientific Advisory Council, in addition to many other Federal and private health groups that advise on scientific and policy issues. Dr. Colten also served as Vice Chairman of the Board of Directors of Parents as Teachers National Center. He has been on editorial boards and advisory committees of several leading scientific and medical journals, including the New England Journal of Medicine, Journal of Clinical Investigation, Journal of Pediatrics, Journal of Immunology, Annual Review of Immunology, Proceedings of the Association of American Physicians and American Journal of Respiratory Cell and Molecular Biology.

Eric L. Sorkin, Director. Mr. Sorkin has served as Director since January 6, 2000. He is a private investor. Prior to 1994, Mr. Sorkin worked for eleven years at Dean Witter

Realty Inc., a wholly owned subsidiary of Morgan Stanley, which grew to hold an investment portfolio of real estate and other assets of over $3 billion. He became a Managing Director in 1988 and was responsible for the acquisition, structuring and debt placement of various investments including real estate, fund management and asset-backed securities. Mr. Sorkin managed Dean Witter Realty's retail (shopping center) portfolio of over two million square feet, and participated in the development of office, residential, industrial and retail property and in the acquisition of over five million square feet of properties. He is a graduate of Yale University with a Bachelor of Arts degree in Economics.

Frederick W. Wackerle, Director. Mr. Wackerle has served as Director since December 17, 2001. He is an author, private investor and President of Fred Wackerle, Inc. He has been an advisor to Chief Executive Officers ("CEOs") and boards and an executive search consultant for the past 35 years. Mr. Wackerle specializes in advising corporate boards on management succession and the recruiting of CEO positions. In the past ten years, he devoted a significant amount of his time to investing in and advising biotechnology companies on succession planning, and recruited CEO candidates and board members for companies that include Biogen, Inc., ICOS Corp., Amylin Pharmaceuticals, Inc., Enzon, Inc., Medtronic Inc. and Ventana Medical Systems. Mr. Wackerle frequently writes management articles for Chicago Crain's Business, recently completed a book on management succession entitled, "The Right CEO-Straight Talk About Making CEO Selection Decisions" (Jossey-Bass), and is a graduate of Monmouth College, where he has been active on their Board of Trustees. He is also a board member of The Rehabilitation Institute of Chicago.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and 10% stockholders of a registered class of equity securities of the Company to file reports of ownership and reports of changes in ownership of the Company's Common Stock and other equity securities with the SEC. Directors, executive officers and 10% stockholders are required to furnish the Company with copies of all Section 16(a) forms they file. Based on a review of the copies of such reports furnished to us and except as, we believe that during fiscal 2002, our directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements applicable to them.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain information regarding the compensation of our Chief Executive Officer, our Executive Vice President and our Chief Financial Officer for the fiscal years ended March 31, 2001, 2002 and 2003. Except as set forth below, no other compensation was paid to these individuals during the years indicated.

		Annual Compensation	Long-Term Compensation Awards
	Year	Salary ($)	Securities Underlying Options/SARs (#)
T. Stephen Thompson	2003	$ 150,000	75,000
President, Chief Executive Officer	2002	$ 150,000	0
and Director	2001	$ 150,000	0
Cecilia Chan	2003	$ 120,000	50,000
Executive Vice President and	2002	$ 120,000	0
Director	2001	$ 75,000	0

Gary C. Parks	2003	$ 143,250(1)	25,000
Secretary, Treasurer and Chief Financial	2002	$ 125,000	10,000
Officer	2001	$ 125,000	0

(1) Includes a bonus of $18,250.

Stock Option Grants and Exercises During the Fiscal Year Ended March 31, 2003

The following table sets forth information concerning stock option grants made during the fiscal year ended March 31, 2003, to the executive officers of the Company named in the "Summary Compensation Table" above. This information is for illustration purposes only and is not intended to predict the future price of our Common Stock. The actual future value of the options will depend on the market value of the Common Stock.

STOCK OPTION GRANTS IN FISCAL YEAR ENDED MARCH 31, 2003

	Individual Grants				Potential Rea Assumed Annua Price Appreci
Name	Number of Securities Underlying Options/SARs Granted	Percent of Total Options/SARs Granted to Employees (%)	Exercise Price ($/SH)	Expiration Date	5% ($)
T. Stephen Thompson	75,000	36.95	2.55	12/23/2012	311,526
Cecilia Chan	50,000	24.63	2.55	12/23/2012	207,684
Gary C. Parks	25,000	12.32	2.55	12/23/2012	103,842

The following table sets forth certain summary information concerning exercised and unexercised options and warrants to purchase Common Stock held by the executive officers named in the "Summary Compensation Table" as of March 31, 2003.

STOCK OPTION AND WARRANT EXERCISES IN FISCAL YEAR
ENDED MARCH 31, 2003, AND FISCAL YEAR-END OPTION/WARRANT VALUES

			Number of Unexercised Options/Warrants at Fiscal Year End (#)		V In-Th at
	Shares Acquired on Exercise (#)	Realized Value ($)	Exercisable	Unexercisable	Exerc

T. Stephen Thompson	0	0	34,318	88,749	87,2
Cecilia Chan	0	0	231,479	45,833	8,12
Gary C. Parks	0	0	21,835	28,360	43,2

(1) Based on the March 31, 2003, value of $4.50 per share, minus the average per share exercise price of $1.53 multiplied by the number of shares underlying the options.

(2) Based on the March 31, 2003, value of $4.50 per share, minus the average per share exercise price of $2.55 multiplied by the number of shares underlying the options.

(3) Based on the March 31, 2003, value of $4.50 per share, minus the average per share exercise price of $2.55 multiplied by the number of shares underlying the options.

(4) Based on the March 31, 2003, value of $4.50 per share, minus the average per share exercise price of $2.55 multiplied by the number of shares underlying the options.

(5) Based on the March 31, 2003, value of $4.50 per share, minus the average per share exercise price of $1.84 multiplied by the number of shares underlying the options.

(6) Based on the March 31, 2003, value of $4.50 per share, minus the average per share exercise price of $2.55 multiplied by the number of shares underlying the options.

Director Compensation

We compensate non-employee members of the Board of Directors for their service as Board members through the grant to each such director of 15,000 options to purchase our Common Stock upon joining the Board. In addition, each non-employee director will receive 55,000 options for each subsequent year of Board service and 1,000 additional options for each year of service on each Board committee. Such options are generally granted at fair market value on the date of grant, vest ratably over 3 years and expire 5 years from the date of grant. We also reimburse the directors for out-of-pocket expenses incurred with their service as directors.

Employment Agreements

We entered into an employment agreement with T. Stephen Thompson in 1992, pursuant to which we retained Mr. Thompson as our President and Chief Executive Officer for an annual base salary of $150,000 (subject to annual adjustment by the Board), plus reimbursement for related business expenses. The agreement, which includes certain confidentiality and non-disclosure provisions, grants to Mr. Thompson the right to receive an annual bonus to be established by the Board in an amount not to exceed 60% of Mr. Thompson's annual base salary for the year and certain other fringe benefits. If we breach the agreement or Mr. Thompson is terminated by us without cause, he is entitled to all payments which he would otherwise accrue over the greater of nine months from the date of termination or the remaining term under the agreement. Additionally, rights to

all options granted to Mr. Thompson pursuant to the agreement vest immediately upon his termination without cause or a change of control. The term of Mr. Thompson's agreement expired on May 11, 1999; however, the agreement is subject to automatic renewal for successive one-year terms unless terminated by either party upon 30 days' notice. Except for $12,500 paid to Mr. Thompson during the fiscal year ended March 31, 1998, Mr. Thompson has waived any right to receive salary due under his employment agreement prior to June 30, 1998. Beginning July 1, 1998, and continuing until April 30, 1999, Mr. Thompson agreed to accept one-half of his annual salary as full satisfaction of our salary obligation under his employment agreement. Mr. Thompson, effective May 1, 1999, has resumed his full salary rate of $150,000 per annum under his employment agreement, but will not be paid amounts previously waived.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee makes all compensation decisions. The present members of the Compensation Committee are Frederick W. Wackerle, Chairman, Harvey R. Colten and Eric L. Sorkin. No interlocking relationship exists between our Board of Directors or

Compensation Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of October 10, 2003, by (i) each of our directors and executive officers, (ii) all directors and executive officers as a group and (iii) each person known to be the beneficial owner of more than 5% of our Common Stock.

Name and Address	Number of Shares of Common Stock Beneficially Owned (1)	Percentage of Outstanding Shares of Common Stock
T. Stephen Thompson (2) c/o Immtech International, Inc. 150 Fairway Drive, Ste. 150 Vernon Hills, IL 60061	412,344 shares	4.44%
Cecilia Chan (3) c/o Immtech International, Inc. One North End Avenue New York, NY 10282	282,619 shares	3.00%
Gary C. Parks (4) c/o Immtech International, Inc. 150 Fairway Drive, Ste. 150 Vernon Hills, IL 60061	54,637 shares	0.59%
Harvey Colten, MD (5)	27,147 shares	0.30%

c/o Office of the Dean Columbia University, College of Physicians and Surgeons 630 West 168th Street New York, NY 10032		
Eric L. Sorkin (6) c/o Immtech International, Inc. One North End Avenue New York, NY 10282	299,893 shares	3.18%
Frederick W. Wackerle(7) 3750 N. Lake Shore Drive Chicago, IL 60613	63,771 shares	0.69%
All directors and executive officers as a group (6 persons)	1,140,411 shares	11.49%

Name and Address	Number of Shares of Common Stock Beneficially Owned (1)	Percentage of Outstanding Shares of Common Stock
Chan Kon Fung Flat B, 16th Floor 132 Broadway Mei Foo Sun Chuen Kowloon, Hong Kong	1,246,600 shares	13.60%
James Ng (8) c/o RADE Management Corporation New York Mercantile Exchange Box 415 New York, NY 10282	452,800 shares	4.71%
Donald F. Fitzgerald 7701 Fitzgerald Road P.O. Box 75 Thurmont, MD 21788	522,800 shares	5.71%

(1) Unless otherwise indicated below, the persons in the above table have sole voting and investment power with respect to all shares beneficially owned by them, subject to applicable community property laws.

(2) Includes (i) 283,609 shares of Common Stock; (ii) 45,249 shares of Common Stock issuable upon the conversion of Series A Preferred Stock; (iii) 12,500 shares of Common Stock issuable upon the conversion of Series B Preferred Stock; (iv) 25,000 shares of Common Stock issuable upon the exercise of warrants as follows: warrant to purchase 20,000 shares of Common Stock at $6.00 per share by February 14, 2007 (only after the Series A Preferred Stock has been converted and vested), and warrant to purchase 5,000 shares of Common Stock at $6.125 per share by September 25, 2007; and (v) 45,986 shares of Common Stock issuable upon the exercise of options as follows: vested option to purchase 8,872 shares of Common Stock at $0.46 per share by March 21, 2006, vested option to purchase

14,195 shares of Common Stock at $1.74 per share by April 16, 2008, and the vested portion of 22,919 shares of an option to purchase 75,000 shares of Common Stock at $2.55 per share by December 24, 2012.

(3) Includes (i) 34,247 shares of Common Stock; (ii) 5,781 shares of Common Stock issuable upon the conversion of Series B Preferred Stock; (iii) 227,312 shares of Common Stock issuable upon the exercise of warrants as follows: vested warrant to purchase 51,923 shares of Common Stock at $6.47 per share by July 24, 2004, vested warrant to purchase 173,077 shares of Common Stock at $6.47 per share by October 12, 2004, and vested warrant to purchase 2,312 shares of Common Stock at $6.125 per share by September 25, 2007; and (iv) the vested portion of 15,279 shares of an option to purchase 50,000 shares of Common Stock at $2.55 per share by December 24, 2012.

(4) Includes (i) 21,762 shares of Common Stock; (ii) 2,262 shares of Common Stock issuable upon the conversion of Series A Preferred Stock; (iii) 1,000 shares of Common Stock issuable upon the exercise of warrants as follows: warrant to purchase 1,000 shares of Common Stock at $6.00 per share by February 14, 2007 (only after the Series A Preferred Stock has been converted); and (iv) 29,613 shares of Common Stock issuable upon the exercise of options as follows: vested option to purchase 14,195 shares of Common Stock at $1.74 per share by April 16, 2008, the vested portion of 7,778 shares of an option to purchase 10,000 shares of Common Stock at $10.00 per share by July 19, 2011, and the vested portion of 7,640 shares of an option to purchase 25,000 shares of Common Stock at $2.55 per share by December 24, 2012.

(5) Includes (i) 1,088 shares of Common Stock; and (ii) 26,059 shares of Common Stock issuable upon the exercise of options as follows: the vested portion of 19,447 shares of an option to purchase 20,000 shares of Common Stock at $10.50 per shares by December 28, 2005, the vested portion of 4,473 shares of an option to purchase 7,000 shares of Common Stock at $4.75 per share by December 18, 2006, the vested portion of 2,139 shares of an option to purchase 7,000 shares of Common Stock at $2.55 per share by December 24, 2007.

(6) Includes (i) 26,140 shares of Common Stock; (ii) 20,362 shares of Common Stock issuable upon the conversion of Series A Preferred Stock; (iii) 234,000 shares of Common Stock issuable upon the exercise of warrants as follows: vested warrant to purchase 51, 923 shares of Common Stock at $6.47 per share by July 24, 2004, vested warrant to purchase 173,077 shares of Common Stock at $6.47 per share by October 12, 2004, and vested warrant to purchase 9,000 shares of Common Stock at $6.00 per share by February 14, 2007 (only after the Series A Preferred Stock has been converted); and (iv) 19,391 shares of Common Stock issuable upon the exercise of options as follows: the vested portion of 17,252 shares of an option to purchase 27,000 shares of Common Stock at $4.75 per share by December 18, 2006, and the vested portion of 2,139 shares of an option to purchase 7,000 shares of Common Stock at $2.55 per share by December 24, 2007.

(7) Includes (i) 13,000 shares of Common Stock; (ii) 13,575 shares of Common Stock issuable upon the conversion of Series A Preferred Stock; (iii) vested warrant to purchase 6,000 shares of Common Stock at $6.00 per share by February 14, 2007 (only after the Series A Preferred Stock has been converted); and (iv) 31,196 shares of Common Stock issuable upon the exercise of options as follows: the vested option to purchase 15,000 shares of Common Stock at $10.50 per share by December 28, 2005, the vested portion of 14,057 shares of an option to purchase 22,000 shares of Common Stock at $4.75 per share by December 18, 2006, and the vested portion of 2,139 on an option to purchase 7,000 shares of Common

Stock at $2.55 per share by December 24, 2007.

(8) Includes (i) 2,800 shares of Common Stock; and (ii) 320,000 shares of Common Stock issuable upon the exercise of warrants as follows: warrant to purchase 73,845 shares of Common Stock at $6.47 per share by July 24, 2004, and warrant to purchase 246,155 shares of Common Stock at $6.47 per share by October 12, 2004. As beneficial owner of RADE Management Corporation ("RADE"), includes 130,000 shares of Common Stock issuable upon the exercise of warrants as follows: warrant to purchase 30,000 shares of Common Stock at $6.47 per share by July 24, 2004, and warrant to purchase 100,000 shares of Common Stock at $6.47 per share by October 12, 2004.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following related-party transactions are disclosed.

RADE Management Corporation

From January 1998 to July 1999 we utilized the services of RADE Management Corporation ("RADE") as a consultant to assist the Company to raise capital and to assist the Company with its initial public offering. On July 1, 1999, the Company began leasing office space from RADE in RADE's facility in New York, New York on a month-to-month basis to house our business development, investor relations and certain of our administrative functions. During the years ended March 31, 2001, 2002 and 2003, we paid approximately $102,000, $106,000 and $106,000, respectively, for the use of the facility. In addition, during the years ended March 31, 2001, 2002, and 2003, we reimbursed RADE approximately $41,000, $18,000 and $0, respectively, for expenses paid on our behalf. We have considered leasing other facilities in the New York metropolitan area and believe that our Lease with RADE is on terms no less favorable than we would otherwise obtain from another unaffiliated third-party.

ITEM 14. CONTROLS AND PROCEDURES

Disclosure and Procedures

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. The Company's Chief Executive and Chief Financial Officers are responsible for establishing and maintaining these procedures and, as required by the rules of the SEC, evaluate their effectiveness. Based on their evaluation of the Company's disclosure controls and procedures, which took place as of a date within 90 days of the filing date of this report, the Chief Executive and Chief Financial Officers believe that these procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

Internal Controls

The Company maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with

management's general or specific authorization; transactions are recorded as necessary (i) to permit preparation of financial statements in conformity with generally accepted accounting principles and (ii) to maintain accountability for assets. Access to assets is permitted only in accordance with management's general or specific authorization and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Since the date of the most recent evaluation of the Company's internal controls by the Chief Executive and Chief Financial Officers, there have been no significant changes in such controls or in other factors that could have significantly affected those controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 15. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees billed for professional services rendered by Deloitte & Touche LLP in 2002 and 2003. Other than as set forth below, no professional services were rendered or fees billed by Deloitte & Touche LLP during 2002 or 2003.

	2002	2003
Audit Fees (1)	$127,972	$92,681
Audit-Related Fees (2)	$25,900	$20,040
Tax Fees (3)	$4,600	$4,200
TOTAL	$158,472	$116,921

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(1) Audit fees consist of professional services rendered for the audit of the Company's annual financial statements and the reviews of the quarterly financial statements.

(2) Audit-related fees include fees related to assurance and related services. This category also includes fees for issuance of comfort letters, consents and assistance with and review of documents filed with the SEC.

(3) Tax fees consist of fees for services rendered to the Company for tax compliance, tax planning and advice.

All work performed by Deloitte & Touche as described above under the caption Audit Fees for the fiscal year ended March 31, 2003, has been approved by the Audit Commitee.

PART IV.

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents Filed with this Report.

The following documents are filed as part of this Form 10-K:

1. Financial Statements

The consolidated financial statements required by this item are submitted in a separate section beginning on page F-1 of this report.

2. Financial Statement Schedules

None.

3. Exhibits

The information called for by this paragraph is contained in the Index to Exhibits of this Form 10-K, which is incorporated herein by reference.

(b) Reports on Form 8-K.

During the quarter ended March 31, 2003, the Company filed Current Reports on Form 8-K with the Securities and Exchange Commission on each of January 15, 2003 and January 23, 2003.

The Report on Form 8-K filed on January 15, 2003 reported under Item 5 of Form 8-K our purchase of an 80% interest in Lenton Fibre Optics Development Limited, a Hong Kong company. Pursuant to Item 7 of Form 8-K, the Company also filed unaudited pro forma financial information reflecting the historical financial position of the Company, with pro forma adjustments as if the purchase had closed on September 30, 2002.

The Report on Form 8-K filed on January 23, 2003 was filed to announce the Company's receipt of a $2.1 million advance payment of a grant to further support the clinical development of our drug DB289 to treat African sleeping sickness and was reported under Item 5 of Form 8-K.

Consolidated Financial Statements of Immtech International, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMMTECH INTERNATIONAL, INC.

Date: October 15, 2003

By: /s/ T. Stephen Thompson

T. Stephen Thompson
Chief Executive Officer and
President

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

Signature	Date
/s/ T. Stephen Thompson T. Stephen Thompson Chief Executive Officer and President (Principal Executive Officer)	October 15, 2003
/s/ Gary C. Parks Gary C. Parks Treasurer, Secretary and Chief Financial Officer (Principal Financial and Accounting Officer)	October 15, 2003
/s/ Cecilia Chan Cecilia Chan Director	October 15, 2003
/s/ Harvey Colten, MD Harvey Colten, MD Director	October 15, 2003
/s/ Eric L. Sorkin Eric L. Sorkin Director	October 15, 2003
/s/ Frederick W. Wackerle Frederick W. Wackerle Director	October 15, 2003

CERTIFICATIONS

I, T. Stephen Thompson, certify that:

1. I have reviewed this amendment 1 to the annual report on Form 10-K of Immtech International, Inc.;

2. Based on my knowledge, this amendment 1 to the annual 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 periods covered by this amendment 1 to the annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this amendment 1 to the annual 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 amendment 1 to the annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amendment 1 to the annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amendment 1 to the annual report (the "Evaluation Date"); and

   (c) presented in this amendment 1 to the annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this amendment 1 to the annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 15, 2003

/s/ T. Stephen Thompson

T. Stephen Thompson
President and Chief Executive Officer

I, Gary C. Parks, certify that:

1. I have reviewed this amendment 1 to the annual report on Form 10-K of Immtech International Inc.;

2. Based on my knowledge, this amendment 1 to the annual 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 periods covered by this amendment 1 to the annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this amendment 1 to the annual 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 amendment 1 to the annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amendment 1 to the annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amendment 1 to the annual report (the "Evaluation Date"); and

   (c) presented in this amendment 1 to the annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit

committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this amendment 1 to the annual report whether or not there were significant changes in internal controls or in other

factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 15, 2003

/s/ Gary C. Parks

Gary C. Parks
Secretary, Treasurer and
Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
3.1 (2)	Certificate of Incorporation of the Company, as amended
3.2 (8)	By-laws of the Company, with amendment
4.1 (3)	Form of Common Stock Certificate
4.2 (2)	Warrant Agreement relating to the Underwriters' Warrants
4.3 (2)	Warrant Agreement, dated July 24, 1998, by and between the Company and RADE Management Corporation
4.4 (2)	Warrant Agreement, dated October 12, 1998, by and between the Company and RADE Management Corporation
4.5 (8)	Warrant Agreement, dated March 15, 2001, by and between the Company and The Kriegsman Group
4.6 (8)	Warrant Agreement, dated July 31, 2000, by and between the Company and Griffith Shelmire Partners, Inc.

4.7 (8)	Warrant Agreement, dated July 31, 2000, by and between the Company and Scott R. Griffith
4.8 (8)	Warrant Agreement, dated July 31, 2000, by and between the Company and Jesse B. Shelmire
4.9 (9)	Certificate of Designation for February 14, 2002 Private Placement
4.10(9)	Stock Purchase Warrant, dated February 14, 2002 for February 14, 2002 Private Placement
4.11 (11)	Certificate of Designation for June 2003 Private Placement
10.1 (1)	Letter Agreement, dated January 15, 1997, by and between the Company, Pharm-Eco Laboratories, Inc. and The University of North Carolina at Chapel Hill, as amended
10.1 (1)	Consulting Agreement, dated May 15, 1998, by and between the Company and RADE Management Corporation
10.2 (1)	1993 Stock Option and Award Plan
10.3 (6)	2000 Stock Option and Award Plan
10.4 (1)	Letter Agreement, dated May 29, 1998, between the Company and Franklin Research Group, Inc.
10.5 (1)	Indemnification Agreement, dated June 1, 1998, between the Company and RADE Management Corporation
10.6 (1)	Letter Agreement, dated June 24, 1998, between the Company and Criticare Systems, Inc.
10.7 (1)	Letter Agreement, dated June 25, 1998, between the Company and Criticare Systems, Inc.
10.8 (2)	Amendment, dated January 15, 1999, to Letter Agreement between the Company, Pharm-Eco Laboratories, Inc. and The University of North Carolina at Chapel Hill, as amended
10.9 (5)	Office Lease, dated August 26, 1999, by and between the Company and Arthur J. Rogers & Co.
10.10 (8)	License Agreement, dated August 25, 1993, by and between the University of North Carolina at Chapel Hill and Pharm-Eco Laboratories, Inc.
10.11 (8)	Assignment Agreement, dated as of March 27, 2001, by and between the Company and Pharm-Eco Laboratories, Inc.
10.12 (8)	Clinical Research Subcontract, dated as of March 29, 2001, by and between The University of North Carolina at Chapel Hill and the Company
10.13 (1)	Material Transfer and Option Agreement, dated March 23, 1998, by and between the Company and Sigma Diagnostics, Inc.
10.14 (1)	License Agreement, dated March 10, 1998, by and between

	the Company and Northwestern University
10.15 (1)	License Agreement, dated October 27, 1994, by and between the Company and Northwestern University
10.16 (1)	Assignment of Intellectual Properties, dated June 29, 1998, between the Company and Criticare Systems, Inc.
10.18 (1)	Assignment Agreement, dated June 26, 1998, by and between the Company and Criticare Systems, Inc.
10.19 (1)	Assignment Agreement, dated June 29, 1998, by and between the Company and Criticare Systems, Inc.
10.20 (1)	International Patent, Know-How and Technology License Agreement, dated June 29, 1998, by and between the Company and Criticare Systems, Inc.
10.21 (1)	Employment Agreement, dated 1992, by and between the Company and T. Stephen Thompson
10.22 (2)	Funding and Research Agreement, dated September 30, 1998, by and among the Company, NextEra Therapeutics, Inc. and Franklin Research Group, Inc.
10.23 (4)	Two Year Plus 200% Lock-Up Agreement executed by James Ng
10.24 (4)	Employment Agreement, dated 1998, by and between NextEra and Lawrence Potempa
10.25 (7)	Form of Regulation D Subscription Agreement for December 8, 2000 Private Placement
10.26 (7)	Form of Regulation S Subscription Agreement for December 8, 2000 Private Placement
10.27 (9)	Form of Regulation D Subscription Agreement for February 14, 2002 Series A Preferred Private Placement
10.28(9)	Form of Regulation S Subscription Agreement for February 14, 2002 Series A Preferred Private Placement
10.29 (10)	Amendment, dated January 28, 2002, to License Agreement between the Company, Pharm-Eco Laboratories, Inc. and The University of North Carolina at Chapel Hill, as amended
10.30 (11)	Form of Regulation D Subscription Agreement for June 2003 Series C Preferred Private Placement
10.31 (11)	Form of Regulation S Subscription Agreement for June 2003 Series C Preferred Private Placement
10.32(12)	Regis Pharmaceutical Manufacturing Agreement dated March 4, 2003
21.1	Subsidiaries of Registrant
23.1	Consent of Deloitte & Touche LLP

99.1	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

(1) Incorporated by Reference to our Registration Statement on Form SB-2 (Registration Statement No. 333-64393), as filed with the Securities and Exchange Commission on September 28, 1998.

(2) Incorporated by Reference to Amendment No. 1 to our Registration Statement on Form SB-2 (Registration Statement No. 333-64393), as filed with the Securities and Exchange Commission on February 11, 1999.

(3) Incorporated by Reference to Amendment No. 2 our Registration Statement on Form SB-2 (Registration Statement No. 333-64393), as filed with the Securities and Exchange Commission on March 30, 1999.

(4) Incorporated by Reference to our Form 10-KSB for the fiscal year ended March 31, 1999 (File No. 001-14907), as filed with the Securities and Exchange Commission on June 29, 1999.

(5) Incorporated by Reference to our Annual Report on Form 10-KSB for the fiscal year ended March 31, 2000 (File No. 000-25669), as filed with the Securities and Exchange Commission on June 26, 2000.

(6) Incorporated by Reference to Annex A to our Definitive Proxy Statement (File No. 000-25669), as filed with the Securities and Exchange Commission on August 25, 2000.

(7) Incorporated by Reference to our Quarterly Report on Form 10-QSB (File No. 000-25669), as filed with the Securities and Exchange Commission on February 14, 2001.

(8) Incorporated by Reference to our Annual Report on Form 10-KSB/A (File No. 000-25669), as filed with the Securities and Exchange Commission on June 29, 2001, as amended on July 6, 2001.

(9) Incorporated by Reference to the Exhibits to our Form 8-K (File No. 000-25669), as filed with the Securities and Exchange Commission on February 14, 2002.

(10) Incorporated by Reference to our Form 10-Q (File No. 000-25669), as filed with the Securities and Exchange Commission on February 14, 2002, as amended on June 10, 2002.

(11) Incorporated by Reference to the Exhibits to our Form 8-K (File No. 001-14907), as filed with the Securities and Exchange Commission on June 10, 2003.

(12) Filed herewith.

IMMTECH INTERNATIONAL, INC.
AND SUBSIDIARY (A Development Stage
Enterprise)

Consolidated Financial Statements as of March 31, 2002 and 2003, for the Years Ended March 31, 2001, 2002 and 2003 and for the Period October 15, 1984 (Date of Inception) to March 31, 2003 (Unaudited) and Independent Auditors' Report

IMMTECH INTERNATIONAL, INC. and subsidiary
(A Development Stage Enterprise)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Immtech International, Inc.
(A Development Stage Enterprise):

We have audited the accompanying consolidated balance sheets of Immtech International, Inc. (a development stage enterprise) and subsidiary (the "Company") as of March 31, 2002 and 2003, and the related consolidated statements of operations, stockholders' equity (deficiency in assets) and cash flows for each of the three years in the period ended March 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2002 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

June 20, 2003

IMMTECH INTERNATIONAL, INC. AND SUBSIDIARY
(A Development Stage Enterprise)

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2002 AND 2003

ASSETS	2002

CURRENT ASSETS:	
Cash and cash equivalents	$ 2,037,813
Restricted funds on deposit	602,400
Other current assets	39,881
Total current assets	2,680,094
PROPERTY AND EQUIPMENT - Net	175,950
OTHER ASSETS	19,848
TOTAL ASSETS	$ 2,875,892
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 545,017
Accrued expenses	4,257
Deferred revenue	563,435
Total current liabilities	1,112,709
DEFERRED RENTAL OBLIGATION	27,145
Total liabilities	1,139,854
COMMITMENTS AND CONTINGENCIES	
MINORITY INTEREST	
STOCKHOLDERS' EQUITY:	
Preferred stock, par value $0.01 per share, 4,680,000 and 4,440,000 shares authorized and unissued as of March 31, 2002 and 2003, respectively	
Series A convertible preferred stock, par value $0.01 per share, stated value $25 per share, 320,000 shares authorized, 160,100 and 142,800 shares issued and outstanding as of March 31, 2002 and 2003, respectively, aggregate liquidation preference of $4,031,900 and $3,668,005 as of March 31, 2002 and 2003, respectively	4,031,900
Series B convertible preferred stock, par value $0.01 per share, stated value $25 per share, 240,000 shares authorized, 56,725 shares issued and outstanding as of March 31, 2003 aggregated liquidation preference of $1,469,967 as of March 31, 2003	
Common stock, par value $0.01 per share, 30,000,000 shares authorized, 6,066,459 and 7,898,986 shares issued and outstanding as of March 31, 2002 and 2003, respectively	60,664
Additional paid-in capital	34,679,844
Deficit accumulated during the developmental stage	(37,036,370)
Total stockholders' equity	1,736,038
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,875,892

See notes to consolidated financial statements.

IMMTECH INTERNATIONAL, INC. AND SUBSIDIARY
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED MARCH 31, 2001, 2002 AND 2003 AND THE PERIOD FROM
OCTOBER 15, 1984 (DATE OF INCEPTION) TO MARCH 31, 2003 (UNAUDITED)

	Years Ended March 31,		
	2001	2002	2003
REVENUES	$ 1,354,943	$ 3,522,113	$ 1,608,849
EXPENSES:			
Research and development	6,694,546	3,958,107	2,570,370
General and administrative	4,719,298	2,927,726	3,731,398
Equity in loss of joint venture			
Total expenses	11,413,844	6,885,833	6,301,768
LOSS FROM OPERATIONS	(10,058,901)	(3,363,720)	(4,692,919
OTHER INCOME (EXPENSE):			
Interest income	198,559	40,610	13,850
Interest expense			
Loss on sales of investment securities - net	(2,942)		
Cancelled offering costs			
Gain on extinguishment of debt			
Other income (expense) - net	195,617	40,610	13,850
NET LOSS	(9,863,284)	(3,323,110)	(4,679,069
CONVERTIBLE PREFERRED STOCK DIVIDENDS		(937,935)	(451,869
REDEEMABLE PREFERRED STOCK CONVERSION, PREMIUM AMORTIZATION AND DIVIDENDS			
NET LOSS ATTRIBUTABLE TO COMMON			

STOCKHOLDERS	$ (9,863,284)	$ (4,261,045)	($5,130,938)
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:			
Net loss	$ (1.78)	$ (0.55)	$ (0.71
Convertible preferred stock dividends		(0.16)	(0.07
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (1.78)	$ (0.71)	$ (0.78
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER SHARE	5,545,190	6,011,416	6,565,495

See notes to consolidated financial statements.

IMMTECH INTERNATIONAL, INC. AND SUBSIDIARY
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY IN ASSETS)
YEARS ENDED MARCH 31, 2001, 2002 AND 2003 AND THE PERIOD FROM
OCTOBER 15, 1984 (DATE OF INCEPTION) TO MARCH 31, 2003 (UNAUDITED)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		
	Issued and Outstanding	Amount	Issued and Outstanding	Amount	Issued Outsta
October 15, 1984 (Inception) Issuance of common stock to founders					$ 11
Balance, March 31, 1985					11
Issuance of common stock					8
Net loss					
Balance, March 31, 1986					19
Issuance of common stock					4
Net loss					
Balance, March 31, 1987					24
Issuance of common stock					
Net loss					
Balance, March 31, 1988					24
Issuance of common stock					6
Provision for compensation					
Net loss					

Balance, March 31, 1989	30
Issuance of common stock	1
Provision for compensation	
Net loss	
Balance, March 31, 1990	32
Issuance of common stock	
Provision for compensation	
Net loss	
Balance, March 31, 1991	32
Issuance of common stock	1
Provision for compensation	
Issuance of stock options in exchange for cancellation of indebtedness	
Net loss	
Balance, March 31, 1992	34
Issuance of common stock	19
Provision for compensation	
Net loss	
Balance, March 31, 1993	53
Issuance of common stock	10
Provision for compensation	
Net loss	
Balance, March 31, 1994	64
Net loss	
Balance, March 31, 1995	64
Issuance of common stock for compensation	1
Net loss	
Balance, March 31, 1996	66
Issuance of common stock	1
Provision for compensation - employees	
Provision for compensation - nonemployees	
Issuance of warrants to purchase common stock	
Net loss	
Balance, March 31, 1997	67
Exercise of options	6
Provision for compensation employees	
Provision for compensation nonemployees	
Contributed capital - common stockholders	
Net loss	

	Deficit Accumulated	Accumulated Other	Total Stockhold

	Additional Paid-in Capital	During the Development Stage	Comprehensive Income (Loss)	Equity (Deficienc Assets
October 15, 1984 (Inception)				
Issuance of common stock to founders	$ 24,868			$ 26,00
Balance, March 31, 1985	24,868			26,00
Issuance of common stock	269,486			270,34
Net loss		$ (209,569)		(209,56
Balance, March 31, 1986	294,354	(209,569)		86,77
Issuance of common stock	285,987			286,41
Net loss		(47,486)		(47,48
Balance, March 31, 1987	580,341	(257,055)		325,70
Issuance of common stock	28,959			29,00
Net loss		(294,416)		(294,41
Balance, March 31, 1988	609,300	(551,471)		60,28
Issuance of common stock	569,372			570,00
Provision for compensation	489,975			489,97
Net loss		(986,746)		(986,74
Balance, March 31, 1989	1,668,647	(1,538,217)		133,51
Issuance of common stock	171,059			171,22
Provision for compensation	320,980			320,98
Net loss		(850,935)		(850,93
Balance, March 31, 1990	2,160,686	(2,389,152)		(225,21
Issuance of common stock	1,183			1,18
Provision for compensation	6,400			6,40
Net loss		(163,693)		(163,69
Balance, March 31, 1991	2,168,269	(2,552,845)		(381,32
Issuance of common stock	85,774			85,95
Provision for compensation	864,496			864,49
Issuance of stock options in exchange for cancellation of indebtedness	57,917			57,91
Net loss		(1,479,782)		(1,479,78
Balance, March 31, 1992	3,176,456	(4,032,627)		(852,73
Issuance of common stock	66,839			68,79
Provision for compensation	191,502			191,50
Net loss		(1,220,079)		(1,220,07
Balance, March 31, 1993	3,434,797	(5,252,706)		(1,812,51
Issuance of common stock	40,602			41,67
Provision for compensation	43,505			43,50
Net loss		(2,246,428)		(2,246,42
Balance, March 31, 1994	3,518,904	(7,499,132)		(3,973,76
Net loss		(1,661,677)		(1,661,67
Balance, March 31, 1995	3,518,904	(9,160,809)		(5,635,44
Issuance of common stock for compensation	7,339			7,50
Net loss		(1,005,962)		(1,005,96
Balance, March 31, 1996	3,526,243	(10,166,771)		(6,633,90

Issuance of common stock	5,908		6,03
Provision for compensation - employees	45,086		45,08
Provision for compensation - nonemployees	62,343		62,34
Issuance of warrants to purchase common stock	80,834		80,83
Net loss		(1,618,543)	(1,618,54
Balance, March 31, 1997	3,720,414	(11,785,314)	(8,058,14
Exercise of options	28,862		29,54
Provision for compensation employees	50,680		50,68
Provision for compensation nonemployees	201,696		201,69
Contributed capital - common stockholders	231,734		231,73
Net loss		(1,477,132)	(1,477,13

See notes to consolidated financial statements. (Continued)

IMMTECH INTERNATIONAL, INC. AND SUBSIDIARY
(A Development Stage Enterprise)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY IN ASSETS)
YEARS ENDED MARCH 31, 2001, 2002 AND 2003 AND THE PERIOD FROM
OCTOBER 15, 1984 (DATE OF INCEPTION) TO MARCH 31, 2003 (UNAUDITED)

	Series A Convertible Preferred Stock	
	Issued and Outstanding	Amount
Balance, March 31, 1998		
Issuance of common stock under private placement offering		
Exercise of options		
Provision for compensation - nonemployees		
Issuance of common stock to Criticare		
Conversion of Criticare debt to common stock		
Conversion of debt to common stock		
Conversion of redeemable preferred stock to common stock		
Net loss		
Balance, March 31, 1999		
Comprehensive loss:		
Net loss		
Other comprehensive loss:		

Unrealized loss on investment securities available for sale		
Comprehensive loss		
Issuance of common stock under initial public offering, less offering costs of $513,000		
Exercise of options and warrants		
Provision for compensation - nonemployees		
Issuance of common stock for compensation - nonemployees		
Issuance of common stock for accrued interest		
Balance, March 31, 2000		
Comprehensive loss:		
Net loss		
Other comprehensive income (loss):		
Unrealized loss on investment securities available for sale		
Reclassification adjustment for loss included in net loss		
Comprehensive loss		
Issuance of common stock under private placement offering		
Exercise of options		
Provision for compensation - nonemployees		
Contributed capital - common stockholder		
Balance, March 31, 2001		
Net loss		
Issuance of Series A convertible preferred stock under private placement offerings, less cash offering costs of $153,985	160,100	$4,002,500
Issuance of common stock as offering costs under private placement offerings		
Accrual of preferred stock dividends		29,400
Exercise of options		
Provision for compensation - nonemployees		
Balance, March 31, 2002	160,100	4,031,900
Net loss		
Issuance of Series B convertible preferred stock under private placement offerings, less cash offering costs of $58,792		
Issuance of common stock for services provided in connection with private placement offerings		
Conversion of convertible preferred stock to common stock	(17,300)	(437,396)
Accrual of preferred stock dividends		226,210
Payment of preferred stock dividends		(152,709)

Issuance of common stock for land use rights acquisition		
Issuance of common stock and warrants for services		
Exercise of options		
Provision for compensation - nonemployees		
Balance, March 31, 2003	142,800	$3,668,005

	Common Stock	
	Issued and Outstanding	Amount
Balance, March 31, 1998	743,665	$ 7,437
Issuance of common stock under private placement offering	575,000	5,750
Exercise of options	40,650	406
Provision for compensation - nonemployees		
Issuance of common stock to Criticare	86,207	862
Conversion of Criticare debt to common stock	180,756	1,808
Conversion of debt to common stock	424,222	4,242
Conversion of redeemable preferred stock to common stock	1,195,017	11,950
Net loss		
Balance, March 31, 1999	3,245,517	32,455
Comprehensive loss:		
Net loss		
Other comprehensive loss:		
Unrealized loss on investment securities available for sale		
Comprehensive loss		
Issuance of common stock under initial public offering, less offering costs of $513,000	1,150,000	11,500
Exercise of options and warrants	247,420	2,474
Provision for compensation - nonemployees		
Issuance of common stock for compensation - nonemployees	611,250	6,113
Issuance of common stock for accrued interest	28,147	281
Balance, March 31, 2000	5,282,334	52,823
Comprehensive loss:		
Net loss		
Other comprehensive income (loss):		
Unrealized loss on investment securities available for sale		
Reclassification adjustment for loss included in net loss		

Comprehensive loss			
Issuance of common stock under private placement offering	584,250	5,843	
Exercise of options	88,661	886	
Provision for compensation - nonemployees			
Contributed capital - common stockholder			
Balance, March 31, 2001	5,955,245	59,552	
Net loss			
Issuance of Series A convertible preferred stock under private placement offerings, less cash offering costs of $153,985			
Issuance of common stock as offering costs under private placement offerings	60,000	600	
Accrual of preferred stock dividends			
Exercise of options	51,214	512	
Provision for compensation - nonemployees			
Balance, March 31, 2002	6,066,459	60,664	
Net loss			
Issuance of Series B convertible preferred stock under private placement offerings, less cash offering costs of $58,792			
Issuance of common stock for services provided in connection with private placement offerings	290,000	2,900	
Conversion of convertible preferred stock to common stock	228,448	2,285	
Accrual of preferred stock dividends			
Payment of preferred stock dividends	45,529	456	
Issuance of common stock for land use rights acquisition	1,260,000	12,600	
Issuance of common stock and warrants for services	8,333	83	
Exercise of options	217	2	
Provision for compensation - nonemployees			
Balance, March 31, 2003	7,898,986	$ 78,990	$

	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficiency in Assets)
Balance, March 31, 1998		$ (9,021,623)
Issuance of common stock under private placement offering		830,657
Exercise of options		13,350
Provision for compensation -		

nonemployees		2,426,000
Issuance of common stock to Criticare		134,483
Conversion of Criticare debt to common stock		858,293
Conversion of debt to common stock		661,797
Conversion of redeemable preferred stock to common stock		5,577,584
Net loss		(1,929,003)
Balance, March 31, 1999		(448,462)
Comprehensive loss:		
Net loss		(11,433,926)
Other comprehensive loss:		
Unrealized loss on investment securities available for sale	$ (1,178)	(1,178)
Comprehensive loss		(11,435,104)
Issuance of common stock under initial public offering, less offering costs of $513,000		9,172,610
Exercise of options and warrants		426,822
Provision for compensation - nonemployees		509,838
Issuance of common stock for compensation - nonemployees		6,112,500
Issuance of common stock for accrued interest		281,470
Balance, March 31, 2000	(1,178)	4,619,674
Comprehensive loss:		
Net loss		(9,863,284)
Other comprehensive income (loss):		
Unrealized loss on investment securities available for sale	(1,764)	(1,764)
Reclassification adjustment for loss included in net loss	2,942	2,942
Comprehensive loss		(9,862,106)
Issuance of common stock under private placement offering		4,305,649
Exercise of options		42,808
Provision for compensation - nonemployees		1,739,294
Contributed capital - common stockholder		13,825
Balance, March 31, 2001		859,144
Net loss		(3,323,110)
Issuance of Series A convertible preferred stock under private placement offerings, less cash offering costs of $153,985		3,848,515
Issuance of common stock as offering costs under private placement offerings		
Accrual of preferred stock dividends		
Exercise of options		19,484
Provision for compensation - nonemployees		332,005

Balance, March 31, 2002		1,736,038
Net loss		(4,679,069)
Issuance of Series B convertible preferred stock under private placement offerings, less cash offering costs of $58,792		1,859,333
Issuance of common stock for services provided in connection with private placement offerings		945,100
Conversion of convertible preferred stock to common stock		(24)
Accrual of preferred stock dividends		
Payment of preferred stock dividends		(310)
Issuance of common stock for land use rights acquisition		2,998,800
Issuance of common stock and warrants for services		89,125
Exercise of options		128
Provision for compensation - nonemployees		243,150
Balance, March 31, 2003	$ 0	$ 3,192,271

See notes to consolidated financial statements. (Concluded)

IMMTECH INTERNATIONAL, INC. AND SUBSIDIARY
(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2001, 2002 AND 2003 AND THE PERIOD FROM
OCTOBER 15, 1984 (DATE OF INCEPTION) TO MARCH 31, 2003 (UNAUDITED)

	Years Ended Marc	
	2001	2002
OPERATING ACTIVITIES:		
Net loss	$(9,863,284)	$(3,323,110)
Adjustments to reconcile net loss to net cash used in operating activities:		
Compensation recorded related to issuance of common stock, common stock options and warrants	1,739,294	332,005
Depreciation and amortization of property and equipment	89,616	98,893
Deferred rental obligation	(6,368)	(6,366)
Equity in loss of joint venture		
Loss on sales of investment securities - net	2,942	
Amortization of debt discounts and issuance costs		
Gain on extinguishment of debt		
Changes in assets and liabilities:		
Restricted funds on deposit	(3,812,553)	3,210,153

Other current assets	(17,089)	(11,592)
Other assets		
Accounts payable	164,710	(1,150,704)
Accrued expenses	36,958	(66,605)
Deferred revenue	3,509,194	(2,945,759)
Net cash used in operating activities	(8,156,580)	(3,863,085)
INVESTING ACTIVITIES:		
Purchases of investment securities	(199,996)	
Proceeds from sales and maturities of investment securities	1,558,043	
Purchases of property and equipment	(62,350)	(64,819)
Cash paid for acquisition of land use rights		
Investment in and advances to joint venture		
Net cash provided by (used in) investing activities	1,295,697	(64,819)
FINANCING ACTIVITIES:		
Net advances from stockholders and affiliates		
Proceeds from issuance of notes payable		
Principal payments on notes payable		
Payments for debt issuance costs		
Payments for extinguishment of debt		
Net proceeds from issuance of redeemable preferred stock		
Net proceeds from issuance of convertible preferred stock and warrants		3,848,515
Payments for convertible preferred stock dividends and for fractional shares of common stock resulting from the conversions of convertible preferred stock		
Net proceeds from issuance of common stock	4,348,457	19,484
Additional capital contributed by stockholders	13,825	
Net cash provided by financing activities	4,362,282	3,867,999
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,498,601)	(59,905)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,596,319	2,097,718
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,097,718	$ 2,037,813

SUPPLEMENTAL CASH FLOW INFORMATION (Note 11)

See notes to consolidated financial statements.

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1. COMPANY BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Immtech International, Inc. (a development stage enterprise) and its subsidiary (the "Company") is a pharmaceutical company focused on the development and commercialization of drugs to treat infectious diseases. The Company has development programs that include fungal infections, Malaria, Tuberculosis, Hepatitis C, Pneumocystis carinii pneumonia and tropical medicine diseases including African sleeping sickness (a parasitic disease also known as Trypanosomiasis) and Leishmaniasis (a parasitic disease that destroys the liver). The Company holds worldwide patents, licenses and rights to license worldwide patents, patent applications and technologies from third parties that are integral to the Company's business. The Company is a development stage enterprise and since its inception on October 15, 1984, the Company has engaged in research and development programs, expanding its network of scientists and scientific advisors, licensing technology agreements and advancing the commercialization of its dication technology platform. The Company uses the expertise and resources of strategic partners and contracted parties in a number of areas, including: (i) laboratory research, (ii) pre-clinical and human clinical trials and (iii) the manufacture of pharmaceutical products. The Company has licensing and exclusive commercialization rights to a dication pharmaceutical platform and is developing drugs intended for commercial use based on that platform.

The Company does not have any products currently available for sale, and no products are expected to be commercially available for sale until after March 31, 2004, if at all.

Since inception, the Company has incurred accumulated losses of approximately $43,147,000. Management expects the Company to continue to incur significant losses during the next several years as the Company continues its research and development activities and clinical trial efforts. In addition, the Company has various research and development agreements with third parties and is dependent on their ability to perform under these agreements. There can be no assurance that the Company's continued research will lead to the development of commercially viable products. The Company's operations to date have consumed substantial amounts of cash. The negative cash flow from operations is expected to continue in the foreseeable future. The Company will require substantial funds to conduct research and development and laboratory and clinical testing, and to manufacture (or have manufactured) and market (or have marketed) its product candidates. The Company's cash requirements may vary materially from those now planned because of results of research and development, results of pre-clinical and clinical testing, responses to grant requests, relationships with strategic partners, changes in the focus and direction in the Company's research and development programs, competitive and technological advances, the regulatory process, and other factors. In any of these circumstances, the Company may require substantially more funds than are currently available or than management intends to raise.

Subsequent to March 31, 2003, the Company completed private placement offerings that raised approximately $3,133,800 of additional equity capital (before cash offering costs of approximately $250,000) through the issuance of 125,352 shares of Series C Convertible Preferred stock (see Note 12). The net proceeds from the private placement offerings will not likely be sufficient to fund the Company's

operations through the commercialization of one or more products yielding sufficient revenues to support the Company's operations; therefore, the Company will likely need to raise additional funds at some time in the future.

The Company believes its existing unrestricted cash and cash equivalents (including the net proceeds of the private placement made subsequent to year end), and the grants the Company has received or has been awarded and is awaiting disbursement of, will be sufficient to meet the Company's planned expenditures through June of 2004, although there can be no assurance the Company will not require additional funds. Management may seek to satisfy future funding requirements through public or private offerings of securities, by collaborative or other arrangements with pharmaceutical or biotechnology companies or from other sources.

Principles of Consolidation - The consolidated financial statements include the accounts of Lenton Fibre Optics Development Limited ("Lenton"), a majority-owned subsidiary, located in Hong Kong. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of an amount on deposit at a bank and an investment in a money market mutual fund, stated at cost, which approximates fair value.

Restricted Funds on Deposit - Restricted funds on deposit consist of cash on deposit at a bank that is restricted for use in accordance with a clinical research subcontract agreement with The University of North Carolina at Chapel Hill.

Investment Securities - The Company generally classified investments in debt securities as available-for-sale based on the intent to sell securities to meet current cash flow needs rather than to hold such investments to maturity. Securities available for sale were recorded at fair value, with unrealized gains (losses) recorded as a separate component of stockholders' equity (deficiency in assets) as accumulated other comprehensive income (loss). Gains (losses) on the sale of investment securities were recorded on the specific identification method.

The Company did not hold any investment securities as of March 31, 2002 and 2003. Proceeds from the sales and maturities of investment securities during the year ended March 31, 2001 were $1,588,043. Gross gains and gross losses of $212 and $3,154, respectively, were realized on such sales during the year ended March 31, 2001.

Investment - The Company accounts for its investment in NextEra Therapeutics, Inc. ("NextEra") on the equity method (see Note 4). The investment balance is zero as of March 31, 2002 and 2003.

Property and Equipment - Property and equipment are recorded at cost and depreciation and amortization are provided using the straight-line method over estimated useful lives ranging from three to seven years.

Land Use Rights - Land use rights represent an agreement by Lenton Fibre

Optics Development Limited ("Lenton") to use land in the People's Republic of China for a period of 50 years and is being amortized over that period on a straight-line basis.

Long-Lived Assets - The Company periodically evaluates the carrying value of its property and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of an asset, a loss is recognized for the asset and is measured by the difference between the fair value and carrying value of the asset.

Deferred Rental Obligation - Rental obligations with scheduled rent increases are recognized on a straight-line basis over the lease term.

Minority Interest - Minority interest represents the carryover basis of the 20% of Lenton not owned by the Company at the date of acquisition, plus equity in earnings or minus equity in losses from that date.

Revenue Recognition - Grants to perform research are the Company's primary source of revenue and are generally granted to support research and development activities for specific projects or drug candidates. Revenue related to grants to perform research and development is recognized as earned based on the performance requirements of the specific grant. Upfront cash payments from research and development grants are reported as deferred revenue until such time as the research and development activities covered by the grant are performed.

Research and Development Costs - Research and development costs are expensed as incurred and include costs associated with research performed pursuant to collaborative agreements. Research and development costs consist of direct and indirect internal costs related to specific projects as well as fees paid to other entities that conduct certain research activities on behalf of the Company.

Income Taxes - The Company accounts for income taxes using an asset and liability approach. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. In addition, a valuation allowance is recognized if it is more likely than not that some or all of the deferred income tax assets will not be realized. A valuation allowance is used to offset the related net deferred income tax assets due to uncertainties of realizing the benefits of certain net operating loss and tax credit carryforwards and other deferred income tax assets.

Gain on Extinguishment of Debt - In April of 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, SFAS No. 145 rescinded SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." Under SFAS No. 4, all material gains and losses from extinguishment of debt were required to be classified as extraordinary items, net of related income tax effect. Under SFAS No. 145, gains and losses from extinguishment of debt are reported as extraordinary items only if they meet the criteria outlined in Accounting Principals Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"). Any gain or loss on extinguishment of debt that

was classified as an extraordinary item in prior periods presented that does

not meet the criteria in APB 30 for classification as an extraordinary item shall be reclassified. The Company adopted SFAS No. 145 during the year ended March 31, 2003. As a result of this adoption, the Company recorded a reclassification of $1,427,765 from an extraordinary gain to a gain on the extinguishment of debt in the consolidated statement of operations for the period beginning at inception through March 31, 2003.

Net Income (Loss) Per Share - Net income (loss) per share is calculated in accordance with SFAS No. 128, "Earnings Per Share." Basic net income (loss) per share and diluted net income (loss) per share are computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding. Diluted net income per share, when applicable, is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding increased by the number of potential dilutive common shares. Diluted net loss per share was the same as the basic net loss per share for the years ended March 31, 2001, 2002 and 2003. Potentially dilutive shares for common stock options and warrants and conversion of Series A and B Convertible Preferred Stock were not included in net income (loss) per share as their effect was antidilutive for each of the years then ended.

Fair Value of Financial Instruments - The Company believes that the carrying amount of its financial instruments (cash and cash equivalents, restricted funds on deposit, accounts payable and accrued expenses) approximates the fair value of such instruments as of March 31, 2002 and 2003 based on the short term nature of the instruments.

Segment Reporting - The Company is a development stage pharmaceutical company that operates as one segment.

Comprehensive Loss - Comprehensive loss for the year ended March 31, 2001 includes the effects of net changes in unrealized losses on investment securities available for sale. There was no income tax effect on the components of comprehensive loss. There were no differences between comprehensive loss and net loss for all other years presented.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements - In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which provides for alternative methods to transition to the fair value method of accounting for stock options in accordance with provisions of SFAS No. 123, "Accounting for Stock Based Compensation." In addition, SFAS No. 148 requires disclosure of the effects of an entity's accounting policy with respect to stock-based compensation on reported net income and earnings per share in annual and interim financial statements. The Company adopted the annual disclosure provisions of SFAS No. 148 in the financial statements for the fiscal year ended March 31, 2003 and will

adopt the interim disclosure requirements beginning as the first quarter of fiscal 2004. The transition provisions of SFAS No. 148 are currently not applicable as the Company continues to account for stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees."

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 requires that certain instruments with

certain characteristics be classified as liabilities as opposed to equity. This statement is effective for financial instruments entered into or modified after May 30, 2003, and otherwise is effective July 1, 2003. The Company is evaluating the impact of this standard on the financial statements.

2. LAND USE RIGHTS ACQUISITION

On January 13, 2003, the Company issued 1,200,000 shares of its common stock pursuant to a share purchase agreement entered into with an investor ("seller") who owned 100% of the outstanding equity of Lenton, whose only asset was use rights of undeveloped land. The subsidiary intends to construct and operate a pharmaceutical manufacturing facility capable of producing commercial quantities of the Company's pharmaceutical products at competitive costs. The land is located in a "free-trade zone" called the Futian Free Trade Zone, Shenzhen, in the People's Republic of China. The Company intends, once the facility is built and government approvals are obtained, to engage Lenton to manufacture for commercial distribution, the Company's pharmaceutical products intended for sale in Asia, Africa and other selected regions.

The Company purchased an 80% interest in Lenton from the seller for the aggregate consideration of 1,200,000 unregistered shares of the Company's common stock. The Company also issued 60,000 shares of the Company's common stock for brokers fees on the transaction and incurred $206,529 in other acquisition costs. The fair value of the Company's stock was determined using the market value of three days prior to and after the acquisition date. This resulted in an investment of $3,501,522, all of which was allocated to property and equipment.

3. RECAPITALIZATION, PRIVATE PLACEMENTS AND INITIAL PUBLIC OFFERING

On July 24, 1998 (the "Effective Date"), the Company completed a recapitalization (the "Recapitalization") pursuant to which, among other items: (i) the Company's debt holders converted approximately $3,151,000 in stockholder advances, notes payable and related accrued interest and accounts payable outstanding immediately prior to the Effective Date into 1,209,962 shares of common stock and approximately $203,000 in cash (see Note 10); and (ii) the Company's Series A Redeemable Preferred stockholders converted 1,794,550 shares of Series A Redeemable Preferred Stock issued and outstanding immediately prior to the Effective Date into 1,157,931 shares of common stock (see Note 10); (iii) the Company's Series B Redeemable Preferred stockholders converted 1,600,000 shares of Series B Redeemable Preferred Stock issued and outstanding immediately prior to the Effective Date into 1,232,133 shares of common stock (see Note 10).

Contemporaneously with the completion of the Recapitalization, the Company issued and sold 575,000 shares of common stock for $1.74 per share, or

aggregate consideration to the Company of $1,000,000 to certain accredited investors under a private placement offering. For services and expenses involved with this Recapitalization, the placement agent, New China Hong Kong Securities Limited ("NCHK") received $50,000 and warrants to purchase 75,000 shares of the Company's common stock at $.10 per share. On May 17, 1999, NCHK exercised their warrants. For advisory services in this transaction, RADE Management Corporation ("RADE") received warrants to purchase 225,000 shares of the Company's common stock at $.10 per share. On April 22, 1999, the warrant agreement with RADE was amended to increase the exercise price from $.10 per share to $6.47 per share. The warrants expire July 24, 2004 (see Note 7). The private placement offering resulted in net proceeds of approximately $831,000. RADE leases an office facility which is occupied by both the Company and RADE. The office space is paid for by Immtech on RADE's behalf (see Note 9). During the years ended March 31, 2001, 2002, and 2003, the Company paid approximately $102,000, $106,000 and $106,000 respectively, for the use of the facility. In addition, during the years ended March 31, 2001, 2002 and 2003,

approximately $41,000, $18,000 and $0, respectively, was paid to RADE as reimbursement for certain administrative expenses paid on behalf of the Company.

On April 26, 1999, the Company issued 1,150,000 shares of common stock through an initial public stock offering resulting in net proceeds of approximately $9,173,000. Costs incurred of approximately $513,000 as of March 31, 1999, including approximately $329,000 of costs that were unpaid and included in accounts payable as of such date, with respect to the offering were deferred pending the completion of the offering and netted with the proceeds of the offering. The underwriters received warrants to purchase 100,000 additional shares of common stock at $16.00 per share (see Note 7). The warrants expired on April 30, 2003.

On December 8, 2000, the Company completed a private placement offering which raised approximately $4,306,000 of additional equity capital through the issuance of 584,250 shares of common stock.

In February 2002, the Company completed private placement offerings which raised approximately $3,849,000 of additional equity capital (net of approximately $154,000 of cash offering costs) through the issuance of 160,100 shares of Series A Convertible Preferred Stock and warrants to purchase 400,250 shares of the Company's common stock at an exercise price of $6.00 per share. The warrants expire five years from the date of grant (see Note 7).

In September and October 2002, the Company completed private placement offerings which raised approximately $1,859,000 of additional equity capital (net of approximately $59,000 of cash offering costs) through the issuance of 76,725 shares of Series B Convertible Preferred Stock and warrants to purchase 191,812 shares of the Company's common stock at an exercise price of $6.125 per share. The warrants expire five years from the date of grant (see Note 7).

4. INVESTMENT IN NEXTERA THERAPEUTICS, INC.

On July 8, 1998, the Company, together with Franklin Research Group, Inc. ("Franklin") and certain other parties, formed NextEra Therapeutics, Inc. ("NextEra") to develop therapeutic products for treating cancer and related diseases. The Company and Franklin have a research and funding

agreement with NextEra in which Franklin provided funding of $1,350,000 to NextEra to fund the scale-up of manufacturing for and initiation of certain clinical trials of NextEra's product candidates. The Company contributed its rmCRP technology as well as use of its current laboratory facilities for shares of common stock of NextEra. During the year ended March 31, 2000, the Company advanced $135,000 to NextEra to fund its operations. The Company's advance to NextEra was expensed during the year ended March 31, 2000. The Company did not advance any funds to NextEra during the years ended March 31, 2001, 2002 and 2003.

NextEra funded the operation of the Company's primary facility, including certain salaries related to work on rmCRP, rent and overhead associated with the project from July 1998 through December 1999. Since January 1, 2000, NextEra has funded only their own compensation expenses, as they stopped funding the Company's primary facility and any associated overhead. In addition, NextEra has funded and is required to fund the cost of maintaining and defending the patents that are part of the intellectual property transferred to NextEra by the Company.

NextEra has incurred accumulated losses of approximately $2,781,000 since inception (July 8, 1998) through March 31, 2003. NextEra is expected to continue to incur significant losses during the next

several years. In addition, as of March 31, 2003, NextEra's current liabilities exceeded its current assets by approximately $294,000 and NextEra had a stockholders' equity of approximately $271,000.

As of March 31, 2002 and 2003, the Company owned approximately 28% of the issued and outstanding shares of NextEra common stock. On April 27, 2000, Franklin filed a complaint against the Company in the United States District Court for the Southern District of Ohio, Eastern Division alleging fraud, negligent misrepresentation and breach of the implied covenant of good faith and fair dealing in connection with the research and funding agreement entered into between Franklin, the Company and NextEra. The complaint sought compensatory damages, unquantified punitive damages, attorneys' fees, costs and expenses. On March 23, 2001, Franklin voluntarily dismissed its complaint against the Company and together with NextEra filed a new complaint in the Court of Common Pleas, Franklin County, Ohio alleging fraud, negligent misrepresentation and breach of the implied covenant of good faith and fair dealing in connection with the research and funding agreement entered into between Franklin, the Company and NextEra. In addition, NextEra alleged the Company tortuously interfered with an employment agreement between NextEra and the chief scientific officer of NextEra. The complaint sought compensatory damages in excess of $25,000, unquantified punitive damages, attorneys' fees, costs and expenses. On May 25, 2001, the case was dismissed without prejudice by the Court of Common Pleas, Franklin County, Ohio. The Company is currently in negotiations with Franklin and its designees to resolve certain issues, including the possible restructuring of the joint venture and relationship with NextEra to better position NextEra in its fund-raising efforts, and increasing the Company's ownership interest in NextEra as consideration for services provided to NextEra, expenses the Company previously incurred on behalf of NextEra and funds previously advanced to NextEra.

NextEra's ability to continue as a going concern is dependent upon its ability to generate sufficient funds to meet its obligations as they become due and, ultimately, to obtain profitable operations. NextEra's

financial plans for the forthcoming year include continuing efforts to obtain additional equity financing.

The Company has recognized an equity loss in NextEra to the extent of the basis of its investment. Future recognition of any investment income on the equity method by the Company for its investment in NextEra will occur only after NextEra has earnings in excess of previously unrecognized equity losses. As of March 31, 2002 and 2003, the Company's net investment in Next Era is zero.

The following is summarized financial information for NextEra as of March 31, 2001, 2002, and 2003 and for the years then ended:

	2001	2002	2003
Current assets		$ 309,000	$ 281,000
Noncurrent assets	$ 22,000	642,000	566,000
Current liabilities:			
Advances from Franklin	872,000	71,000	
Advances from the Company	135,000	135,000	135,000
Advances from other shareholders	343,000	40,000	88,000
Other	262,000	525,000	353,000
Stockholders' (deficiency) equity	(1,590,000)	117,000	271,000
Revenues	77,000	46,000	
Net (loss) income	(660,000)	(796,000)	91,000
Net loss (inception to date)	(2,076,000)	(2,872,000)	(2,781,000)

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of March 31, 2002 and 2003:

	2002	2003
Land use rights		$3,501,522
Research and laboratory equipment	$ 457,033	474,455
Furniture and office equipment	154,642	157,824
Leasehold improvements	28,525	28,525
Property and equipment - at cost	640,200	4,162,326
Less accumulated depreciation and amortization	464,250	557,670
Property and equipment - net	$ 175,950	$3,604,656

6. INCOME TAXES

The Company accounts for income taxes using an asset and liability approach which generally requires the recognition of deferred income tax assets and liabilities based on the expected future income tax consequences of events that have previously been recognized in the Company's financial statements or tax returns. In addition, a valuation

allowance is recognized if it is more likely than not that some or all of the deferred income tax assets will not be realized. A valuation allowance is used to offset the related net deferred income tax assets due to uncertainties of realizing the benefits of certain net operating loss and tax credit carryforwards and other deferred income tax assets.

The Company has no significant deferred income tax liabilities. Significant components of the Company's deferred income tax assets are as follows:

	March 31,	
	2002	2003
Deferred income tax assets:		
Federal net operating loss carryforwards	$ 10,979,000	$ 11,437,000
State net operating loss carryforwards	1,422,000	1,486,000
Federal income tax credit carryforwards	624,000	701,000
Deferred revenue	219,000	991,000
Total deferred income tax assets	13,244,000	14,615,000
Valuation allowance	(13,244,000)	(14,615,000)
Net deferred income taxes recognized in the accompanying balance sheets	$ 0	$ 0

As of March 31, 2003, the Company had federal net operating loss carryforwards of approximately $33,639,000 which expire from 2006 through 2023. The Company also has approximately $30,967,000 of state net operating loss carryforwards as of March 31, 2003, which expire from 2009 through 2023, available to offset future taxable income for state (primarily Illinois) income tax purposes. Because of "change of ownership" provisions of the Tax Reform Act of 1986, approximately $920,000 of the Company's net operating loss carryforwards for federal income tax purposes are subject to an annual limitation regarding utilization against taxable income in future periods. As of March 31, 2003, the Company had federal income tax credit carryforwards of approximately $701,000 which expire from 2008 through 2023.

A reconciliation of the provision for income taxes (benefit) at the federal statutory income tax rate to the effective income tax rate follows:

	Years Ended March 31,		
	2001	2002	2003
Federal statutory income tax rate	(34.0)%	(34.0)%	(34.0)%
State income taxes	(4.8)	(4.8)	(4.8)

Non-deductible compensation and expenses	6.8	4.9	9.0
Benefit of federal and state net operating loss and tax credit carryforwards and other deferred income tax assets not recognized	32.0	33.9	29.8
Effective income tax rate	0 %	0 %	0 %

7. STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock - On February 14, 2002, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware designating 320,000 shares of the Company's 5,000,000 authorized shares of preferred stock as Series A Convertible Preferred Stock, $0.01 par value, with a stated value of $25.00 per share. Dividends accrue at a rate of 6.0% per annum on the $25.00 stated value per share and are payable semi-annually on April 15 and October 15 of each year while the shares are outstanding. The Company has the option to pay the dividend either in cash or in equivalent shares of common stock, as defined. As of March 31, 2002 and 2003, the Company

recorded $29,000 and $98,005, respectively, of accrued preferred stock dividends which are included in the carrying value of the Series A Convertible Preferred Stock in the accompanying balance sheet. Each share of Series A Convertible Preferred Stock shall be convertible by the holder at any time into shares of the Company's common stock at a conversion rate determined by dividing the $25.00 stated value, plus any accrued and unpaid dividends (the "Liquidation Price"), by a $4.42 conversion price (the "Conversion Price"), subject to certain antidilution adjustments, as defined in the Certificate of Designation. During the year ended March 31, 2002, the Company issued 166,100 shares of Series A Convertible Preferred Stock for net proceeds of $3,848,515 (net of approximately $154,000 of cash offering costs). On April and October 15, 2002, the Company issued 42,871 shares of common stock as dividends on the Series A Preferred Shares.

The Company may at any time after February 14, 2003, require that any or all outstanding shares of Series A Convertible Preferred Stock be converted into shares of the Company's common stock, provided that the shares of common stock into which the Series A Convertible Preferred Stock are convertible are registered pursuant to an effective registration statement, as defined. The number of shares of common stock to be received by the holders of the Series A Convertible Preferred Stock upon conversion at the request of the Company shall be determined by (i) dividing the Liquidation Price by the Conversion Price provided that the closing bid price for the Company's common stock exceeds $9.00 for 20 consecutive trading days within 180 days prior to notice of conversion, as defined, or (ii) if the requirements of (i) are not met, the number of shares of common stock is determined by dividing 110% of the Liquidation Price by the Conversion Price. The Conversion Price is subject to certain antidilution adjustments, as defined in the Certificate of Designation.

The Company may at any time, upon 30 day's notice, redeem any or all outstanding shares of the Series A Convertible Preferred Stock by payment of the Liquidation Price to the holder of such shares, provided that the holder does not convert the Series A Convertible Preferred Stock into shares of Common Stock during the 30 day period. The Series A Convertible

Preferred Stock has a preference in liquidation equal to $25.00 per share, plus any accrued and unpaid dividends. Each issued and outstanding share of Series A Convertible Preferred Stock shall be entitled to 5.6561 votes with respect to any and all matters presented to the stockholders of the Company for their action or consideration. Except as provided by law or by the provisions establishing any other series of preferred stock, Series A Convertible Preferred stockholders and holders of any other outstanding preferred stock shall vote together with the holders of common stock as a single class. A total of 17,300 shares of the Series A Convertible Preferred Stock and related accrued dividends were converted to 99,105 shares of the Company's common stock during the year ended March 31, 2003.

Series B Convertible Preferred Stock - On September 25, 2002, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware designating 240,000 shares of the Company's 5,000,000 authorized shares of preferred stock as Series B Convertible Preferred Stock, $0.01 par value, with a stated value of $25.00 per share. Dividends accrue at a rate of 8.0% per annum on the $25.00 stated value per share and are payable semi-annually on April 15 and October 15 of each year while the shares are outstanding. The Company has the option to pay the dividend either in cash or in equivalent shares of common stock, as defined. As of March 31, 2003, the Company recorded $51,842 of accrued preferred stock dividends which are included in the carrying value of the Series B Convertible Preferred Stock in the accompanying balance sheets. Each share of Series B Convertible Preferred Stock shall be convertible by the holder at any time into shares of the Company's common stock at a conversion rate determined by dividing the $25.00 stated value, plus any accrued and unpaid dividends (the "Liquidation Price"), by a $4.00 conversion price (the "Conversion Price B"), subject to certain antidilution adjustments, as defined in the Certificate of Designation. During the year ended March 31, 2003 the Company issued 76,725 shares of Series B Convertible Preferred Stock for net

proceeds of $1,859,333 (net of offering costs of approximately $58,900 of cash offering costs). On October 15, 2002, the Company issued 2,658 shares of common stock as dividends on Series B preferred shares.

The Company may at any time after September 24, 2003, require that any or all outstanding shares of Series B Convertible Preferred Stock be converted into shares of the Company's common stock, provided that the shares of common stock into which the Series B Convertible Preferred Stock are convertible are registered pursuant to an effective registration statement, as defined. The number of shares of common stock to be received by the holders of the Series B Convertible Preferred Stock upon conversion at the request of the Company shall be determined (i) dividing the Liquidation Price by the Conversion Price B provided that the closing bid price for the Company's common stock exceeds $9.00 for 20 consecutive trading days within 180 days prior to notice of conversions, as defined, or (ii) if the requirements of (i) are not met, the number of shares of common stock is determined by dividing 110% of the Liquidation Price by the Conversion Price B. The Conversion Price B is subject to certain antidilution adjustments, as defined in the Certificate of Designation.

The Company may at any time, upon 30 day notice, redeem any or all outstanding shares of the Series B Convertible Preferred Stock by payment of the Liquidation Price to the holder of such shares, provided that the holder does not convert the Series B Convertible Preferred Stock into shares of Common Stock during the 30 day period. The Series B Convertible

Preferred Stock has a preference in liquidation equal to $25.00 per share, plus any accrued and unpaid dividends. Each issued and outstanding share of Series B Convertible Preferred Stock shall be entitled to 6.25 votes (subject to adjustment for dilution) with respect to any and all matters presented to the stockholders of the Company for their action or consideration. Except as provided by law or by the provisions establishing any other series of preferred stock, Series B Convertible Preferred stockholders and holders of any other outstanding preferred stock shall vote together with the holders of common stock as a single class. A total of 20,000 shares of the Series B Convertible Preferred Stock and related accrued dividends were converted to 129,343 shares of the Company's common stock during the year ended March 31, 2003.

Common Stock - On June 28, 2002, the Company entered into a Finder's Agreement with an individual to develop and qualify potential strategic partners for the purpose of testing and/or the commercialization of Company products in China. As consideration for entering into the agreement, the individual received 150,000 shares of the Company's common stock and the Company recognized approximately $757,500 as a general and administrative expense based on the estimated fair value of the shares issued.

On July 31, 2002, the Company entered into a one year agreement with The Gabriele Group. L.L.C. ("Gabriele") for assistance to be provided by Gabriele to the Company with respect to management consulting, strategic planning, public relations and promotions. As compensation for these services, the company granted Gabriele 40,000 shares of the Company's common stock and the Company recognized approximately $187,600 as a general and administrative expense during the three month period ended September 30, 2002, based on the estimated fair value of the shares issued. The Company also granted Gabriele warrants to purchase 30,000 shares of the Company's common stock at $6.00 per share. These warrants vest when the price of the Company's common stock reaches certain milestones, beginning at $10.00 per share for a period of 20 consecutive days. This agreement may be renewed for additional one year terms at the sole discretion of the Company.

On March 21, 2003, the Company entered into media production agreements with "winmaxmedia," an operating division of Winmax Trading Group, Inc. ("Winmax"), to produce materials to be used in connection with equity fundraising efforts. As consideration for services to be performed under the

agreement, the Company issued 100,000 shares of common stock and paid various amounts in cash. Amounts for services under the contracts are recorded as deferred offering costs within other current assets on the consolidated balance sheet.

On March 21, 2003, the Company entered into an Investor Relations Agreement with Fulcrum Holdings of Australia, Inc. ("Fulcrum") for financial consulting services and public relations management to be provided over a 12-month period. As consideration for services to be performed under the agreement, the Company will issue to Fulcrum 100,000 shares of common stock and warrants to purchase 350,000 shares of common stock at prices ranging from $6.00 to $15.00 per share. The common shares and warrants will be issued, and the related expense will be recognized, on a pro rata basis over the contract period. During the year ended March 31, 2003, 8,333 common shares were issued and a general and administrative

expense of $37,290 was recorded based on the market value of the common shares on the date of issuance. Also during the year ended March 31, 2003, warrants to purchase 29,167 shares of common stock were issued and a general and administrative expense of $51,835 was recorded based on the value of the warrants using the Black-Scholes option valuation model.

Common Stock Options - On October 12, 2000, the Company's stockholders approved the issuance of options to purchase shares of common stock to certain employees and other nonemployees who have been engaged to assist the Company in various research and administrative capacities as part of the 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan provides for the issuance of up to 350,000 shares of common stock in the form of incentive stock options and non-qualified stock options. At the stockholders meeting held November 15, 2002, the stockholders approved an amendment to the 2000 Stock Incentive Plan to increase the number of shares of common stock reserved for issuance from 350,000 shares to 1,100,000 shares. Expiring stock options which were issued under the 2000 Stock Incentive Plan are available for reissuance. During the year ended March 31, 2003, there were 30,000 options previously granted under the 2000 Stock Incentive Plan that expired and are available to be reissued. The incentive stock options must be granted at a price at least equal to fair market value at the date of grant.

The Company has granted options to purchase common stock to individuals who have contributed to the Company in various capacities. The options contain various provisions regarding vesting periods and expiration dates. The options generally vest over periods ranging from 0 to 4 years and expire after five or ten years. As of March 31, 2003, there were a total of 630,750 shares available for grant, which includes 12,000 shares which are reserved for issuance under certain consulting agreements with nonemployees.

During the year ended March 31, 2001, the Company issued options to purchase 105,000 shares of common stock to nonemployees and recognized expense of approximately $452,000 related to such options and certain other options issued in the prior year which vest over a four year service period. During the year ended March 31, 2002, the Company issued options to purchase 12,000 shares of common stock to nonemployees and recognized expense of approximately $332,000 related to such options and certain other options issued in prior years which vest over a four year service period. During the year ended March 31, 2003, the Company issued options to purchase 22,000 shares of common stock to nonemployees (of which options to purchase 5,000 shares did not vest) and recognized expense of approximately $243,000 related to such options and certain other options issued in prior years which vest over a four year service period. The expense was determined based on the estimated fair value of the options using the Black-Scholes valuation model and assumptions regarding volatility of the Company's common stock, risk-free interest rates, and life of the option of the Company's common stock all at the date such options were issued.

The activity during the years ended March 31, 2001, 2002 and 2003 for the Company's stock options is summarized as follows:

	Number of Stock Options	Weighted Average

	Shares	Price Range	Exercise Price
Outstanding as of March 31, 2000	416,048	$0.31- 1.74	0.63
Granted	168,500	8.50-11.50	11.05
Exercised	(88,661)	0.31- 0.59	0.48
Expired	(29,751)	0.31- 0.59	0.57
Outstanding as of March 31, 2001	466,136	0.34-11.50	4.43
Granted	107,750	4.75-10.00	7.16
Exercised	(51,214)	0.34- 0.59	0.38
Expired	(14,194)	0.34-11.50	1.91
Outstanding as of March 31, 2002	508,478	$0.34-11.50	5.48
Granted	225,000	2.25-4.75	2.75
Exercised	(217)	0.59	0.59
Expired	(34,787)	0.59-10.50	7.72
Outstanding as of March 31, 2003	698,474	$0.34-11.50	$ 4.49
Exercisable as of March 31, 2001	330,885	$0.34-11.50	2.33
Exercisable as of March 31, 2002	340,186	0.34-11.50	3.86
Exercisable as of March 31, 2003	415,709	0.34-11.50	4.52

The following table summarizes information about stock options outstanding as of March 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life-Years	Weighted Average Exercise Price	Sharesable Exercisable	Weighted Average Exercise Price
$ 0.34	24,390	0.01	$ 0.34	24,390	0.34
0.46	149,344	3.96	0.46	149,344	0.46
1.74-2.55	258,490	8.33	2.38	72,408	1.93
4.42-4.75	73,000	4.42	4.73	30,835	4.70
8.50-11.50	193,250	6.06	10.87	138,732	10.93
	698,474	6.07	$ 4.49	415,709	$ 4.52

Warrants - For advisory services in connection with the Recapitalization (see Note 3), RADE received warrants to purchase 225,000 shares of the Company's common stock at $.10 per share. On April 22, 1999, the warrant agreement with RADE was amended to increase the exercise price from $.10 per share to $6.47 per share. The warrants expire July 24, 2004. On October 12, 1998, RADE received warrants to purchase 750,000 shares of the

Company's common stock at $.10 per share. On April 22, 1999, the warrant agreement was amended to increase the exercise price from $.10 per share to $6.47 per share. The warrants were issued as compensation for management consulting, market analysis and strategic advisory services performed from July 1998 through December 1998. The warrants expire October 12, 2004.

In connection with an initial public offering, the underwriters received warrants to purchase 100,000 additional shares of common stock at $16.00 per share. The warrants expired on April 30, 2003.

On July 31, 2000, the Company entered into an agreement with the principals of Stonegate Securities, Inc. ("Stonegate") for assistance by Stonegate in connection with raising additional equity capital for the consideration of warrants to purchase 200,000 shares of the Company's common stock. Pursuant to a notice of termination of the agreement dated December 8, 2000, 100,000 of the warrants shall not vest. The remaining 100,000 warrants expire on July 31, 2005 and have an exercise price of $12.06 per share. The Company recorded a general and administrative expense of $866,000 during the year ended March 31, 2001, as the warrants were for compensation unrelated to the December 8, 2000 private placement offering. The expense was determined based on the estimated fair value of the 100,000 issued and vested warrants.

On March 15, 2001, the Company entered into a one year agreement with The Kriegsman Group ("Kriegsman") for assistance by Kriegsman with respect to financial consulting, planning, structuring, business strategy, public relations and promotions. This agreement was terminated by the Company, effective September 14, 2001. As compensation for these services, the Company paid a retainer fee to Kriegsman of $20,000 per month for the term of the agreement. The Company also granted Kriegsman warrants to purchase 250,000 shares of the Company's common stock at $10.75 per share. Warrants to purchase 100,000 shares vested immediately and the remaining 150,000 warrants did not vest and were cancelled. The warrants are exercisable over a five year period and contain a cashless exercise provision. The Company recorded a general and administrative expense of approximately $422,000 during the year ended March 31, 2001 for the estimated fair value of the 100,000 issued and vested warrants.

There were warrants outstanding as of March 31, 2001 to purchase 850,000 shares of the Company's common stock with an exercise price of $20.52 per share that were cancelled as of April 20, 2001.

On January 31, 2002, the Company entered into a one year consulting agreement with Yorkshire Capital Limited ("Yorkshire") for services related to identifying investors and raising funds in connection with February 2002 private placement offerings and assistance to be provided by Yorkshire to the Company with respect to financial consulting, planning, structuring, business strategy, public relations and promotions, among other items. In connection with the closing of the private placement offerings, the Company granted Yorkshire warrants to purchase 360,000 shares of the Company's common stock at prices ranging from $6.00 to $12.00 per share. Warrants to purchase 100,000 shares of the Company's common stock at an exercise price of $6.00 per share vested upon the closing of the private placement offerings. The remaining warrants did not vest and were cancelled. The warrants expire on February 14, 2007 and contain certain antidilution provisions. The Company may, upon 30 days notice, redeem any vested warrants for $0.10 per share if the Company's

Common Stock trades at 200% of the exercise price for 20 consecutive trading days. Yorkshire may exercise any vested warrants during such notice period. In addition, Yorkshire received 60,000 shares of the Company's common stock as additional consideration for identifying investors and raising funds in connection with the closing of the private placement offerings. As compensation for the consulting services, the Company was required to pay a retainer fee to Yorkshire of $10,000 per month for the term of the agreement.

In February 2002, the Company, in connection with the Series A Convertible Preferred Stock private placement offerings, issued warrants to purchase 400,250 shares of the Company's common stock at an exercise price of $6.00 per share of common stock. The warrants expire at various dates in February 2007. The warrant exercise period commences upon the conversion or the redemption of the Series A Convertible Preferred Stock that was concurrently issued to such warrant holder. At any time after the

first anniversary of the date of grant and if the Company's common stock closes at $12.00 per share or above for 20 consecutive trading days, the Company may, upon 20 days notice, redeem any unexercised portion of any warrants for a redemption fee of $.10 per share of common stock underlying the warrants. During the 20 day notice period, if the warrants are then exercisable as a result of the conversion or redemption of the Series A Convertible Preferred Stock, such warrant holder may then exercise all or a portion of the warrant by tendering the appropriate exercise price. The warrants contain certain antidilution provisions.

The warrants issued in February 2002 to the holders of the Series A Preferred Convertible Stock were valued using the Black-Scholes option valuation model and the amount recorded of $908,535 was determined by applying the relative fair value method in relation to the estimated fair value of Series A Convertible Preferred Stock resulting in a $908,535 preferred stock dividend calculated in accordance with the Emerging Issues Task Force ("EITF") Issue No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments." The dividend on the Series A Convertible Preferred Stock was charged to deficit accumulated during the development stage immediately upon issuance, as the preferred stock is immediately convertible. The preferred stock dividend of $908,535 and the accrued preferred stock dividends of $29,400 were reported as dividends in determining the net loss attributable to common stockholders in the accompanying statement of operations for the year ended March 31, 2002. Preferred stock dividends of $226,210 were recorded during the year ended March 31, 2003.

In addition, on February 1, 2002, the Company entered into an introductory brokerage agreement with Ace Champion, Ltd. ("Ace") and Pacific Dragon Group, Ltd. ("Pacific Dragon") (collectively, the "Introductory Brokers") for assistance to be provided by the Introductory Brokers to the Company with respect to obtaining funds in connection with the aforementioned February 2002 private placement offerings (see Note 3). As compensation for such services, Ace and Pacific Dragon received warrants to purchase 100,000 shares and 300,000 shares, respectively, of the Company's common stock at an exercise price of $6.00 per share, subject to certain conditions. The Company may, after February 22, 2003, upon 30 days' notice, provided that the Company's common stock has traded at or above 200% of the exercise price for 20 consecutive trading days, redeem any unexercised warrants for $0.10 per share, as defined. The Introductory Brokers may exercise their warrants during the 30 day notice period. The

warrants expire on February 22, 2007 and contain certain antidilution provisions.

In September 2002, in connection with of the Series B Convertible Preferred Stock private placement offering, the Company issued warrants to purchase 191,812 shares of the Company's common stock at an exercise price of $6.125 per share of common stock. The warrants expire at various dates in September 2007. The warrant exercise period commenced immediately upon issuance of the warrant. At any time after the first anniversary of the date of grant and if the Company's common stock closes above 200% of the exercise price for 20 consecutive trading days, the Company may, upon 20 days notice, redeem any unexercised portion of any warrants for a redemption fee of $.10 per share of common stock underlying the warrants. During the 20 day notice period, if the warrants are then exercisable as a result of the conversion or redemption of the Series B Convertible Preferred Stock, such warrant holder may then exercise all or a portion of the warrants by tendering the appropriate exercise price.

The warrants issued in September 2002 to the holders of the Series B preferred Convertible Stock were valued using the Black-Scholes option valuation model and the amount recorded of $149,432 was determined by applying the relative fair value method in relation to the estimated fair value of Series B Convertible Preferred Stock resulting in a $149,432 discount on the preferred stock in accordance with the EITF Issue No. 00-27. The dividend on the Series B Convertible Preferred Stock was charged to deficit accumulated during the development stage immediately upon issuance, as the preferred stock is

immediately convertible. The preferred stock dividend of $149,432 was reported as a dividend in determining the net loss attributable to common stockholders in the accompanying statement of operations for the year ended March 31, 2003. Preferred stock dividends of $76,227 were recorded during the year ended March 31, 2003.

The activity during the years ended March 31, 2001, 2002 and 2003 for the Company's warrants to purchase shares of common stock is summarized as follows:

	Number of Shares	Warrants Price Range	Weighted Average Exercise Price
Outstanding as of March 31, 2000	1,925,000	$6.47-20.52	$13.17
Granted	350,000	10.75-12.06	11.12
Outstanding as of March 31, 2001	2,275,000	6.47-20.52	12.85
Granted	1,160,250	6.00-12.00	7.01
Cancelled	(1,000,000)	10.75-20.52	19.05
Outstanding as of March 31, 2002	2,435,250	6.00-16.00	7.52
Granted	250,977	6.00-15.00	6.64

Cancelled	(260,000)	9.00-12.00	10.50
Outstanding as of March 31, 2003	2,426,227	$ 6.00-16.00	$ 7.11
Exercisable as of March 31, 2001	1,275,000	$6.47-16.00	$ 7.49
Exercisable as of March 31, 2002	1,775,000	6.00-16.00	7.43
Exercisable as of March 31, 2003	2,039,227	6.00-16.00	7.32

The following table summarizes information about outstanding warrants to purchase shares of the Company's common stock as of March 31, 2003:

Exercise Price Per Share	Warrants Outstanding	Expiration Date
$ 6.00	8,333	March 21, 2005
6.00	486,750	February 14, 2007
6.00	413,500	February 22, 2007
6.00	30,000	July 31, 2007
6.13	189,312	September 25, 2007
6.13	2,500	October 28, 2007
6.47	225,000	July 24, 2004
6.47	750,000	October 12, 2004
10.00	10,416	March 21, 2005
10.75	100,000	March 15, 2006
12.06	100,000	July 31, 2005
15.00	10,416	March 21, 2005
16.00	100,000	April 30, 2003
Total warrants outstanding	2,426,227	

Stock-Based Compensation - The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its employee stock option plans.

During the years ended March 31, 2001, 2002 and 2003, the Company issued 63,500, 95,750 and 203,000 options, respectively, to certain employees and directors. If the Company had recognized compensation expense for the options granted during the years ended March 31, 2001, 2002, and 2003, consistent with the method prescribed by SFAS No. 123, net loss and net loss per share would have been changed to the pro forma amounts indicated below:

	Years Ended March 31,		
	2001	2002	2

Net loss attributable to common shareholders - as reported	$(9,863,284)	$(4,261,045)	$(5,1
Add: stock-based compensation expense included in reported net loss	0	0	
Deduct: total stock-based compensation expense determined under fair value method for all awards	(76,000)	(270,329)	(2
Net loss attributable to common stockholders - pro forma	$(9,939,284)	$(4,531,374)	$(5,4
Basic and diluted net loss per share attributable to common stockholders - as reported	$ (1.78)	$ (0.71)	$
Basic and diluted net loss per share attributable to common stockholders - pro forma	$ (1.79)	$ (0.75)	$

The following weighted average assumptions were used for grants during the year ended March 31, 2001: 1) expected dividend yield of 0%, 2) risk-free interest rate of 5.6%, 3) expected volatility of

74.1%, and 4) expected option life of 8.2 years. The following weighted average assumptions were used for grants during the year ended March 31, 2002: 1) expected dividend yield of 0%, 2) risk-free interest rate of 4.98%, 3) expected volatility of 87%, and 4) expected option life of 7.1 years. The following weighted average assumptions were used for grants during the year ended March 31, 2003: 1) expected dividend yield of 0%, 2) risk-free interest rate of 3.8%, 3) expected volatility of 87%, and 4) expected option life of 9.5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single value of its options and may not be representative of the future effects on reported net income (loss) or the future stock price of the Company. The weighted average estimated fair value of employee stock options granted during the years ended March 31, 2001, 2002 and 2003 was $7.98, $5.46 and $2.15, respectively. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period.

8. COLLABORATIVE RESEARCH AND DEVELOPMENT ACTIVITIES

The Company has various collaborative research agreements with commercial enterprises. Under the terms of these arrangements, the Company has agreed to perform best efforts research and development and, in exchange, the Company may receive advanced cash funding and may also earn additional

fees for the attainment of certain milestones. The Company may receive royalties on the sales of such products. The other parties generally receive exclusive marketing and distribution rights for certain products for set time periods in specific geographic areas.

The Company initially acquired its rights to the platform technology and dications developed by a consortium of universities consisting of The University of North Carolina at Chapel Hill ("UNC"), Georgia State University, Duke University and Auburn University (the "Scientific Consortium") pursuant to an agreement, dated January 15, 1997 (as amended, the "Consortium Agreement") among the Company, Pharm-Eco Laboratories, Inc. ("Pharm-Eco"), and UNC (to which each of the other members of the Scientific Consortium agreed shortly thereafter to become a party). The Consortium Agreement commits the parties to, collectively, research, develop, finance the research and development of, manufacture and market both the technology and compounds owned by the Scientific Consortium and previously licensed or optioned to Pharm-Eco (the "Current Compounds") and to be licensed to the Company in accordance with the Consortium Agreement, and all technology and compounds developed by the Scientific Consortium after January 15, 1997, through use of Company-sponsored research funding or National Cooperative Drug Development grant funding made available to the Scientific Consortium (the "Future Compounds" and, collectively with the Current Compounds, the "Compounds").

The Consortium Agreement contemplated that upon the completion of the Company's initial public offering ("IPO") of shares of its common stock with gross proceeds of at least $10,000,000 by April 30, 1999, the Company and Pharm-Eco, with respect to the Current Compounds, and the Company and UNC, (on behalf of the Scientific Consortium), with respect to Future Compounds, would enter into license agreements for, or assignments of, the intellectual property rights relating to the Compounds held by Pharm-Eco and the Scientific Consortium; pursuant to which the Company would pay royalties and other payments based on revenues received for the sale of products based on the Compounds.

The Company completed its IPO on April 26, 1999, with gross proceeds in excess of $10,000,000. Pursuant to the Consortium Agreement, both Pharm-Eco and the Scientific Consortium then became obligated to grant or assign to the Company an exclusive worldwide license to use, manufacture, have manufactured, promote, sell, distribute, or otherwise dispose of any products based directly or indirectly on all of the Current Compounds and Future Compounds.

As a result of the closing of the IPO, the Company issued an aggregate of 611,250 shares of common stock, of which 162,500 shares were issued to the Scientific Consortium and 448,750 shares were issued to Pharm-Eco or persons designated by Pharm-Eco.

Pursuant to the Consortium Agreement, the Company may, subject to the satisfaction of certain conditions, be required to issue 100,000 shares of common stock to the Scientific Consortium upon the filing by the Company of the first new drug application or an abbreviated new drug application with the Food and Drug Administration with respect to a product incorporating certain Compounds. In addition, the Company will pay the Scientific Consortium an aggregate royalty of up to 5.0% of net sales derived from the Compounds, except that the royalty rate payable on any Compound developed at Duke University will be determined by negotiation at the time such Compound is developed. In the event that the Company

sublicenses its rights with respect to the Compounds to a third party, the Company will pay the Scientific Consortium a royalty based on a percentage of any royalties the Company receives, and a percentage of all signing, milestone and other payments made to the Company pursuant to the sublicense agreement.

As contemplated by the Consortium Agreement, on January 28, 2002, the Company entered into a License Agreement with the Scientific Consortium whereby the Company received the exclusive license to commercialize dication technology and compounds developed or invented by one or more of the Scientific Consortium scientists after January 15, 1997, and which also incorporated into such License Agreement the Company's existing license with the Scientific Consortium with regard to the Current Compounds.

In June 1999, the Company entered into a research and manufacturing agreement with Pharm-Eco for Pharm-Eco to produce good manufacturing practices quality, as defined, dicationic drugs and products for clinical testing and for early commercialization. Pharm-Eco was unable to manufacture certain required compounds and the Company subsequently engaged alternate suppliers who successfully manufactured the compounds.

In August 2000, Pharm-Eco and two of its senior executives filed suit in Delaware against the Company in connection with a dispute under the Consortium Agreement. The Company responded by denying the allegations and filing a counter-claim against Pharm-Eco for breach of contract.

The Company filed a Motion for Summary Judgment, which was granted on February 21, 2001. In his Memorandum Opinion, the Vice Chancellor hearing the proceeding dismissed all of the plaintiffs' claims against the Company and held that Pharm-Eco had breached the Consortium Agreement by failing to grant or assign to the Company a license for the Current Compounds. On March 12, 2001, the Vice Chancellor signed a Final Order and Judgment directing Pharm-Eco to execute and deliver to the Company an agreement granting or assigning to the Company the license. On March 27, 2001, Pharm-Eco and the Company entered into an agreement assigning the license. No further claims against the Company remain in this proceeding, and on May 1, 2001, a Stipulation of Dismissal was filed with the Court.

On April 20, 2001, the Company entered into a settlement agreement with Pharm-Eco and certain other parties resolving all remaining matters between them. Pursuant to this agreement, the Company received a cash payment of $1,000,000; an assignment from Pharm-Eco of various contract rights; and a

termination of all of the Company's obligations to Pharm-Eco, including, without limitation, (a) the obligation to issue an aggregate of 850,000 warrants for shares of the Company's stock (see Note 7), (b) the obligation to issue shares of common stock upon the occurrence of a certain future event, (c) the obligation to pay a percentage of all non-royalty payments that the Company might receive under any sublicense that the Company might enter into with respect to certain compounds, and (d) certain accounts payable which Pharm-Eco claimed to be owed of approximately $159,000; and a release of any and all claims that Pharm-Eco may have had against the Company. The cash payment received and the accounts payable obligations which were forgiven, aggregating approximately $1,159,000, were recorded as a credit to (reduction of) research and development expense during the year ended March 31, 2002; as

the Company had previously expensed the estimated fair value of the shares of common stock issued to Pharm-Eco at the time of the IPO and the accounts payable obligations, as research and development expense.

The Company was required to make quarterly research grants in the amount of $100,000 to UNC through April 30, 2002. During the years ended March 31, 2001, 2002 and 2003, the Company expensed grant payments to UNC of $400,000, $400,000 and $100,000, respectively. Such payments were expensed as research and development costs.

In August 1999 and 2000, the Company was awarded three Small Business Innovation Research ("SBIR") grants aggregating approximately $1,429,000 from the National Institutes of Health ("NIH") to research various infections. During the years ended March 31, 2001, 2002 and 2003, the Company recognized revenues of approximately $564,000, $502,000 and $0, respectively, from these grants and expensed payments to UNC and certain other Scientific Consortium universities of approximately $215,000, $163,000 and $0, respectively, for contracted research related to these grants. There is no additional funding available to the Company under these grants.

In August 2001, the Company was awarded an additional SBIR grant from the NIH of approximately $144,000 as the third year grant to continue research on "Novel Procedures for Treatment of Opportunistic Infections." During the years ended March 31, 2002 and 2003, the Company recognized revenues of approximately $74,000 and $70,000 from this grant and expensed payments of approximately $65,000 and $70,000 to UNC and certain other Scientific Consortium universities for contracted research related to this grant.

During the years ended March 31, 2001, 2002 and 2003, the Company expensed approximately $477,000, $438,000 and $333,000, respectively, of other payments to UNC and certain other Scientific Consortium universities for patent related costs and other contracted research. Total payments expensed to UNC and certain other Scientific Consortium universities were approximately $1,093,000, $1,066,000 and $503,000 during the years ended March 31, 2001, 2002 and 2003, respectively. Included in accounts payable as of March 31, 2002 and 2003, were approximately $267,000 and $15,000, respectively, due to UNC and certain other Scientific Consortium universities.

In November 2000, The Bill & Melinda Gates Foundation ("Gates Foundation") awarded a $15,114,000 grant to UNC to develop new drugs to treat Human Trypanosomiasis (African sleeping sickness) and Leishmaniasis. On March 29, 2001, UNC entered into a clinical research subcontract agreement with the Company, whereby the Company is to receive up to $9,800,000, subject to certain terms and conditions, over a five year period to conduct certain clinical and research studies. The proceeds from this agreement are restricted and must be segregated from the Company's other funds and used for specific purposes. During the years ended March 31, 2001, 2002 and 2003, the Company received installment payments under this grant of $4,300,000, $0, and $3,380,000, respectively, of which approximately $791,000, $2,946,000 and $1,389,000 was utilized for clinical and research purposes

conducted and expensed during the years ended March 31, 2001, 2002 and 2003, respectively. The Company recognized revenues of approximately $791,000, $2,946,000 and $1,389,000 during the years ended March 31, 2001, 2002 and 2003, respectively, for services performed under the agreement.

The remaining amount (approximately $563,000 and $2,554,000 as of March 31, 2002 and 2003, respectively) has been deferred and will be recognized as revenue over the term of the agreement as the services are performed.

On May 4, 2001, the Company entered into a four-year subcontract agreement with a research company located in Switzerland for clinical research to be performed for the Company in connection with its subcontract agreement with UNC related to the Gates Foundation grant. The agreement provides for payments of up to approximately $1,195,000 over the term of the agreement, provided the Company receives additional funding from UNC or the Gates Foundation, otherwise the Company's commitment is limited to approximately $317,000 during the initial year of the agreement. The Company recognized expense of approximately $317,000 and $498,000 during the years ended March 31, 2002 and 2003 related to such agreement.

On April 22, 2002, the Company entered into a Confidentiality, Testing and Option Agreement with Neurochem, Inc. ("Neurochem"), a Canadian corporation, to supply Neurochem with selected dicationic compounds for the testing, evaluation and potential future licensing of such compounds for (i) the treatment and diagnosis of amyloidosis and the related underlying conditions of Alzheimer's Disease, cerebral amyloid angiopathy, primary amyloidosis, diabetes, rheumatic diseases and (ii) the treatments of conditions related to secondary amyloidosis. Neurochem has the right to license tested compounds upon the conclusion of the Confidentiality, Testing and Option Agreement, as defined in the agreement. The Company has recognized revenues for the year ended March 31, 2003 of $150,000. On April 4, 2003, the Company notified Neurochem that the Confidentiality, Testing and Option Agreement had previously expired by its terms.

9. OTHER COMMITMENTS AND CONTINGENCIES

Operating Leases - In December 1999, the Company began leasing its main office and research facility under an operating lease that requires lease payments starting in March 2000 of approximately $12,100 per month through March 2003 and $12,800 from April 2003 through March 2005. The Company is required to pay certain real estate and occupancy costs. In July 1999, the Company began leasing an additional office facility from RADE, a related party, that is occupied by both the Company and RADE, on a month-to-month basis, for approximately $8,800 per month.

In addition, the Company leases certain office equipment under an operating lease agreement.

Total rent expense was approximately $282,000, $270,000 and $285,000 for all leases during the years ended March 31, 2001, 2002, and 2003, respectively.

As of March 31, 2003, future minimum lease payments required under the aforementioned noncancellable operating leases approximated the following:

Years Ending March 31,	Lease Payments
2004	$ 153,000
2005	140,000

Total	$ 293,000

Other Contingencies - In connection with obtaining the consent of Criticare Systems, Inc. ("Criticare"), a significant stockholder of the Company, to the private placement of stock by NCHK in 1998, the Company transferred to Criticare, on July 2, 1998, certain of its intangible assets and 86,207 shares of the Company's common stock for $150,000. These intangible assets included (1) a license for rmCRP as a therapy for treating sepsis (a bacterial infection which quickly overwhelms the immune system and can lead to sudden death), and (2) rights to certain diagnostic products.

The license granted to Criticare for rmCRP included patents and know-how developed by the Company. NextEra has licensed the rights for producing rmCRP back to the Company for use with sepsis applications. Criticare assigned the technology to another party and the assignee had until July 2, 1999, to raise a minimum of $500,000 to fund both the development of the sepsis technology and the initiation of clinical trials. The Company has not received notification from the assignee as to whether or not the funds have been raised. The Company is required to pay the cost of maintaining and defending the patents until the initial financing is completed by the assignee.

The rights transferred to Criticare for the diagnostic products included rights to the Company's diagnostic products for measuring hemoglobin A1c in diabetic patients and Carbohydrate Deficient Transferring ("CDT") as a marker in the blood for long-term alcohol abuse, as well as patents that have been issued for both technologies and exclusive worldwide rights from Northwestern University to develop and sell the products, which now inure to the benefit of Criticare. Criticare is responsible for the maintenance and prosecution of the patents for both technologies.

In June 2000, Technikrom, Inc. ("Technikrom") filed a claim against the Company with the American Arbitration Association in Chicago, Illinois. In that proceeding, Technikrom sought to recover $124,000 in fees, interest and costs for certain method development services provided to the Company relating to the purification of a protein known as rmCRP. The Company filed a counterclaim against Technikrom for fraudulent inducement of contract which sought compensatory damages of at least $224,000, plus interest and costs. The Company also sought a declaratory judgment that Technikrom, inter alia, failed to use its best efforts to develop a purification method within the time parameters set by the parties. The parties engaged an arbitrator and in November 2001 Technikrom was awarded a $95,000 settlement, which the Company subsequently paid.

The Company is involved in various claims and litigation incidental to its operations. In the opinion of management, ultimate resolution of these actions will not have a material effect on the Company's financial statements.

10. OTHER RETIRED OBLIGATIONS

Recapitalization - In connection with the Recapitalization (see Note 3) the following transactions occurred on July 24, 1998:

- Criticare, a significant stockholder of the Company, who, prior to the Recapitalization, owned 1,000,000 shares of Series A Redeemable

Preferred Stock, 1,200,000 shares of Series B Redeemable Preferred Stock and 198,708 shares of common stock, had advanced $597,722 to the Company. The advances were payable on demand. Criticare exchanged $597,722 of advances and $68,368 of related accrued interest for 145,353 shares of common stock. The Company also had certain notes payable to Criticare aggregating $148,777 and related accrued interest of $43,426 that were exchanged for 35,403 shares of common stock. The carrying value of the outstanding Criticare indebtedness in excess of the estimated fair value of the shares of common stock and cash exchanged was accounted for as additional paid-in capital.

- Certain other stockholders exchanged $387,450 of advances for 196,824 shares of common stock. The Company recognized a gain on the extinguishment of debt of $80,404 for the outstanding indebtedness under the advances in excess of the estimated fair value of the 196,824 shares of common stock ($307,046).

- Certain other notes payable aggregating $1,306,673, related accrued interest aggregating $337,290 and accounts payable aggregating $261,597 were exchanged for 227,398 shares of common stock and $203,450 cash. The Company recognized a gain on the extinguishment of debt of $1,347,361 for the outstanding aggregate indebtedness under such notes ($1,306,673), related accrued interest ($337,290) and accounts payable ($261,597) in excess of the estimated fair value of the shares of common stock ($354,749) and cash ($203,450) exchanged.

- Series A and B Redeemable Preferred stockholders exchanged their preferred shares for an aggregate 1,195,017 shares of common stock. The holders of the Series A and Series B Redeemable Preferred Stock had cumulative dividend preferences at the rate of 8% per annum, compounded daily, of the liquidation value thereof, plus accumulated and unpaid dividends thereon, in preference to any dividend on common stock, payable when and if declared by the Company's Board of Directors. Dividends accrued whether or not they had been declared and whether or not there were profits, surplus or other funds of the Company legally available for the payment of dividends. The difference between the initial estimated fair value of the Series A Redeemable Preferred Stock and the aggregate redemption value of $440,119 was a premium which was amortized by a credit to retained earnings (deficit accumulated during the developmental stage) and a debit to the carrying value of the redeemable preferred stock during the period from issuance to the required redemption date, using the interest method. In addition, while the redeemable preferred shares were outstanding, dividends aggregating $1,783,354 were charged to retained earnings (deficit accumulated during the development stage). The Series A and Series B Redeemable Preferred Stock had redemption (carrying) values of $2,780,324 and $2,797,260, respectively, as of the date of the Recapitalization. In connection with the Recapitalization, the Series A and Series B Redeemable Preferred stockholders agreed to accept 578,954 and 616,063 shares of common stock, respectively, for their shares of the preferred stock. The difference between the carrying value of the Series A and Series B Redeemable Preferred Stock and the estimated fair value of the common shares exchanged of $1,877,138 and $1,836,196, respectively, was credited to deficit accumulated during the development stage.

Advances from Stockholder and Affiliate - As of March 31, 1999, the Company's president and NextEra had each advanced $25,000 to the Company. The advances were non-interest bearing and were repaid in May 1999.

11. SUPPLEMENTAL CASH FLOW INFORMATION

The Company did not pay any income taxes or interest during the years ended March 31, 2001, 2002 and 2003.

Non-Cash Investing and Financing Activities:

During the years ended March 31, 2001, 2002 and 2003, the Company issued common stock, common stock options and warrants as compensation for services and engaged in certain other non-cash investing and financing activities. The amounts of these transactions are summarized as follows:

	Years Ended Marc	
	2001	2002
Expense related to issuance of common stock as compensation for services		
Expense related to issuance of common stock options as compensation for services	$ 451,565	$332,005
Expense related to issuance of warrants to purchase common stock as compensation for services	1,287,729	
Convertible preferred stock dividends accrued		29,400
Issuance of common stock as payment of convertible preferred stock dividends		
Issuance of common stock for conversions of convertible preferred stock		
Issuance of common stock for acquisition of land use rights		
Fair value of land use rights acquired		
Less: Minority interest		
Cash paid for acquisition costs		
Increase in accounts payable for acquisition costs		
Issuance of common stock for acquisition		

12. SUBSEQUENT EVENTS

On June, 6, 2003 the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware designating 160,000 shares of the Company's 5,000,000 authorized shares of preferred stock as Series C Convertible Preferred Stock, $0.01 par value, with a stated value of $25.00 per share. Dividends accrue at a rate of 8.0% per annum on the $25.00 stated value per share and are payable semi-annually on April 15 and October 15 of each year while the shares are outstanding. The total amount of Series C Convertible Preferred Stock outstanding as of June 18, 2003 was 125,352 and gross proceeds of $3,133,800 have been received to date and would increase equity by a similar amount.

On March 21, 2003, the Company entered into a Finder's Agreement with Wyndham Associates Limited ("Wyndham") to identify potential strategic partners and assist in the raising of equity financing. In conjunction with the identification of equity investors for the Series C Convertible Preferred Stock offering as noted above, on June 20, 2003, the Company issued 220,000 shares of common stock. Wyndham further received a cash fee

equal to 4% of funds raised prior to June 30, 2003 through the sale of Series C Convertible Preferred Stock. The agreement further provides that Wyndham will receive a cash fee for any additional equity investments by investors introduced by Wyndham subsequent to June 30, 2003.

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