IMMTECH INTERNATIONAL INC
Form 10-Q
February 09, 2006

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 December 31, 2005.

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 [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer [_] Accelerated filer [X] Non-accelerated filer [_]

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

As of February 8, 2006, 11,738,056 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 Consolidated Financial Statements.

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

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents
Restricted funds on deposit
Other current assets

Total current assets

PROPERTY AND EQUIPMENT - Net

OTHER ASSETS

TOTAL

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable
Accrued expenses
Deferred revenue

Total current liabilities

Total liabilities

STOCKHOLDERS' EQUITY:

Preferred stock, par value $0.01 per share, 3,913,000 and 4,080,000 shares authorized and unissued as of December 31, 2005 and March 31, 2005, respectively.

Series A convertible preferred stock, par value $0.01 per share, stated value $25 per share, 320,000 shares authorized, 58,400 and 60,400 shares outstanding as of December 31, 2005 and March 31, 2005, respectively; aggregate liquidation preference of $1,478,185 as of December 31, 2005.

Series B convertible preferred stock, par value $0.01 per share, stated value $25 per share, 240,000 shares authorized, 13,464 and 19,925 shares outstanding as of December 31, 2005 and March 31, 2005, respectively; aggregate liquidation preference of $341,981 as of December 31, 2005.

Series C convertible preferred stock, par value $0.01 per share, stated value $25 per share, 160,000 shares authorized, 46,536 and 60,452 shares outstanding as of December 31, 2005 and March 31, 2005, respectively; aggregate liquidation preference of $1,182,617 as of December 31, 2005.

Series D convertible preferred stock, par value $0.01 per share, stated value $25 per share, 200,000 shares authorized, 117,200 and 160,280 shares outstanding as of December 31, 2005 and March 31, 2005, respectively; aggregate liquidation preference of $2,967,566 as of December 31, 2005.

Series E convertible preferred stock, par value $0.01 per share, stated value $25 per share, 167,000 shares authorized, 133,600 shares outstanding as of December 31, 2005, aggregate liquidation preference of $3,350,432 as of December 31, 2005.

Common stock, par value $0.01 per share, 100,000,000 shares authorized, 11,738,056 and 11,332,366 shares issued and outstanding as of December 31, 2005 and March 31, 2005, respectively.

Additional paid-in capital

Deficit accumulated during the developmental stage

Total stockholders' equity

TOTAL

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended December 31,		Nine Mon Decemb
	2005	2004	2005
REVENUES	$ 965,355	$ 325,160	$ 3,323,656
EXPENSES:			
Research and development	2,825,368	1,441,469	7,766,505
General and administrative	2,144,118	5,270,578	8,205,624
Equity in loss of joint venture	--	--	--
Total expenses	4,969,486	6,712,047	15,972,129
LOSS FROM OPERATIONS	(4,004,131)	(6,386,887)	(12,648,473)
OTHER INCOME (EXPENSE):			
Interest income	20,756	48,102	121,274
Interest expense	--	--	--
Loss on sales of investment securities - net	--	--	--
Cancelled offering costs	--	--	--
Gain on extinguishment of debt	--	--	--
Other income - net	20,756	48,102	121,274
NET LOSS	(3,983,375)	(6,338,785)	(12,527,199)
CONVERTIBLE PREFERRED STOCK DIVIDENDS AND CONVERTIBLE PREFERRED STOCK PREMIUM DEEMED DIVIDENDS	(108,396)	(144,968)	(332,305)
REDEEMABLE PREFERRED STOCK CONVERSION, PREMIUM AMORTIZATION AND DIVIDENDS	--	--	--
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (4,091,771)	$ (6,483,753)	$ (12,859,504)
BASIC AND DILUTED NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:			
Net loss	$ (0.34)	$ (0.59)	$ (1.08)
Convertible preferred stock dividends and convertible preferred stock premium deemed dividends	(0.01)	(0.01)	(0.03)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (0.35)	$ (0.60)	$ (1.11)
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER SHARE	11,690,823	10,893,365	11,546,744

See notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended December 31,		Nine Mon Decem
	2005	2004	2005
OPERATING ACTIVITIES:			
Net loss	$ (3,983,375)	$ (6,338,785)	$(12,527,19
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	132,604	3,517,468	177,45
Depreciation and amortization of property and equipment	40,033	33,486	117,74
Deferred rental obligation		(1,592)	
Equity in loss of joint venture			
Loss on sales of investment securities - net			
Amortization of debt discounts and issuance costs			
Gain on extinguishment of debt			
Changes in assets and liabilities:			
Other current assets	(124,475)	82,487	(365,83
Other assets	327	(631)	66
Accounts payable	(1,483,541)	(28,585)	195,47
Accrued expenses	266,716	237,943	757,37
Deferred revenue	647,165	1,019,073	(667,62
Net cash used in operating activities	(4,504,546)	(1,479,136)	(12,311,94
INVESTING ACTIVITIES:			
Purchases of property and equipment	(3,817)	(39,028)	(54,07
Restricted funds on deposit	(414,957)	(413,021)	1,025,21
Advances to joint venture			
Proceeds from maturities of investment securities			
Purchases of investment securities			
Net cash provided by (used in) investing activities	(418,774)	(452,049)	971,13
FINANCING ACTIVITIES:			
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	3,286,079		3,286,07
Payments of convertible preferred stock dividends and for fractional shares of common stock resulting from the conversions of convertible preferred stock	(644)	(430)	(1,23
Net proceeds from the issuance of common stock	429,575	335,940	509,88
Additional capital contributed by stockholders			
Net cash provided by financing activities	3,715,010	335,510	3,794,73
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,208,310)	(1,595,675)	(7,546,08
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,133,921	11,514,686	9,471,69
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,925,611	$ 9,919,011	$ 1,925,61

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by Immtech International, Inc. and its subsidiaries (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, 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 and its subsidiaries are pharmaceutical companies working to commercialize oral drugs to treat infectious diseases by applying their proprietary aromatic cation technology platform to the treatment of cancer, diabetes and other diseases. The Company has advanced clinical programs that include new treatments for malaria, Pneumocystis pneumonia ("PCP") and African sleeping sickness (trypanosomiasis), and drug development programs for fungal infections and tuberculosis. The Company has worldwide licensing and exclusive commercialization rights to an aromatic cationic pharmaceutical

technology platform and is developing drugs intended for commercial use based on that technology.

The Company holds worldwide patents and patent applications, and licenses and rights to license technology, primarily from a scientific consortium that has granted to the Company exclusive rights to commercialize products from, and license rights to, the technology. The scientific consortium includes scientists from 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"). The Company is a development stage enterprise and, since its inception on October 15, 1984, has engaged in research and development programs, expanded its network of scientists and scientific advisors and licensing technology agreements, and work to commercialize the aromatic cation pharmaceutical technology platform (the Company acquired its rights to the aromatic cation technology platform in 1997 and promptly thereafter commenced development of its current programs). The Company uses the expertise and resources of strategic partners and third parties in a number of areas, including: (i) laboratory research, (ii) animal and human trials and (iii) manufacture of pharmaceutical drugs.

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, 2006, if at all.

Since inception, the Company has incurred accumulated net losses of approximately $81,954,000. Management expects the Company will continue to incur significant losses during the next several years as the Company continues development activities, clinical trials and commercialization efforts. In addition, the Company has various research and development agreements with third parties and is dependent upon such parties' abilities to perform under these agreements. There can be no assurance that the Company's activities 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 believes it will require substantial additional funds to commercialize its product candidates. The Company's cash requirements may vary materially from those now planned when and if the following become known: results of research and development efforts, results of clinical testing, responses to grant requests, formation and development of relationships with strategic partners, changes in the focus and direction of development programs, competitive and technological advances, requirements in the regulatory process and other factors. Changes in circumstances in any of the above areas may require the Company to allocate substantially more funds than are currently available or than management intends to raise.

The Company is currently actively involved in discussions to obtain additional funds through its traditional funding sources along with the potential recovery of legal costs from the resolution of disputes described in this document. The Company believes that it will be able to obtain the necessary funding to meet its planned expenditures from December 31, 2005 through the next twelve-month period, although there can be no assurance we will be able to acquire the funds for current planned expenditures or that additional funds will not be required.

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 generate sufficient revenues for profitable operations.

Principles of Consolidation - The consolidated financial statements include the accounts of Immtech International, Inc. and its wholly owned subsidiaries. All 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 in two accounts on deposit at a bank which is restricted for use in accordance with (i) a clinical research subcontract agreement with UNC and (ii) a malaria drug development agreement with Medicines for Malaria Venture ("MMV").

Concentration of Credit Risk - The Company maintains its cash in commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation ("FDIC") up to specified limits.

Balances in excess of FDIC limits (generally, $100,000 per depositor per insured bank) are uninsured.

Investment - The Company accounts for its investment in NextEra Therapeutics, Inc. ("NextEra") on the equity method. As of December 31, 2005 and March 31, 2005, according to NextEra's disclosure 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 December 31, 2005 and March 31, 2005. 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. The Company does not provide, and has not provided, any financial guarantees to NextEra.

Property and Equipment - Property and equipment are recorded at cost and depreciated and amortized using the straight-line method over the estimated useful lives of the respective assets, ranging from three to fifty years.

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 which is measured by the difference between the fair value and the carrying value of the asset.

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. Cash payments from research and development grants received in advance of delivery of services 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 the Company's behalf.

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.

Net Income (Loss) Per Share - Net income (loss) per share is calculated in accordance with Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings Per Share." Basic net income (loss) 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 based on the treasury stock method. Diluted net loss per share was the same as the basic net loss per share for the three and nine month periods ended December 31, 2005 and December 31, 2004, as none of the Company's outstanding common stock options, warrants and the conversion features of Series A, B, C, D and E Convertible Preferred Stock were dilutive.

Comprehensive Loss - There were no differences between comprehensive loss and net loss for the three and nine month periods ended December 31, 2005 and 2004, respectively.

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 materially from these estimates.

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 the dividend either in cash or in equivalent shares of common stock, as defined. Included in the carrying value of the Series A Convertible Preferred Stock in the accompanying condensed consolidated balance sheets are $18,185 and $41,166 of accrued preferred stock dividends at December 31, 2005

and March 31, 2005, respectively. Each share of Series A Convertible Preferred Stock may be converted 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 A"), subject to certain adjustments, as defined in the Series A Certificate of Designation. On October 15, 2005, the Company issued 4,213 shares of common stock and paid $206 in lieu of fractional common shares as dividends on the preferred shares. On October 15, 2004, the Company issued 6,026 shares of common stock and paid $136 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2005, the Company issued 3,469 shares of common stock and paid $117 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2004, the Company issued 2,961 shares of common stock and paid $352 in lieu of fractional common shares as dividends on the preferred shares. During the three month periods ended December 31, 2005 and 2004 there were no conversions of Series A Convertible Preferred Stock. During the nine month periods ended December 31, 2005 and 2004 certain preferred stockholders converted 2,000 and 8,400 shares of Series A Convertible Preferred Stock, including accrued dividends, for 11,409 and 47,942 shares of common stock, respectively.

The Company may at any time 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 a mandatory conversion by the Company is determined by (i) dividing the Liquidation Price by the Conversion Price A, 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 A. The Conversion Price is subject to certain adjustments, as defined in the Series A 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 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 (subject to adjustment) with respect to any and all matters presented to the Company's stockholders 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.

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. Included in the carrying value of the Series B Convertible Preferred Stock in the accompanying condensed consolidated balance sheets are $5,381 and $17,968 of accrued preferred stock dividends as of December 31, 2005 and March 31, 2005, respectively. Each share of Series B Convertible Preferred Stock may be converted by the holder at any time into shares of 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 adjustments, as defined in the Series B Certificate of Designation. On October 15, 2005, the Company issued 1,805 shares of common stock and paid $48 in lieu of fractional common shares as dividends on the preferred share. On October 15, 2004, the Company issued 2,213 shares of common stock and paid $34 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2005, the Company issued 1,526 shares of common stock and paid $49 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2004, the Company issued 974 shares of common stock and paid $107 in lieu of fractional common shares as dividends on the preferred shares. During the three month period ended December 31, 2005 certain preferred stockholders converted 5,261 shares of Series B Convertible Preferred Stock, including accrued dividends, for 32,997 shares of common stock. There were no conversions of Series B Convertible Preferred Stock during the three month period ended December 31, 2004. During the nine month period ended December 31, 2005 certain preferred stockholders converted 6,461 shares of Series B Convertible Preferred Stock, including accrued dividends, for 40,569 shares of common stock. There were no conversions of Series B Convertible Preferred Stock during the nine month period ended December 31, 2004.

The Company may at any time 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 a mandatory conversion by the Company is determined by (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 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 B. The Conversion Price B is subject to certain adjustments, as defined in the Series B Certificate of Designation.

The Company may at any time, upon 30 days' 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) with respect to any and all matters presented to the Company's stockholders 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.

Series C Convertible Preferred Stock - On June 6, 2003, we 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 Company has the option to pay the dividend either in cash or in equivalent shares of common stock, as defined. Included in the carrying value of the Series C Convertible Preferred Stock in the accompanying condensed consolidated balance sheets are $19,217 and $55,676 of accrued preferred stock dividends as of December 31, 2005 and March 31, 2005, respectively. Each share of Series C Convertible Preferred Stock may be converted by the holder at any time into shares of 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 C"), subject to certain adjustments, as defined in the Series C Certificate of Designation. On October 15, 2005, the Company issued 4,483 shares of common stock and paid $148 in lieu of fractional common shares as dividends on the preferred shares. On October 14, 2004, the Company issued 7,161 shares of common stock and paid $86 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2005, the Company issued 4,625 shares of common stock and paid $212 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2004, the Company issued 3,534 shares of common stock and paid $397 in lieu of fractional common shares as dividends on the preferred shares. There were no conversions of Series C Convertible Preferred Stock during the three month periods ended December 31, 2005 and 2004. During the nine month periods ended December 31, 2005 and 2004 certain preferred stockholders converted 13,916 and 7,852 shares of Series C Convertible Preferred Stock, including accrued dividends, for 78,976 and 44,611 shares of common stock, respectively.

The Company may at any time require that any or all outstanding shares of Series C Convertible Preferred Stock be converted into shares of the Company's common stock, provided that the shares of common stock into which the Series C 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 C Convertible Preferred Stock upon a mandatory conversion by the Company is determined by (i) dividing the Liquidation Price by the Conversion Price C 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 C. The Conversion Price C is subject to certain adjustments, as defined in the Series C Certificate of Designation.

The Company may at any time, upon 30 days' notice, redeem any or all outstanding shares of the Series C Convertible Preferred Stock by payment of the Liquidation Price to the holder of such shares, provided that the holder does not convert the Series C Convertible Preferred Stock into shares of common stock during the 30 day period. The Series C 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 C Convertible Preferred Stock shall be entitled to 5.6561 votes (subject to adjustment) with respect to any and all matters presented to the Company's stockholders for their action or consideration. Except as provided by law or by the provisions establishing any

other series of preferred stock, Series C Convertible Preferred stockholders and holders of any other outstanding preferred stock shall vote together with the holders of common stock as a single class.

Series D Convertible Preferred Stock - On January 15, 2004, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware designating 200,000 shares of the Company's 5,000,000 authorized shares of preferred stock as Series D 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. Included in the carrying value of the Series D Convertible Preferred Stock in the accompanying condensed consolidated balance sheets are $37,566 and $110,657 of accrued preferred stock dividends as of December 31, 2005 and March 31, 2005, respectively. Each share of Series D Convertible Preferred Stock may be converted by the holder at any time into shares of 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 $9.00 conversion price (the "Conversion Price D"), subject to certain adjustments, as defined in the Series D Certificate of Designation. On October 15, 2005, the Company issued 8,472 shares of common stock and paid $235 in lieu of fractional common shares as dividends on the preferred shares. On October 15, 2004, the Company issued 16,669 shares of common stock and paid $173 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2005, the Company issued 9,219 shares of common stock and paid $135 in lieu of fractional common shares as dividends on the preferred shares. On April 15, 2004, the Company issued 3,340 shares of common stock and paid $447 in lieu of fractional common shares as dividends on the preferred shares. During the three month period ended December 31, 2005 there were no conversions of Series D Convertible Preferred Stock. During the three month period ended December 31, 2004 certain preferred stockholders converted 2,520 shares of Series D Convertible Preferred Stock, including accrued dividends, for 7,012 shares of common stock. During the nine month periods ended December 31, 2005 and 2004 certain preferred stockholders converted 43,080 and 2,520 shares of Series D Convertible Preferred Stock, including accrued dividends, for 121,324 and 7,012 shares of common stock, respectively.

The Company may at any time, require that any or all outstanding shares of Series D Convertible Preferred Stock be converted into shares of our common stock, provided that the shares of common stock into which the Series D 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 D Convertible Preferred Stock upon a mandatory conversion by us is determined by (i) dividing the Liquidation Price by the Conversion Price D provided that the closing bid price for the Company's common stock exceeds $18.00 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 D. The Conversion Price D is subject to certain adjustments, as defined in the Certificate of Designation.

The Series D 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 D Convertible Preferred Stock shall be entitled to

2.7778 votes (subject to adjustment) with respect to any and all matters presented to the Company's stockholders for their action or consideration. Except as provided by law or by the provisions establishing any other series of preferred stock, Series D Convertible Preferred stockholders and holders of any other outstanding preferred stock shall vote together with the holders of common stock as a single class.

Series E Convertible Preferred Stock - On December 13, 2005, the Company completed a private placement of 133,600 shares its Series E Convertible Preferred Stock, $0.01 par value ("Series E Stock") at $25.00 per share, which resulted in gross proceeds to the Company of approximately, $3,340,000, or $3,286,000 of additional equity capital (net of approximately $54,000 of cash offering costs). Each purchaser of the Series E Stock was granted (i) an option to purchase, at $25.00 per share, up to an additional 25% of the number of shares of Series E Stock purchased on December 13, 2005 (the option period will terminate on March 10, 2006) and (ii) a warrant to purchase one share of common stock for each $40 of Series E Stock purchased on December 13, 2005. The warrants are exercisable during the three-year period commencing on December 13, 2005, at an exercise price of $10.00, subject to adjustment for stock splits, dividends and similar events.

On December 13, 2005, the Company filed a Certificate of Designation with the Secretary of State of the State of Delaware designating 167,000 shares of the Company's 5,000,000 authorized shares of preferred stock as Series E 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. Included in the carrying value of the Series E Convertible Preferred Stock in the accompanying condensed consolidated balance sheets are $10,432 of accrued preferred stock dividends as of December 31, 2005. Each share of Series E Convertible Preferred Stock may be converted by the holder at any time into shares of 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 $7.04 conversion price (the "Conversion Price E"), subject to certain adjustments, as defined in the Series E Certificate of Designation.

The Company may at any time, require that any or all outstanding shares of Series E Convertible Preferred Stock be converted into shares of our common stock, provided that the shares of common stock into which the Series E 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 E Convertible Preferred Stock upon a mandatory conversion by us is determined by (i) dividing the Liquidation Price by the Conversion Price E provided that the closing bid price for the Company's common stock exceeds $10.56 for 20 out of 30 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 E. The Conversion Price E is subject to certain adjustments, as defined in the Certificate of Designation.

The Series E 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 E Convertible Preferred Stock shall be entitled to 3.5511 votes (subject to adjustment) with respect to any and all matters

presented to the Company's stockholders for their action or consideration. Except as provided by law or by the provisions establishing any other series of preferred stock, Series E Convertible Preferred stockholders and holders of any other outstanding preferred stock shall vote together with the holders of common stock as a single class.

The Company will, on December 13, 2008, at the Company's election, (i) redeem the Series E Convertible Preferred Stock plus any accrued and unpaid interest for cash, (ii) convert the Series E Convertible Preferred Stock and any accrued and unpaid interest into common stock , or (iii) redeem and convert the Series E Convertible Preferred Stock in any combination of (i) or (ii).

Secondary Public Offering - On July 30, 2004 the Company closed a secondary public offering of its common stock. In the offering the Company issued 899,999 shares of common stock resulting in net proceeds to the Company of approximately $8,334,000. The shares were sold to the public at $10.25 per share. Jeffries & Company, Inc. acted as the sole book-running manager and underwriter of this offering.

Common Stock Options - At the stockholders' meeting held November 12, 2004, the stockholders approved the second amendment to the 2000 Stock Incentive Plan which increased the number of shares of common stock reserved for issuance from 1,100,000 shares to 2,200,000 shares. Options granted under the 2000 Stock Incentive Plan that expire are available to be reissued. During the three and nine month periods ended December 31, 2005, no and 76,834 options previously granted under the 2000 Stock Incentive Plan, respectively, expired and were available to be reissued. No options expired in the three and nine month periods ended December 31, 2004. As of December 31, 2005, there were a total of 1,042,584 shares available for 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 generally expire after five or ten years. During the three and nine month periods ended December 31, 2005, the Company issued 45,000 and 75,000 options, respectively, to purchase shares of common stock to certain new employees, while for the three and nine month periods ended December 31, 2004, 165,000 and 322,000 options, respectively, were issued to employees and directors. During the three and nine month periods ended December 31, 2005, 16,872 and 43,800 non compensatory options were exercised with an average exercise price of $1.45 and $2.13, respectively, while for the three and nine month periods ended December 31, 2004 no non compensatory options were exercised.

At the stockholders' meeting held December 16, 2005, the stockholders approved a third amendment to the Company's 2000 Stock Incentive Plan which permits the board of directors, or an independent committee thereof, to amend, subject to the board' or committee's initial authority, the terms of

outstanding awards granted under the 2000 Plan. During the three month period ended December 31, 2005, 35,000 non compensatory options with an expiry date of December 23, 2005 were extended to December 23, 2010 resulting in a SFAS 123 charge of approximately $159,000.

Compensatory Options Granted - During the three and nine month periods ended December 31, 2005 the Company issued no options to non employees and recognized expense of approximately $8,000 and $27,000, respectively, related to certain

options issued during prior years which vest over a four year service period, while for the three and nine month periods ended December 31, 2004, the Company issued zero and 20,000 options, respectively, to purchase shares of common stock to non employees and recognized expense of approximately $19,000 and $322,000, 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 using the Black-Scholes option valuation model.

On May 28, 2004, options to purchase 18,517 shares with an exercise price of $0.4649 per share were exercised on a cashless basis. Based on the fair market value calculated as of the date of exercise, the option holder received 18,000 shares of common stock.

On July 1, 2005, options to purchase 18,744 shares with an exercise price of $0.4649 per share were exercised on a cashless basis. Based on the fair market value calculated as of the date of exercise, the option holder received 18,000 shares of common stock.

The 20,000 stock options issued during the nine month period ended December 31, 2004 were granted to a consultant on May 12, 2004 as compensation for services to develop relationships with Tsinghua University. Tsinghua University has committed resources from its Department of Biological Sciences and Biotechnology to assist the Company in its pre-clinical and clinical trials of the Company's drug candidates targeting tuberculosis and diabetes in China.

Warrants - During the three month periods ended December 31, 2005 and 2004, warrants to purchase 50,000 and 56,000 shares, respectively, of common stock were exercised, resulting in proceeds to the Company of approximately $405,000 and $336,000, respectively. During the nine month period ended December 31, 2005, warrants to purchase 51,800 shares of common stock were exercised, resulting in proceeds to the Company of approximately $417,000 while for the nine month period ended December 31, 2004, warrants to purchase 76,390 shares of common stock were exercised, resulting in proceeds to the Company of approximately $442,000. Additionally, on May 11, 2004, a warrant holder exercised a warrant to purchase 21,400 shares of common stock at an exercise price of $16.00 per share on a cashless basis. Based on the fair market value calculated as of the date of exercise, the warrant holder received 4,390 shares of common stock.

On July 20, 2004, the Company's board of directors approved a four-year exercise extension to warrants to purchase 225,000 shares of the Company's common stock which were originally issued to RADE Management Corporation ("RADE") on July 24, 1998. The expiration dates for these warrants, which have an exercise price of $6.47 per share, were extended from July 24, 2004 to July 24, 2008. The Company has recorded a non-cash charge during the nine month period ended December 31, 2004 of $1,032,000, determined using the Black-Scholes option pricing model.

In connection with the secondary public offering completed on July 30, 2004, the underwriter (Jeffries & Company, Inc.) was granted a warrant to purchase 80,100 shares of common stock at an exercise

price of $12.81 per share. The warrant is exercisable for five years from the date of grant and has standard anti-dilution protection for recapitalizations.

In connection with services rendered to us, effective July 13, 2005, the company issued to an investment bank and two of its affiliates, warrants to purchase

100,000 shares of our common stock. The warrants are exercisable at $13.11 per share (the exercise price was set by calculating a 15% premium over the Company's common stock volume weighted average price for the 10 day period immediately preceding July 12, 2005). The warrants are exercisable beginning on July 13, 2006 through July 12, 2010. The Company may redeem any outstanding warrants, at $0.01 per share underlying each warrant, upon 30 day prior notice if at any time prior to the expiration of the warrant the market closing price of the Company's common stock meets or exceeds $26.22 for 20 consecutive trading days. The warrant holder may exercise the warrant, pursuant to its terms, during the 30 day notice period.

On November 2, 2005, the Company's board of directors approved a reduction in the exercise price of 125,000 warrants given to Fulcrum Holdings of Australia from $15.00 to $8.80 while concurrently shortening the expiry date from December 23, 2005 to November 5, 2005. The Company has recorded a non-cash charge during the three month period ended December 31, 2005 of $125,000, determined using the Black-Scholes option pricing model. Fulcrum Holdings exercised 35,000 warrants resulting in proceeds to the Company of $308,000. The remaining 90,000 warrants expired.

In connection with the Series E Convertible Preferred Stock offering of December 13, 2005, the Company entered into an Introductory Agreement with Ableguard Investment Limited ("Ableguard") pursuant to which Ableguard assisted the Company to identify qualified investors. For its services, the Company granted to Ableguard a warrant to purchase 68,000 shares of common stock. The warrant is exercisable during the three-year period commencing on December 13, 2005, at an exercise price of $10.00, subject to adjustment for stock splits, dividends and similar events.

Stock-Based Compensation - On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R, "Share-Based Payment" ("SFAS 123R"), which requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of the compensation cost is to be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards are to be remeasured each reporting period. Compensation cost is to be recognized over the period that an employee provides service in exchange for the award. SFAS 123R replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R is effective for all interim or annual periods beginning after the Company's next fiscal year ending March 31, 2006. The Company has not yet adopted this pronouncement and is evaluating the impact that the adoption of SFAS 123R will have on its consolidated financial position, results of operations and cash flows. The Company continues to adhere to the disclosure-only provisions of SFAS No. 123, and applies APB Opinion No. 25 and related interpretations in accounting for its employee stock option plans.

During the three and nine month periods ended December 31, 2005, the Company issued 45,000 and 75,000 options, respectively, to certain new employees while for the three and nine month periods ended December 31, 2004, 165,000 and 322,000 options, respectively, were issued to employees or directors. If the Company had recognized compensation expense for the options granted and or vesting during the three and nine months ended December 31, 2005 and 2004, 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:

	Three Months Ended December 31,		N
	2005	2004	200
Net loss attributable to common shareholders - as reported	$ (4,091,771)	$ (6,483,753)	$(12,8
Add: stock-based compensation expense to employees and directors included in reported net loss	--	--	
Deduct: total stock-based compensation expense determined under fair value method for awards to employees and directors	(928,850)	(904,251)	(2,9
Net loss attributable to common stockholders - pro forma	$ (5,020,621)	$ (7,388,004)	$(15,8
Basic and diluted net loss per share attributable to common stockholders - as reported	$ (0.35)	$ (0.60)	$
Basic and diluted net loss per share attributable to common stockholders - pro forma	$ (0.43)	$ (0.68)	$

4. COLLABORATIVE RESEARCH AND DEVELOPMENT ACTIVITIES

The Company earns revenue under various collaborative research agreements. Under the terms of these arrangements, the Company generally has agreed to perform best efforts research and development and, in exchange, the Company may receive advanced cash funding, an allowance for management overhead, and may also earn additional fees for the attainment of certain milestones.

The Company initially acquired its rights to the aromatic cation technology platform 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, UNC and a third-party (to which each of the other members of the Scientific Consortium agreed shortly thereafter to become a party) (the "original licensee"). 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 the original licensee and licensed to the Company in accordance with the Consortium Agreement (the "Current Compounds"), 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 our 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, with respect to the Current Compounds, and UNC, (on behalf of the Scientific Consortium), with respect to Current Compounds and Future Compounds, would enter into license agreements for the intellectual property rights relating to the Compounds 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 an IPO on April 26, 1999, with gross proceeds in excess of $10,000,000 thereby earning a worldwide license and exclusive rights to commercially 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 the original licensee or persons designated by the original licensee.

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 the aromatic cation technology platform 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 Scientific Consortium with regard to the Current Compounds. Also pursuant to the Consortium Agreement, the original licensee transferred to the Company the worldwide license and exclusive right to commercially use, manufacture, have manufactured, promote, sell, distribute or otherwise dispose of any and all products based directly or indirectly on aromatic cations developed by the Scientific Consortium on or prior to January 15, 1997 and previously licensed (together with related technology and patents) to the third-party.

The Consortium Agreement provides that the Company is 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 aromatic cation technology platform. Each month on behalf of the inventor scientist or university, as the case may be, UNC submits an invoice to the Company for payment of patent-related fees related to current compounds or future compounds incurred prior to the invoice date. The Company is also required to make milestone payments in the form of the issuance of 100,000 shares of its common stock to the Consortium when it files its first initial New Drug Application ("NDA") or an Abbreviated New Drug Application ("ANDA") based on Consortium technology. We are also required to pay to UNC on behalf of the Scientific Consortium (other than Duke University) (i) royalty payments of up to 5% of our 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 we receive under sublicensing arrangements. With respect to products or licensing arrangements emanating from Duke University technology, the Company is required to negotiate in good faith with UNC (on behalf of Duke University) royalty, milestone or other fees at the time of such event, consistent with the terms of the Consortium Agreement.

Under the License Agreement, the Company must also reimburse the cost of obtaining patents and assume liability for future costs to maintain and defend patents so long as the Company chooses to retain the license to such patents.

During the three and nine month periods ended December 31, 2005, the Company expensed approximately $253,000 and $718,000, respectively, of other payments to UNC and certain other Scientific Consortium universities for patent related costs and other contracted research. For the corresponding periods ended December 31, 2004, the Company expensed approximately $190,000 and $494,000, respectively. Total payments expensed to UNC and certain other Scientific Consortium universities were approximately $253,000 and $718,000 during the three and nine months ended December 31, 2005. For the corresponding periods ended December 31, 2004, the Company expensed approximately $208,000 and $527,000, respectively. Included in accounts payable as of December 31, 2005 and March 31, 2005, were approximately $65,000, and $136,000, respectively, due to UNC and certain other Scientific Consortium universities.

In July 2004, the Company was awarded an SBIR grant from the NIH of $107,000 as a grant to research on "Aromatic Dication Prodrugs for CNS Trypanosomiasis." No revenues or expenses occurred during the three month period ended December 31, 2005 from this grant. During the nine month period ended December 31, 2005, the Company recognized approximately $44,000 revenues and approximately $44,000 expenses from this grant. During the three month period ended December 31, 2004, the Company recognized revenues of approximately $63,000 and expensed payments of approximately $18,000. During the nine month period ended December 31, 2004, the Company recognized revenues of approximately $63,000 and expensed payments of approximately $63,000. Approximately $33,000 of the grant was paid to UNC and certain other Scientific Consortium members for contracted research related to the grant.

In November 2000, a philanthropic foundation (the "Foundation") awarded a $15,114,000 grant to UNC to develop new drugs to treat Human Trypanosomiasis (African sleeping sickness) and leishmaniasis (the "Foundation Grant"). On March 29, 2001, UNC entered into a clinical research subcontract agreement with the Company, whereby the Company would receive up to $9,800,000, subject to certain terms and conditions, over the succeeding five year period to conduct certain clinical and research studies related to the Foundation Grant.

In April 2003, the Foundation increased the Foundation Grant by $2,713,124 for the expansion of phase IIB/III clinical trials to treat human Trypanosomiasis (African sleeping sickness) and improved manufacturing processes. The Company has received, pursuant to the clinical research subcontract with UNC, inclusive of its portion of the grant increase, a total amount of funding of approximately $11,700,000. The Company and its research partners are working with existing and new funding sources to develop next steps and to increase funding to advance the development of a treatment for African sleeping sickness.

During the three and nine months ended December 31, 2005, approximately $786,000 and $2,484,000 was utilized for clinical and research purposes conducted and expensed, respectively. During the three and nine months ended December 31, 2004, approximately $769,000 and $2,335,000 was utilized for clinical and research purposes conducted and expensed, respectively. The Company has recognized revenues of approximately zero and $869,000 during the three and nine months ended December 31, 2005, respectively. The Company has recognized revenues of approximately zero and $1,465,000 during the three and nine months ended December 31, 2004, respectively. At December 31, 2005, the Company has nothing recorded as deferred revenue with respect to this agreement.

On November 26, 2003, the Company entered into a testing agreement ("Testing Agreement") with Medicines for Malaria Venture ("MMV"), a foundation established in Switzerland, and UNC, pursuant

to which the Company, with the support of MMV and UNC, conducted a proof of concept study of the dicationic drug candidate DB289 for the treatment of malaria.

Under the terms of the Testing Agreement, MMV committed to pay for human clinical trials and, subject to certain milestones, regulatory preparation and filing costs for the approvals to market DB289 to treat malaria. In return for MMV's funding, the Company is required, when selling malaria drugs derived from this research into "malaria-endemic countries," as defined, to sell such drugs at affordable prices. An affordable price is defined in the Testing Agreement to mean a price not to be less than the cost to manufacture and deliver the drugs plus administrative overhead costs (not to exceed 10% of the cost to manufacture) and a modest profit. There are no price constraints on product sales into non-malaria-endemic countries. The Company must, however, pay to MMV a royalty not to exceed 7% of net sales, as defined, on product sales into non-malaria-endemic countries, until the amount funded under the Testing Agreement and amounts funded under a related discovery agreement between MMV and UNC is refunded to MMV at face value. The Company and MMV agreed to terminate the Testing Agreement effective as of February 10, 2006.

The Company and MMV have agreed to focus their collaborative efforts on a next generation therapy for treatment of malaria which we believe will include a dication drug from the Company's platform technology, in combination with another anti-malarial drug in MMV's portfolio, a compound known as AQ13.

The Company recognized revenues of approximately $965,000 and $2,411,000 during the three and nine month periods ended December 31, 2005, respectively, for expenses incurred related to activities within the scope of the Testing Agreement. For the corresponding periods ended December 31, 2004, the recognized revenues and expenses were approximately $262,000 and $1,359,000, respectively. The Company received approximately $2,613,000 during the nine month period ended December 31, 2005, aggregating to approximately $5,636,000 to date under the Testing Agreement. At December 31, 2005, the Company recorded approximately $647,000 as deferred revenue with respect to this agreement.

5. SUBSEQUENT EVENTS

On February 8, 2006, the Company entered into a firm commitment underwriting agreement to sell two million shares of its common stock, $0.01 par value, at $8.00 per share. The Company also granted to the underwriter, pursuant to the terms of the underwriting agreement, a thirty-day option to purchase up to an additional 300,000 shares of common stock at the $8.00 price. The offering is scheduled to close on February 13, 2006. Pursuant to the terms of the underwriting agreement, at the initial closing, the Company will issue two million shares of its common stock for gross proceeds to the Company of $16 million, or approximately $14,730,000 net of underwriter commissions and expenses. If the underwriter exercises its option in full, the Company would receive additional gross proceeds of $2.4 million, which would net to the Company, after underwriting commissions and expenses, approximately an additional $2,232,000.

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

The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes thereto included in Part I, Item 1 of this quarterly report on Form 10-Q.

Forward-Looking Statements

Certain statements contained in this quarterly 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 "may," "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 quarterly report and in our annual report on Form 10-K, the following (i) we are in an early stage of product development, (ii) the possibility that favorable relationships with collaborators cannot be established or, if established, will be abandoned by the collaborators before completion of product development, (iii) the possibility that we or our collaborators will not successfully develop any marketable products, (iv) the possibility that advances by competitors will cause our product candidates not to be viable, (v) uncertainties as to the requirement that a drug product may not 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, (vi) risks relating to requirements for approvals by governmental agencies, such as the U.S. Food & Drug Administration ("FDA") and the FDA's foreign counterparts, 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, (vii) 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, (viii) 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, (ix) the possibility that any products successfully developed by us will not achieve market acceptance and (x) other risks and uncertainties not 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.

Results of Operations

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

December 31, 2005, we incurred cumulative net losses of approximately $81,954,000. 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:

- payments from foundations and other collaborators under arrangements that may be entered into in the future;
- grants from the United States government and other governments and entities; and
- the issuance of securities or borrowing of funds.

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

Three Month Period Ended December 31, 2005 Compared with the Three Month Period Ended December 31, 2004.

Revenues under collaborative research and development agreements were approximately $965,000 and $325,000 for the three month periods ended December 31, 2005 and December 31, 2004, respectively. For the three month periods ended December 31, 2005 and 2004, there were no revenues recognized related to a clinical research subcontract between us and The University of North Carolina at Chapel Hill ("UNC"). The UNC clinical research subcontract agreement initiated in March 2001 relates to a grant from a philanthropic foundation (the "Foundation") to UNC to develop new drugs to treat trypanosomiasis (African sleeping sickness) and leishmaniasis. For the three month period ended December 31, 2005, there were revenues recognized of approximately $965,000 related to the testing agreement with the Medicines for Malaria Venture ("MMV"), compared to revenues of $262,000 for the period ended December 31, 2004. The MMV testing agreement was effective as of November 26, 2004 and terminates effective as of February 10, 2006. For the three month period ended December 31, 2005, there were no revenues recognized relating to an SBIR grant, compared to $63,000 for the three month period ended December 31, 2004. Grant and research and development agreement revenue is recognized as earned when the research and development is complete under the terms of the respective agreements, according to Company estimates. Research and development and grant funds received prior to completion of the related services or tasks are recorded as deferred revenues.

Research and development expenses increased to approximately $2,825,000 from approximately $1,441,000 for the three month periods ended December 31, 2005 and December 31, 2004, respectively. Expenses related to the MMV testing agreement increased from $261,000 in the three month period ended December 31, 2004 to approximately $823,000 in the three month period ended December 31, 2005. Expenses relating to the clinical research subcontract with UNC increased from approximately $769,000 in the three month period ended December 31, 2004 to approximately $786,000 for the three month period ended December 31, 2005. Other pre-clinical and clinical trial expenses for the three month period ended December 31, 2005

increased by approximately $805,000 from the corresponding three month period in 2004 due to the increased costs in anticipation of the Phase III trial in PCP.

General and administrative expenses decreased for the three month period ended December 31, 2005 to approximately $2,144,000 from approximately $5,271,000 for the corresponding three month period ended December 31, 2004. The decrease in general and administrative expenses was primarily due to a decrease in non-cash

expenses for common stock, stock options and warrant issuances in the three month period ended December 31, 2005 of approximately $125,000 as compared to non-cash stock issuance in the three month period ended December 31, 2004, of approximately $3,498,000. Non-cash expenses (1) for the three month period ended December 31, 2005 included approximately $125,000 related to stock and warrant issuances, as compared to (2) for the three month period ended December 31, 2004, which included approximately $3,497,000 primarily related to charges for the extension of the exercise term of warrants to purchase 750,000 shares of common stock originally issued to RADE Management. Legal fees increased from approximately $504,000 during the three month period ended December 31, 2004 to approximately $750,000 for the three month period ended December 31, 2005. Each of accounting and patent fees decreased from approximately $35,000 and $88,000 for the three month period ended December 31, 2004, to $28,000 and $67,000, respectively, for the same period ended December 31, 2005. Contract services and public relations fees increased from approximately $347,000 to approximately $457,000 during the three month periods ended December 31, 2004 and December 31, 2005, respectively. Business travel and insurance expenses decreased by approximately $48,000 over the same periods. Other general and administrative expenses decreased from approximately $233,000 for the three month period ended December 31, 2004 to approximately $182,000 for the three month period ended December 31, 2005.

Interest income for the three month period ended December 31, 2005 was approximately $21,000. Interest income for the three month period ended December 31, 2004 was approximately $48,000. The decrease in interest income is due to a decrease in available funds invested while the interest rate paid on invested funds remained relatively unchanged. We had no interest expense during the three month period ended December 31, 2005 and December 31, 2004.

We incurred a net loss of approximately $3,983,000 for the three month period ended December 31, 2005 as compared with a net loss of approximately $6,339,000 for the three month period ended December 31, 2004. The decrease in net loss was due primarily to a decrease in general and administrative expenses which was predominately attributable to non-cash expenses in the three month period ended December 31, 2004 related to stock and warrant issuances for services.

Nine Month Period Ended December 31, 2005 Compared with the Nine Month Period ended December 31, 2004.

Revenues under collaborative research and development agreements were approximately $3,324,000 and $2,887,000 for the nine month periods ended December 31, 2005 and December 31, 2004, respectively. For the nine month period ended December 31, 2005 there were revenues recognized of approximately $869,000 relating to the clinical research subcontract with UNC, and approximately $2,411,000 relating to the testing agreement with MMV, while for the nine month period ended December 31, 2004, there were revenues recognized of approximately $1,465,000 relating to the clinical research subcontract and approximately $1,359,000 relating to the MMV testing agreement. Additionally, for the nine month period ended December 31, 2005, there were revenues recognized of approximately $44,000 relating to an SBIR grant compared to $63,000 during the nine month period ended December 31, 2004.

Research and development expenses increased to approximately $7,767,000 during the nine month period ended December 31, 2005 from approximately $4,715,000 in the nine month period ended December 31, 2004. Expenses relating to the clinical research subcontract with UNC increased from approximately $2,331,000 in the nine month period ended December 31, 2004 to approximately $2,479,000 for the

nine month period ended December 31, 2005. Expenses related to the MMV testing agreement for the nine month period ended December 31, 2005 were approximately $2,403,000, as compared to $1,354,000 for the same period in 2004. Expenses relating to pre-clinical and clinical trial costs related primarily to Pneumocystis pneumonia increased from approximately $138,000 in the nine month period ended December 31, 2004 to approximately $1,670,000 in the nine month period ended December 31, 2005. Pneumocystis pneumonia trial expenses were related primarily to Phase II clinical trial patient enrollment, corresponding sample analysis costs, and preparation for entry into Phase III. Other pre-clinical and clinical trial expenses for the nine month period ended December 31, 2005 increased by approximately $323,000 from the corresponding nine month period in 2004.

General and administrative expenses decreased during the nine month period ended December 31, 2005 to approximately $8,206,000 from approximately $9,163,000 for the nine month period ended December 31, 2004. The decrease in general and administrative expenses was primarily due to a decrease in non-cash expenses for common stock, stock options and warrant issuances in the nine month period ended December 31, 2005 of approximately $151,000 as compared to non-cash stock issuance in the nine month period ended December 31, 2004 of approximately $4,773,000. Non-cash expenses (1) for the nine month period ended December 31, 2005 included (i) approximately $26,000 for a settlement with John Lux, and (ii) approximately $125,000 for the acceleration of a warrant expiration and price reduction of a Fulcrum Holdings of Australia warrant to compel exercise, as compared to (2) for the nine month period ended December 31, 2004, which included (i) approximately $4,530,000 for the extension of the exercise term of warrants to purchase 975,000 shares of common stock originally issued to RADE management, (ii) approximately $233,000 for the issuance of options to purchase 20,000 shares of common stock issued to an individual to assist in developing relationships with Tsinghua University in China, and (iii) approximately $10,000 relating to the cashless exercise of warrants issued to underwriters in connection with the Company's initial public offering. Patent expenses increased from approximately $258,000 in the nine month period ended December 31, 2004 to approximately $370,000 during the nine month period ended December 31, 2005. Legal fees increased from approximately $1,060,000 in the nine month period ended December 31, 2004, to approximately $4,125,000 during the nine month period ended December

31, 2005. The increase in legal fees was primarily attributable to legal fees related to the arbitration with Neurochem. Argument in that proceeding concluded in September 2005. For the nine month period ended December 31, 2005 compared to the nine month period ended December 31, 2004, payroll and payroll related expenses increased by approximately $265,000 primarily due to increased staffing; related business travel, insurance and contract services increased by approximately $499,000 over the same period. Expenses relating to Immtech Therapeutics, Super Insight, Immtech Life Science and Immtech Hong Kong decreased to approximately $154,000 for the nine month period ended December 31, 2005 from approximately $336,000 for the nine month period ended December 31, 2004. Other general and administrative expenses decreased approximately $94,000 during the same periods.

Interest income for the nine month period ended December 31, 2005 was approximately $121,000. Interest income for the nine month period ended December 31, 2004 was approximately $84,000. The increase in interest income is due to an increase in average funds invested and an increase in the interest rate paid on invested funds. We had no interest expense during the nine month period ended December 31, 2005 and December 31, 2004.

We incurred a net loss of approximately $12,527,000 for the nine month period ended December 31, 2005 as compared with a net loss of approximately $10,906,000 for the nine month period ended December 31, 2004.

Liquidity and Capital Resources

During the three and nine month periods ended December 31, 2005, cash and cash equivalents were primarily invested in a money market mutual fund. Unrestricted cash and cash equivalents were approximately $1,926,000 as of December 31, 2005 and restricted funds on deposit were approximately $1,019,000.

The Company has a working capital deficit of $421,913 as of December 31, 2005 compared to working capital of $8,068,771 as of March 31, 2005. The reduction in working capital of $8,490,684 is a result of higher than anticipated legal costs of $4,124,968 incurred primarily in connection with the resolution of the disputes described below along with the Company's ongoing efforts to develop drug candidates.

To date, the Company has spent a substantial amount of cash resources on legal costs in respect of its suit against Neurochem. Pursuant to the terms of the Confidentiality, Testing and Option Agreement between Immtech and Neurochem dated April 22, 2002, each party is to bear its own attorneys' fees and costs during an arbitration. In accordance with the ICC Rules which govern the proceeding, however, the Arbitral Tribunal may award recovery of such attorneys' fees and costs to the prevailing party. Management believes that it has the potential to recover some or all of the legal costs it expended in resolution of the disputes described herein. Future legal costs are not expected to be significant as the argument portion of the above described arbitration ended on September 20, 2005.

There were equipment expenditures of approximately $4,000 for the three month period ended December 31, 2005 as compared to equipment expenditures of approximately $39,000 for the three month period ended December 31, 2004. During the nine month periods ended December 31, 2005 and December

31, 2004, equipment purchases were approximately $54,000 and $99,000, respectively.

We periodically receive cash from the exercise of common stock options. During the three month period ended December 31, 2005, 16,872 options were exercised and during the nine month period ended December 31, 2005, options to purchase 62,544 shares of common stock were exercised, which included 18,744 on a cashless basis, resulting in aggregate payments to us of $24,525 and $93,191. During the three and nine month periods ended December 31, 2005, warrants to purchase 50,000 and 51,800 shares of common stock, respectively, were exercised resulting in aggregate payments to us of $405,050 and $416,696.

Through December 31, 2005, we have financed our operations with:

- proceeds from various private placements of equity securities, an initial public offering, a secondary public offering, exercises of stock options and warrants and other cash contributed from stockholders, which in the aggregate raised approximately $54,700,000;

- funding from research agreements, foundation grants, SBIR grants and Small Business Technology Transfer Program grants and testing agreements of

approximately $20,513,000; and

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

We have focused or efforts and used our cash resources primarily to develop drug product candidates (including sponsored research) pursuant to the terms of (1) an agreement, dated January 15, 1997, (the "Consortium Agreement"), among us, and UNC (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 (2) a recently completed agreement, dated November 26, 2003, among us, UNC, and the Medicines for Malaria Venture ("MMV"). Preparations are also underway to commence Company sponsored clinical programs that include human clinical trials for the treatment of PCP at multiple locations in North and South America. Over the next several years we expect to incur additional research and development costs, including costs related to research in pre-clinical (laboratory) and human clinical trials, administrative expenses to support our research and development operations and marketing expenses to launch the sale of any commercialized product that may be developed.

Our future working capital requirements will depend upon numerous factors, including the progress of research, development and commercialization programs (which may vary as product candidates are added or abandoned), pre-clinical testing and clinical trials, achievement of regulatory milestones, third party collaborators fulfilling their obligations to us, the timing and cost of obtaining regulatory approvals, the level of resources that we devote to the engagement or development of manufacturing capabilities, including the build out of our subsidiary's facility in China, our ability to maintain existing and to establish new collaborative arrangements to provide funding to support these activities, and other factors. In any event, we will require

additional funds in addition to our existing resources to develop product candidates and to otherwise meet our business objectives.

The Company is currently actively involved in discussions to obtain additional funds through its traditional funding sources along with the potential recovery of legal costs from the resolution of disputes described earlier in this document. The Company believes that it will be able to obtain the necessary funding to meet its planned expenditures from December 31, 2005 through the next twelve-month period, although there can be no assurance we will be able to acquire the funds for current planned expenditures or that additional funds will not be required.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The exposure of market risk associated with risk-sensitive instruments is not material to our business, as our operations are conducted primarily in U.S. dollars and we invest primarily in short-term government obligations and other cash equivalents. We intend to develop policies and procedures to manage market risk in the future if and when circumstances require.

Item 4. Controls and Procedures

Disclosures and Procedures.

We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Our Chief Executive Officer and Chief Financial Officer 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 our disclosure controls and procedures, which took place as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive and Chief Financial Officers believe that these procedures are effective to ensure that we are able to collect, process and disclose the information we are required to disclose in the reports we file with the SEC within the required time periods.

Internal Controls.

We maintain 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.

We have not made any material changes in our internal control over financial reporting during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Gerhard Von der Ruhr v. Immtech International, Inc. et al

On December 19, 2005, the Court held a final pre-trial conference. The Court ordered plaintiffs to file, by January 23, 2006, a supplement to their response to the Company's Motion in Limine to Exclude Gerhard Von der Ruhr's Testimony. A hearing on the Company's motion is scheduled for April 7, 2006. No trial date has been set.

Except as noted above and in Part I, Item 3, Legal Proceedings, of our Form 10-K filed on June 14, 2005, we are not aware of any pending litigation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

Common Stock.

None

Option Exercises.

On November 14, 2005, a holder exercised an option to purchase 8,000 shares which were exercisable at $2.55 per share resulting in proceeds to the Company

of $20,400.

On November 17, 2005, a holder exercised an option to purchase 8,872 shares which were exercisable at $0.46 per share resulting in proceeds to the Company of $4,125.

Conversion of Series B Preferred Stock to Common Stock.

On November 17, 2005, a holder of Series B Convertible Preferred Stock, $0.01 par value ("Series B Stock") converted 5,261 shares of Series B Stock into 32,997 shares of common stock.

Preferred Stock Dividend Payment.

On October 15, 2005, we issued 18,973 shares of common stock in the aggregate as preferred stock dividends to the holders of outstanding shares of our Series A Stock, Series B Stock, Series C Stock and Series D Stock, pro rata, based on the number of the shares of preferred stock held.

Warrant Exercises.

The table below sets forth dates, shares of common stock purchased, exercise prices paid and aggregate consideration received by us in connection with warrant exercises during the quarter and prior to the filing of this quarterly report on Form 10-Q.

Date	Shares of Common Stock Purchased	Per Share Exercise Price	Aggregate Consideration
11/2/05	35,000	$8.80	$308,000
11/10/05	5,000	$6.47	$32,350
11/14/05	10,000	$6.47	$64,700
	50,000	$8.10	$405,050

Use of Proceeds.

We intend to use the proceeds from the exercise of warrants for general corporate purposes.

Item 3. Defaults Upon Senior Securities.

None.

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

Votes of the Stockholders.

We held our Annual Meeting on December 16, 2005 at the Hyatt Regency O'Hare in Rosemont, Illinois. The following matters were presented to, and all were approved or ratified by, the stockholders: (1) election of seven directors to serve until the next annual meeting of the stockholders, (2) Proposal No. 1 - to authorize the board of directors to amend the Company's certificate of incorporation to change the Company's name to "Immtech Pharmaceuticals, Inc." from "Immtech International, Inc.", (3) Proposal No. 2 - to authorize the board of directors to amend the Company's certificate of incorporation to effect, on

or before December 15, 2007, a forward split of the Company's common stock of up to three shares for each one share outstanding as of the record date for the stock split, (4) Proposal No. 3 - to approve an amendment to the Immtech International, Inc. 2000 Stock Incentive Plan, as amended and restated, (the "2000 Plan") to permit the board of directors, or an independent committee thereof, to amend the terms of outstanding awards granted under the 2000 Plan and (5) Proposal No. 4 - to ratify the selection of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending March 31, 2006. The results of the votes are as follows:

The following individuals were elected Directors by the Shareholders:	Votes For	Authority Withheld
T. Stephen Thompson	7,719,105	1,277,972
Cecilia Chan	7,695,714	1,301,636
Harvey M. Colten, M.D.	8,252,849	744,228
Judy Lau	8,469,925	527,152
Levi Lee, M.D.	8,520,704	476,373
Eric L. Sorkin	8,643,784	353,293
Frederick W. Wackerle	8,092,933	904,144

	Votes For	Votes Against	Abstain*	Non-Votes**
Proposal 1 - Name Change	8,933,724	46,618	16,735	n/a
Proposal 2 - Stock Split	8,591,816	369,329	35,932	n/a
Proposal 3 - Amendment of the 2000 Stock Incentive Plan	2,463,951	1,808,610	243,409	4,481,107
Proposal 4 - Ratification of Deloitte & Touche LLP as independent auditors	8,603,440	167,148	226,489	n/a

* Per proxy statement, abstentions are considered votes against.
** Per proxy statement, non-votes are not entitled to vote.

Item 5. Other Information.

Employee Update

In the nine months ended December 31, 2005, and to date, we have added six new employees. Our new hires include Vice President Discovery Programs, Director Clinical Operations, Director Regulatory Operations, Director Commercial Development, Vice President, General and IP Counsel, and Senior Clinical Project Manager. With our new hires, our staff has increased to 24 employees, 13 of whom hold advanced degrees, 13 of whom work in support of clinical trials, research and development and regulatory compliance and the other 11 work in general and administrative capacities which includes business development, investor relations, finance, legal and administration.

Underwriting Agreement

On February 8, 2006, the Company entered into a firm commitment underwriting agreement to sell two million shares of its common stock, $0.01 par value, at $8.00 per share. The Company also granted to the underwriter, pursuant to the

terms of the underwriting agreement, a thirty-day option to purchase up to an additional 300,000 shares of common stock at the $8.00 price. The offering is scheduled to close on February 13, 2006. Pursuant to the terms of the underwriting agreement, at the initial closing, the Company will issue two million shares of its common stock for gross proceeds to the Company of $16 million, or approximately $14,730,000 net of underwriter commissions and expenses. If the underwriter exercises its option in full, the Company would receive additional gross proceeds of $2.4 million, which would net the Company, after underwriting commissions and expenses, approximately an additional $2,232,000 of proceeds.

Item 6. Exhibits.

Exhibit Index

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Sections 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: February 9, 2006

By: /s/ Eric L. Sorkin

Eric L. Sorkin
Chief Executive Officer
(Principal Executive Officer)

Date: February 9, 2006

By: /s/ Gary C. Parks

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