IMMTECH INTERNATIONAL INC
Form 10-Q
August 14, 2002

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2002.

or

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____.

Commission file number: 000-25669

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: (847) 573-0033

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

As of August 12, 2002, 6,317,552 shares of the Registrant's common stock, par value $0.01 per share ("Common Stock"), were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements.

IMMTECH INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED BALANCE SHEETS (UNAUDITED)

ASSETS	JUNE 30, 2002	MARCH 31, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 974,917	$2,037,813
Restricted funds on deposit	265,794	602,400
Other current assets		39,881
Total current assets	1,240,711	2,680,094
PROPERTY AND EQUIPMENT - Net	152,152	175,950
OTHER ASSETS	19,848	19,848
DEFERRED OFFERING COSTS	18,677	
TOTAL	$1,431,388	$2,875,892
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 328,376	$ 545,017
Accrued expenses	862	4,257
Deferred revenue	273,028	563,435

Total current liabilities	602,266	1,112,709
DEFERRED RENTAL OBLIGATION	25,554	27,145
Total liabilities	627,820	1,139,854
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $0.01 per share, 4,680,000 shares authorized and unissued		
Series A convertible preferred stock, par value $0.01 per share, stated value $25 per share, 320,000 shares authorized, 154,100 and 160,100 shares outstanding as of June 30, 2002 and March 31, 2002, respectively; aggregate liquidation preference of $3,900,630 as of June 30, 2002	3,900,630	4,031,900
Common stock, par value $0.01 per share, 30,000,000 shares authorized, 6,259,181 and 6,066,459 shares issued and outstanding as of June 30, 2002 and March 31, 2002, respectively	62,591	60,664
Additional paid-in capital	35,701,590	34,679,844
Deficit accumulated during the developmental stage	(38,861,243)	(37,036,370)
Total stockholders' equity	803,568	1,736,038
TOTAL	$1,431,388	$2,875,892

See notes to condensed financial statements

IMMTECH INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		OCTOBER 15, 1984 (INCEPTION) TO JUNE 30,
	2002	2001	2002
REVENUES	$ 430,081	$1,122,838	$ 7,664,054
EXPENSES:			
Research and development	751,372	544,294	29,252,533
General and administrative	1,452,153	969,397	18,792,639
Equity in loss of joint venture			135,002
Total expenses	2,203,525	1,513,691	48,180,174

LOSS FROM OPERATIONS	(1,773,444)	(390,853)	(40,516,120)
OTHER INCOME (EXPENSE):			
Interest income	8,261	25,518	571,989
Interest expense			(1,129,502)
Loss on sales of investment securities - net			(2,942)
Cancelled offering costs			(584,707)
Other income (expense) - net	8,261	25,518	(1,145,162)
LOSS BEFORE EXTRAORDINARY ITEM	(1,765,183)	(365,335)	(41,661,282)
EXTRAORDINARY GAIN ON EXTINGUISHMENT OF DEBT			1,427,765
NET LOSS	(1,765,183)	(365,335)	(40,233,517)
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(59,690)		(997,625)
REDEEMABLE PREFERRED STOCK CONVERSION, PREMIUM AMORTIZATION AND DIVIDENDS			2,369,899
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(1,824,873	$ (365,335)	$(38,861,243)
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:			
Net loss	$ (0.29)	$ (0.06)	
Convertible preferred stock dividends	(0.01)		
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (0.30)	$ (0.06)	
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER SHARE	6,082,073	5,998,834	

See notes to condensed financial statements.

IMMTECH INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		OCTOBER 15, 1984 (INCEPTION) TO JUNE 30,
	2002	2001	2002
OPERATING ACTIVITIES:			
Net loss	$(1,765,183)	$ (365,335)	$(40,233,517)

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	832,760	76,723	14,415,360
Depreciation and amortization of property and equipment	25,596	22,380	569,356
Deferred rental obligation	(1,591)	(1,590)	25,554
Equity in loss of joint venture			135,002
Loss on sales of investment securities – net			2,942
Amortization of debt discounts and issuance costs			134,503
Extraordinary gain on extinguishment of debt			(1,427,765)
Changes in assets and liabilities:			
Restricted funds on deposit	336,606	990,408	(265,794)
Other current assets	39,881	24,501	
Other assets			(19,848)
Accounts payable	(216,641)	(665,446)	657,516
Accrued expenses	(3,395)	5,000	663,875
Deferred revenue	(290,407)	(864,146)	273,028
Net cash used in operating activities	(1,042,374)	(777,505)	(25,069,788)
INVESTING ACTIVITIES:			
Purchases of investment securities			(1,803,469)
Proceeds from sales and maturities of investment securities			1,800,527
Purchases of property and equipment	(1,798)	(61,994)	(694,984)
Investment in and advances to joint venture			(135,002)
Net cash used in investing activities	(1,798)	(61,994)	(832,928)
FINANCING ACTIVITIES:			
Advances from stockholders and affiliates			985,172
Proceeds from issuance of notes payable			2,645,194
Principal payments on notes payable			(218,119)
Payments for debt issuance costs			(53,669)
Payments for extinguishment of debt			(203,450)
Net proceeds from issuance of redeemable preferred stock			3,330,000
Net proceeds from issuance of convertible preferred stock and warrants			3,848,515
Net proceeds from issuance of common stock	125	18,843	16,317,280
Payments of convertible preferred stock dividends for fractional shares	(166)		(166)
Payments for fractional shares of common stock resulting from the conversion of convertible preferred stock	(6)		(6)
Deferred offering costs	(18,677)		(18,677)
Additional capital contributed by stockholders			245,559
Net cash (used in) provided by financing activities	(18,724)	18,843	26,877,633
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,062,896)	(820,656)	974,917

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,037,813	2,097,718	0
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 974,917	$1,277,062	$ 974,917

See notes to condensed financial statements.

IMMTECH INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying condensed financial statements have been prepared by Immtech International, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments necessary for a fair statement of results for each period shown (unless otherwise noted herein, all adjustments are of a normal recurring nature). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. The Company believes that the disclosures made are adequate to prevent the financial information given from being misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K.

2. COMPANY BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Immtech International, Inc. is a pharmaceutical company focusing on the discovery, development and commercialization of drugs to treat infectious diseases that include fungal infections, malaria, tuberculosis, Hepatitis C, pneumonia, diarrhea, and African sleeping sickness and cancer. 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, negotiating and consummating technology licensing agreements, and advancing its technology platform toward commercialization. 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 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 has licensing and commercialization rights to a dicationic anti-infective 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, 2003, if at all.

Going Concern Presentation and Related Risks and Uncertainties - The accompanying condensed financial statements have been prepared on a going

concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Since inception, the Company has incurred accumulated losses of approximately $40,234,000. Management expects the Company to continue to incur significant losses during the next several years as the Company continues its clinical trial, development and commercialization efforts. 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 working capital is not 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 need to raise additional funds. The Company believes its existing unrestricted cash and cash equivalents 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 October 2002, although there can be no assurance the Company will not require additional funds. These factors, among others, indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Company'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. Management's plans for the forthcoming year, in addition to normal operations, include continuing their efforts to obtain additional equity and/or debt financing, obtain additional research grants and enter into various research and development agreements with other entities.

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 which is restricted for use in accordance with a clinical research subcontract agreement with The University of North Carolina at Chapel Hill.

Investment - The Company accounts for its investment in NextEra Therapeutics, Inc. ("NextEra") on the equity method. As of June 30, 2002 and March 31, 2002, the Company owned approximately 28% of the issued and outstanding shares of NextEra common stock. The Company has recognized an equity loss in NextEra to the extent of the basis of its investment, and the investment balance is zero as of June 30, 2002 and March 31, 2002. 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.

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, the 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.

Net Income (Loss) Per Share - Net income (loss) per share is calculated in accordance with Statement of Financial Accounting Standard 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 (loss) per share, when applicable, is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding increased by the number of potential dilutive common shares based on the treasury stock method. Diluted net loss per share was the same as the basic net loss per share for the three months ended June 30, 2002 and 2001, as the Company's outstanding common stock options, warrants and conversion features of Series A Convertible Preferred Stock were antidilutive.

Comprehensive Loss - There were no differences between comprehensive loss and net loss for the three month periods ended June 30, 2002 and 2001.

3. 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 dividends either in cash or in equivalent shares of common stock, as defined. Accrued preferred stock dividends are included in the carrying value of the Series A Convertible Preferred Stock in the accompanying condensed balance sheets. 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. On April 15, 2002, the Company issued 8,249 shares of common stock and paid $166.00 to holders of fractional shares as dividends on the preferred shares. During the three month period ended June 30, 2002, certain preferred stockholders converted 6,000 shares of Series A Convertible Preferred Stock, including accrued dividends, for 34,256 shares of common stock. The Company also paid

$6.00 to certain preferred stockholders for fractional shares of common stock not issued upon conversion.

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 such notice of conversion, as defined, or 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 days' 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 such 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.

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. 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 when voting as a single class with the holders of common stock.

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 $758,000 as a general and administrative expense during the three month period ended June 30, 2002, based on the estimated fair value of the shares issued.

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 options and non-qualified stock options. Options granted under the 2000 Stock Incentive Plan that expire 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 common stock options 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 generally expire after five or ten years. During the three month period ended June 30, 2002, 20,000 options expired which were previously granted under the 2000 Stock Incentive Plan which are available to be reissued. As of June 30, 2002, there were 73,750 shares available for grant including 12,000 shares which are reserved for issuance under certain consulting agreements with nonemployees.

During the three months ended June 30, 2002 and 2001, the Company issued options to purchase 22,000 and 12,000 shares, respectively, of common stock to nonemployees and recognized expense of approximately $75,000 and $77,000, respectively, related to these options and certain options issued during prior years which vest over a four year service period. The expense was determined based on the estimated fair value of the options issued.

4. 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 dictations developed by a consortium of universities consisting of The University of North Carolina at Chapel Hill ("UNC"), Duke University, Auburn University and Georgia State University (the "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 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 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 Consortium after January 15, 1997, through use of Company-sponsored research funding or National Cooperative Drug Development grant funding made available to the 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 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 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 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 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 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 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 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 Consortium whereby the Company received the exclusive license to commercialize dication technology and compounds developed or invented by one or more of the Consortium scientists after January 15, 1997, and which also incorporated into such License Agreement the Company's existing license with the Consortium with regard to the Current Compounds. The Consortium Agreement also provides that the Company is required to pay UNC on behalf the Consortium reimbursement of all costs to maintain and defend all patents and patent application relating to any Compounds or products.

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, diatonic 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, (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, was recorded as a credit to (reduction of) research and development expense during the three months ended June 30, 2001; 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, under an agreement which has subsequently expired, to make quarterly research grants in the amount of $100,000 to UNC through April 30, 2002. During the three months ended June 30, 2002 and 2001, the Company expensed grant payments to UNC of $100,000 and $100,000, respectively. Such payments were recorded as research and development costs.

In August 2000, the Company was awarded two Small Business Innovation Research ("SBIR") grants aggregating approximately $831,000 from the National Institutes of Health ("NIH") to research various infections. During the three months ended June 30, 2001, the Company recognized revenues of approximately $259,000 from these grants and expensed payments to UNC and certain other Consortium universities of approximately $75,000 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 three months ended June 30, 2002, the Company recognized revenues of approximately $65,000 from this grant and expensed payments of approximately $65,000 to UNC and certain other Consortium universities for contracted research related to this grant. There

is additional funding available to the Company under this grant of approximately $5,000 as of June 30, 2002.

During the three month periods ended June 30, 2002 and 2001, the Company expensed approximately $28,000 and $69,000, respectively, of other payments to UNC and certain other Consortium universities for patent related costs and other contracted research. Total payments expensed to UNC and certain other Consortium universities were approximately $193,000 and $244,000 during the three months ended June 30, 2002 and 2001, respectively. Included in accounts payable as of June 30, 2002 and March 31, 2002, were approximately $102,000, and $267,000, respectively, due to UNC and certain other 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. On March 29, 2001, the Company received the first installment of $4,300,000, of which approximately $290,000 and $864,000 was utilized for clinical and research purposes conducted and expensed during the three months ended June 30, 2002 and 2001, respectively. The Company has recognized aggregate revenues of approximately $4,027,000 through June 30, 2002 for services performed under the agreement, including approximately $290,000 and $864,000 during the three months ended June 30, 2002 and 2001, respectively. The remaining amount (approximately $273,000 as of June 30, 2002) has been deferred and will be recognized as revenue over the term of the agreement as the services are performed.

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 of approximately $75,000 through June 30, 2002 for services performed under the agreement.

5. SUBSEQUENT EVENTS

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. 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.

* * * * * *

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 the Company's 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 our 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 commenced and 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 FDA, 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 its 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 developing and testing 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 which may not be described herein.

RESULTS OF OPERATIONS

Immtech International, Inc. ("Immtech" or the "Company") has not generated any revenue from operations and does not anticipate generating any revenue from operations for the foreseeable future. The Company has funded, and plans to continue to fund, its operations through research funding agreements and grants, and the sale of debt and equity securities. For the period from inception, October 15, 1984, to June 30, 2002, the Company incurred cumulative net losses of approximately $40,234,000. The Company has incurred additional losses since such date and expects to incur additional operating losses for the foreseeable future.

Three Months Ended June 30, 2002 Compared with the Three Months Ended June 30, 2001.

Revenues under collaborative research and development agreements were approximately $430,000 and $1,123,000 for the three months ended June 30, 2002 and June 30, 2001, respectively. For the three months ended June 30, 2002, there were revenues recognized of approximately $290,000 relating to a clinical research subcontract agreement between the Company and The University of North Carolina at Chapel Hill ("UNC"), grant revenues of approximately $65,000 from Small Business Innovative Research ("SBIR") grants from the National Institutes of Health ("NIH"), and $75,000 from the initial stage of the Confidentiality, Testing and Option Agreement with Neurochem, Inc., ("Neurochem"), while for the three months ended June 30, 2001, there were revenues recognized of approximately $864,000 relating to a clinical research subcontract agreement between the Company and UNC and grant revenues of approximately $259,000 from SBIR grants from the NIH. The clinical research subcontract agreement initiated in March 2001 relates to a grant from the Bill & Melinda Gates Foundation ("Gates Foundation") to UNC to develop new drugs to treat Trypanosomiasis (African sleeping sickness) and Leishmaniasis. Grant and research and development agreement revenue is recognized as completed under the terms of the respective agreements, according to Company estimates. Grant and research and development funds received prior to completion under the terms of the respective agreements are recorded as deferred revenues.

Interest income for the three months ended June 30, 2002 was approximately $8,000. Interest income for the three months ended June 30, 2001 was approximately $26,000. The decrease is due to a reduction in funds invested and a decrease in interest rates paid on the invested funds from the prior corresponding quarter. There was no interest expense for the three months ended June 30, 2002 and June 30, 2001.

Research and development expenses increased to approximately $751,000 from $544,000 for the three months ended June 30, 2002, and June 30, 2001, respectively. The three month period ended June 30, 2001 was affected by an April 20, 2001 settlement agreement with Pharm-Eco, whereby Immtech 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. The Company had significant expenses relating to pre-clinical studies required for regulatory filings in the three months ended June 30, 2001, which were not incurred in 2002.

General and administrative expenses increased to approximately $1,452,000 from approximately $969,000 for the three months ended June 30, 2002, and June 30, 2001, respectively. The increase was primarily due to a non-cash expense of approximately $758,000 resulting from the issuance of 150,000 shares of Common Stock to Mr. 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 China.

The net loss increased to approximately $1,765,000 from approximately $365,000 for the three months ended June 30, 2002, and June 30, 2001, respectively. The three months ended June 30, 2001, was affected by the previously described April 20, 2001 settlement agreement with Pharm-Eco, whereby Immtech 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.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended June 30, 2002, cash and cash equivalents, substantially all of which were invested in a money market mutual fund, were $975,000.

There were approximately $2,000 of equipment expenditures for the three months ended June 30, 2002 as compared to approximately $62,000 for the same period last year. No significant purchases of equipment are anticipated by the Company during the next three months.

The Company periodically receives cash from the exercise of Common Stock options. During the three months ended June 30, 2002, there were options exercised for 217 shares of Common Stock.

We believe our existing unrestricted cash and cash equivalents and the grants we have received or have been awarded and are awaiting disbursement of will be sufficient to meet our planned expenditures through October 2002, although there can be no assurance we will not require additional funds.

To date, 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 $26,878,000;

- payments from research and testing agreements, foundation grants and SBIR grants and Small Business Technology Transfer Program grants of approximately $7,664,000; and

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

Our cash resources have been used to finance research and development, including sponsored research, capital expenditures, expenses associated with development of product candidates pursuant to an agreement, dated January 15, 1997, (the "Consortium Agreement"), among the Company, The University of North Carolina at Chapel Hill ("UNC"), and Pharm-Eco (to which each of Duke University, Auburn University and Georgia State University agreed shortly thereafter to become a party, and all of which, collectively with UNC, are referred to as the "Consortium") and, as contemplated by the Consortium Agreement, under a license agreement dated January 28, 2002 ("Consortium License Agreement") with the 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 (laboratory) and clinical (human) trials, administrative expenses to support our research and development operations and capital expenditures for expanded research capacity, various equipment needs and facility improvements.

Our future working capital requirements will depend upon numerous factors, including the progress of research and development programs (which may vary as product candidates are added or abandoned), pre-clinical testing and clinical trials, achievement of regulatory milestones, the Company's corporate partners fulfilling their obligations to the Company, the timing and cost of seeking regulatory approvals, the level of resources that the Company devotes to the engagement or development of manufacturing capabilities, the ability of the

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

Our ability to continue as a going concern is dependent upon our ability to generate sufficient funds to meet obligations as they become due and, ultimately, to obtain profitable operations. Management's plans for the remainder of the fiscal year, in addition to normal operations, include continuing their efforts to obtain additional financing and research grants, and to enter into various research and development agreements with other entities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's cash and cash equivalents are maintained primarily in U.S. dollar accounts and amounts payable for research and development to research organizations are contracted in U.S. dollars. Accordingly, the Company's exposure to foreign currency risk is limited because its transactions are primarily based in U.S. dollars. The Company does not have any other exposure to market risk. The Company will develop policies and procedures to manage market risk in the future as circumstances may require.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Except as noted in Part I, Item 3, Legal Proceedings, of the Form 10-K filed on July 15, 2002, the Company is not aware of any pending litigation.

Item 2. Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

Common Stock.

On June 28, 2002, the Company entered into an agreement (the "Tak Finder's Agreement") with Mr. Cheung Ming Tak for services to be provided on a non-exclusive basis to identify, qualify and develop potential strategic partners to assist the Company with the testing and commercialization of drug product candidates and to develop the pharmaceutical market in China. The Company issued 150,000 shares of the Company's Common Stock to Mr. Tak as compensation for his services. The Company has agreed to use commercially reasonable efforts to register those shares. The securities were issued in reliance on an exemption from registration under Regulation S of the Securities Act of 1933, as amended ("Securities Act"). The Tak Finder's Agreement is attached hereto as Exhibit 10.1.

On July 31, 2002, the Company entered into an agreement (the "Gabriele Finder's Agreement") with the Gabriele Group, L.L.C. (the "Gabriele Group"), whereby the Gabriele Group agreed to act as the Company's non-exclusive agent to develop and qualify potential business partners and "accredited investors" (within the meaning of Rule 501 of Regulation D, promulgated under the Securities Act to invest in potential future debt or equity offerings of the Company. As compensation for its services, the Company issued to the Gabriele Group 40,000 shares of its Common Stock and warrants to purchase 30,000 shares of Common Stock for the 12 month period that commenced on July 31, 2002. The aforementioned 30,000 warrants expire five years from the date of grant, have an

exercise price of $6.00 per share and shall vest only as follows: (A) 10,000 shares (i) if the market price of the Company's Common Stock meets or exceeds $10 for a period of 20 consecutive trading days or (ii) if the valuation of the Company Common Stock in a merger or acquisition meets or exceeds $10 per share; (B) 10,000 shares (i) if the market price of the Company's Common Stock meets or exceeds $15 for a period of 20 consecutive trading days or (ii) if the valuation of the Company's Common Stock in a merger or acquisition meets or exceeds $15 per share; and (C) 10,000 shares (i) if the market price of the Company's Common Stock meets or exceeds $20 for a period of 20 consecutive trading days or (ii) if the valuation of the Company's Common Stock in a merger or acquisition meets or exceeds $20 per share.

The Company may, in its sole discretion, renew the Gabriele Finder's Agreement for one or more successive one-year terms. For each one-year renewal, the Company will pay to the Gabriele Group an additional 40,000 shares of Common Stock and warrants to purchase 30,000 shares of Common Stock as compensation for such period. Those warrants shall be exercisable for a period of five years from the date of grant, have an exercise price of $6.00 per share and shall vest only as follows: (A) 10,000 shares of each subsequent renewal term (i) if the

market price of the Company's Common Stock meets or exceeds $25 for a period of 20 consecutive trading days or (ii) if the valuation of the Company's Common Stock in a merger or acquisition meets or exceeds $25 per share; (B) 10,000 shares of each subsequent renewal term (i) if the market price of the Company's Common Stock meets or exceeds $30 for a period of 20 consecutive trading days or (ii) if the valuation of the Company's Common Stock in a merger or acquisition meets or exceeds $30 per share; and (C) 10,000 shares of each subsequent renewal term (i) if the market price of the Company's Common Stock meets or exceeds $35 for a period of 20 consecutive trading days or (ii) if the valuation of the Company's Common Stock in a merger or acquisition meets or exceeds $35 per share.

These securities were issued in reliance upon an exemption from registration under Regulation D of the Securities Act. The Gabriele Finder's Agreement is attached hereto as Exhibit 10.2.

Option Exercise.

James Dohnal exercised options for 217 shares of Common Stock on April 12, 2002, for an aggregate purchase price of $125.00.

Conversion of Series A Preferred Stock to Common Stock.

On June 13, 2002, the Company converted 2,000 shares of Series A Convertible Preferred Stock to 11,420 shares of Common Stock, on June 25, 2002, the Company converted 1,200 shares of Series A Convertible Preferred Stock to 6,850 shares of Common Stock and on June 26, 2002, the Company converted 2,800 shares of Series A Convertible Preferred Stock to 15,986 shares of Common Stock, all at the request of the holders of the respective Series A Convertible Preferred Stock.

Series A Preferred Stock Dividend Payment.

On April 15, 2002, the Company issued 8,249 shares of Common Stock as payment of a dividend earned on outstanding Series A Preferred Stock to the holders thereof.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits, and Reports on Form 8-K.

(a) Exhibits.

See Exhibit Index.

(b) Reports On Form 8-K.

None.

Exhibit Index

10.1 Finder's Agreement, dated June 28, 2002, by and between the Company and Mr. Cheung Ming Tak.

10.2 Finder's Agreement, dated July 31, 2002, by and between the Company and the Gabriele Group, L.L.C.

99.1 Certification of Chief Executive Officer and Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of Section 13 and 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: August 14, 2002

By: /s/ T. Stephen Thompson

T. Stephen Thompson
President and Chief Executive Officer

Date: August 14, 2002

By: /s/ Gary C. Parks

Gary C. Parks
Treasurer, Secretary and Chief Financial Officer
(Principal Financial and Accounting Officer)