IMMTECH PHARMACEUTICALS, INC.
Form 10-K
June 18, 2008

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

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended March 31, 2008.

|__| 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 001-14907

IMMTECH PHARMACEUTICALS, 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.)
One North End Avenue New York, New York	10282
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Common Stock, par value $0.01 per share
(Title of class)

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes |__| No |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes |__| No |X|

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required

to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |__|

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934. Large Accelerated Filer |__| Accelerated Filer |X| Non-accelerated Filer |__| Smaller reporting company |__|

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes |__| No |X|

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the last price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was $124,182,768.

As of June 16, 2008, the total number of shares of the registrant's common stock outstanding was 15,876,983 shares.

Documents incorporated by reference. None.

IMMTECH PHARMACEUTICALS, INC.
TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K and the documents incorporated by reference herein regarding Immtech Pharmaceuticals, Inc.'s business contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to risks and uncertainties. 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 inc statements concerning our strategies, goals and plans. Actual results could differ materially from these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the following: (i) Immtech's ability to develop commercially viable products; (ii) Immtech's ability to achieve profitability; (iii) Immtech's ability to retain key personnel; (iv) the ability of Immtech's scientists and collaborators to discover new compounds; (v) the availability of additional research grants; (vi) Immtech's ability to obtain regulatory approval of its drugs candidates; (vii) the success of Immtech's clinical trials; (viii) dependence upon and contractual relationship with partners; (ix) Immtech's ability to manufacture or to contract with a third party to manufacture its drug candidates at a reasonable cost; (x) Immtech's ability to protect its intellectual property; (xi) competition and alternative technologies; (xii) Immtech's ability to obtain reimbursement from third party payers for any product it commercializes and (xiii) potential exposure to significant product liability. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I.

ITEM 1. BUSINESS

A.Business Overview

Immtech Pharmaceuticals, Inc., (the "Registrant") is focused on global opportunities in the healthcare sector. Globalization and the increased income levels seen in numerous emerging regions have created significant opportunities in both the development of new drugs and, more broadly, in healthcare services for drug developers and for physicians and patients. Immtech aims to leverage its established expertise and other assets in both new drug sales and enhanced healthcare-related services, including laboratory research and information-providing services, for developed and developing countries. To capitalize on the opportunities arising in the global healthcare marketplace, we seek to develop proprietary, high-growth operations in the People's Republic of China ("China") and potentially in other regional markets.

As one opportunity for growth, we plan to further our focus on the discovery and development of drugs to treat infectious diseases. These diseases present significant unmet needs and will increase dramatically as threats to the global community. According to the World Health Organization ("WHO"), infectious diseases are collectively the most common cause of death in the world today. Yet relatively few new drugs for the treatment of infectious diseases have been brought to market in the past two decades. New drugs are needed to address the risk

of drug resistance by known pathogens and the emergence of new pathogens in the years ahead. Accordingly, infectious diseases will continue to be a prime focus for Immtech.

Much of the drug development being conducted today emphasizes the chronic conditions of citizens of developed nations, and often requires lengthy, complex clinical trials to establish both drug efficacy and superiority to an existing standard of care. By contrast, infectious disease-related drug development generally involves clinical trials with well-defined endpoints that can be evaluated clearly over a relatively short duration. We have worked with world-renowned universities and scientific institutions since 1999 and plan to expand our scientific consortium for drug discovery.

Our focus on global opportunities leads naturally to an expansion of business development in China, given that China has 20% of the world's population. Our experience there also creates various opportunities outside the laboratory environment as China expands its healthcare infrastructure. According to Boston Consultancy, an independent consulting group, China is projected to become the world's fifth largest pharmaceutical market by 2010. Further, it is estimated that demand for drugs, healthcare information, education, and services will propel China's pharmaceutical market to grow by more than 20% a year even as growth rates in key European and U.S. markets are decelerating. According to the WiCon International Group, the publisher of Pharma China, sales of pharmaceutical, herbal, and Chinese medicine drug products reached $50 billion in 2007. The growth and expansion of healthcare needs in China will require a vastly expanded supply of both products and services, and we believe that we are well poised to benefit in this dynamic market.

In addition to our internal drug discovery programs, the growing demand for contract research services ("CRS") in China and other rapidly emerging markets represents an attractive commercial opportunity. Clinical research programs in these markets require a depth of understanding related to research capabilities, regulatory guidelines and cultural knowledge. Because of our capabilities in each of these areas, we plan to leverage our experience by partnering with local institutions and providing CRS to other international companies involved in drug development. We believe that our experience in drug development in international markets has positioned us to develop a valuable and competitive range of business services related to clinical research.

As an expansion of the strategy to pursue our drug development and CRS businesses, we also anticipate cultivating business opportunities to distribute healthcare information. We believe that most healthcare systems could be enhanced through improved continuing education and training programs to professional medical staff as well as through the distribution of high-quality healthcare information to the general public. Therefore, we plan to implement medical information initiatives in China and potentially throughout Asia. We believe that these medical education initiatives present growth opportunities for us and may lead to the development of unique assets.

These services must be positioned to meet the needs of consumers and medical professionals alike by providing high-quality, accurate information. We believe our experience and established business relationships represent valuable resources in support of our efforts to build and expand content distribution in China and elsewhere in Asia. We plan to access content

from universities, research institutions, and media outlets with extensive libraries of materials. The dynamic nature of electronic content distribution could lead to the creation of unique assets in this area.

During the year ended March 31, 2008, our drug development program for pafuramidine was discontinued due to findings of renal and liver adverse events among participants in our study of healthy volunteers conducted in South Africa. This clinical trial had been initiated to provide safety data in support of the African sleeping sickness and pneumocystis pneumonia indications. It was halted in December 2007 after several subjects developed abnormal liver function ("clinical hold"). The program was formally discontinued in February 2008 when five subjects in the same study developed renal abnormalities that required medical intervention and hospitalization. All affected subjects have recovered fully, and to date, no lasting adverse effects have been observed in these volunteers. See "Products and Drug Development Programs—Pafuramidine."

In addition to licenses related to pafuramidine, we hold worldwide exclusive licenses to develop and commercialize an expanding library of compounds, some of which are in early stages of research. These compounds target fungal infections, the Hepatitis C virus ("HCV"), drug resistant Gram positive bacteria and other serious diseases. Furthermore, over the past year we have initiated an independent medicinal chemistry effort to drive these development programs and to expand our library of both proprietary and Company-owned intellectual property. Our initial in vitro and in vivo assessments have identified several potential lead compound candidates for each of these diseases. We continue to test compounds to identify optimum lead candidates to move into preclinical testing and subsequent human clinical trials, to be followed ultimately by commercialization.

Immtech maximizes its research spending by collaborating with its research partners and designing cost effective clinical trials targeting indications amenable to shorter duration treatments with well-defined endpoints. Our first drug candidate, pafuramidine, and several compounds for our discovery programs in fungal diseases, bacterial infections and HCV were synthesized and initially evaluated by our research partners at The University of North Carolina at Chapel Hill ("UNC-CH") and Georgia State University ("Georgia State"). We have exclusive worldwide licenses to develop and commercialize compounds discovered and patented by scientists at these universities, and we have access to their large library of compounds. We call these scientists, and others from whom we have rights to commercialize technology discovered or developed by them, our consortium scientists. Our license rights include 148 issued domestic U.S. and foreign patents that cover many classes of novel chemical compounds.

A predecessor of the Registrant was incorporated under the laws of the State of Wisconsin on October 15, 1984, and subsequently merged with and into the Registrant on April 1, 1993. We began the development of drugs to treat infectious disease in 1997. Our executive offices are located at One North End Avenue, New York, New York 10282, telephone number (212) 791-2911 or toll-free (877) 898-8038. Our common stock (the "Common Stock") is listed on The American Stock Exchange ("AMEX") under the ticker symbol "IMM." Trading on the AMEX commenced on August 11, 2003.

For the fiscal year ended March 31, 2008, we had revenues of approximately $9.7 million and a net loss of approximately $10.5 million which included non-cash compensation expenses of approximately $3.2 million related to the vesting of Common Stock options, extension of warrants and issuance of Common Stock during the year. We currently have enough cash to operate through December 31, 2008 and capital resources through the sale of land use rights that we believe are sufficient to support our operations beyond March 31, 2009. We are a development stage pharmaceutical company that operates as one segment.

The discontinuation of the pafuramidine development program and the new business opportunities discussed above raise doubt about our ability to continue as a going concern. If we become unable to continue as a going concern, we may need to liquidate our assets, and we might realize significantly less than the values at which they are carried on our financial statements. However, the accompanying financial statements do not include any adjustments or charges that might be necessary should we be unable to continue as a going concern, such as charges related to impairment of our assets, the recoverability and classification of assets or amounts and classification of liabilities or other similar adjustments. In addition, the report of our independent registered public accounting firm on the accompanying financial statements included in this Annual Report on Form 10-K contains an explanatory paragraph regarding going concern uncertainty.

We file annual, quarterly and current reports, proxy statements and other documents with the United States Securities and Exchange Commission (the "SEC"), under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our reports, proxy statements and other documents filed electronically with the SEC are available at the website maintained by the SEC at http://www.sec.gov. We also make available free of charge on or through our Internet website at http://www.immtechpharma.com, the annual, quarterly and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13(a) of the Exchange Act, as soon as reasonably practicable after we electronically file such reports with the SEC. Information on our website is not incorporated as part of this report.

When we use the words the "Company" or "Immtech" in this report, we are referring to the Registrant and its subsidiaries. When we use the word "we," "our" or "us," we are referring to the Registrant and its subsidiaries or solely the Registrant as the context requires.

B.Products and Drug Development Programs

The pafuramidine program is currently being closed out. Presently, we are continuing follow-up assessment of African sleeping sickness subjects in our Phase III study of pafuramidine as planned. These patients completed treatment in March 2007 and will be followed for 24 months. All other pafuramidine studies have either been closed or the follow-up of previously treated patients and volunteers is ongoing.

As part of the close out activities of the pafuramidine program, final reports for all clinical trials are being prepared with primary focus on the safety and tolerability of pafuramidine. These reports will be submitted to the FDA and other regulatory agencies. A full

report of our evaluation of the adverse events associated with the use of pafuramidine is also being prepared and will be submitted to the FDA in response to the full clinical hold. We are also conducting follow up of subjects who have received pafuramidine in prior clinical trials to assess whether any unexpected adverse events occurred that have not previously been reported to us by the investigators for such trials.

All documents related to the pafuramidine development program will be archived. The information gained from the review of the preclinical and clinical studies of pafuramidine and DB75 will be used by the Consortium for Parasitic Drug Development, led by UNC-CH, as new compounds are evaluated as potential clinical candidates for future development for African sleeping sickness, Chagas disease or other related diseases.

The following sections provide the current status of the studies that were ongoing at the time of the clinical hold in December 2007 and update the results presented in our annual report filed with the SEC for the year ended March 31, 2007. We do not anticipate providing any future updates regarding the pafuramidine development program.

1. Pafuramidine

i. Supportive Phase I Safety Study in Healthy Volunteers

The primary goal of this study was to provide a safety database of acceptable size to support the registration of pafuramidine for both African sleeping sickness and Pneumocystis pneumonia (“PCP”). This was a randomized, double-blind Phase I safety and tolerability study of pafuramidine maleate (DB289) in healthy subjects. The secondary objective of this study was to evaluate the potential effect of pafuramidine maleate on specific analytes that can be assessed by clinical chemistry and hematology testing.

The enrollment of additional subjects was prematurely discontinued on December 20, 2007 after 100 of the anticipated 175 subjects completed treatment. Eighty subjects received pafuramidine and 20 subjects received placebo. Approximately 25% of subjects who received pafuramidine developed significant liver function abnormalities within five days of completing treatment. These abnormalities resulted in the FDA placing a full clinical hold on the pafuramidine development program and a request for additional follow up from the Data Safety Monitoring Board. Values in all subjects returned to the normal range during follow up without intervention. A liver specialist was consulted and it was recommended that laboratory follow up of the subjects at three and six months be conducted. These follow up evaluations are continuing at present.

During the extended follow up period (approximately eight weeks after the last dose of study drug), five subjects treated with pafuramidine were hospitalized for acute renal insufficiency. A kidney specialist was consulted and it was recommended that monthly follow up of all subjects who received pafuramidine for at least six months post-treatment due to a suspected drug-induced hypersensitivity reaction be conducted. Additional follow up of subjects who received pafuramidine in this trial is ongoing and will continue until subjects return to baseline.

ii. Definitive Bioequivalence Study

The primary objective of the definitive bioequivalence study was to establish the bioequivalence of a new formulation of pafuramidine which was planned for commercial use, to the reference formulation of pafuramidine maleate. A total of 84 subjects were enrolled in this study, which had completed dosing at the time of the clinical hold. Follow up of these subjects will continue through at least June 2008.

iii. Pafuramidine for PCP in HIV/AIDS Patients

PCP is a fungus that overgrows the air sacs in the lungs of people whose immune systems have been significantly suppressed. PCP can cause life-threatening pneumonia. Moreover, it is one of the most common opportunistic infections affecting HIV/AIDS patients.

Our Phase III pivotal clinical trial of pafuramidine to treat PCP in patients with HIV/AIDS was being conducted under an Investigational New Drug ("IND") application filed with the FDA. This was a comparative clinical trial against the current standard of care, trimethoprim-sulfamethoxazole ("TMP-SMX"). The main objective of this Phase III clinical trial was to determine whether the efficacy of pafuramidine is comparable to the efficacy of TMP-SMX. The study was also to compare the safety and tolerability of pafuramidine and TMP-SMX. At this point, half of the required patients had been enrolled. Our Phase III clinical trial sites in the US and Latin America have been closed and we are preparing a final report of the study. All subjects enrolled in this trial underwent additional follow up to identify any potential late occurring adverse events. After all reports are received, they will be submitted to US FDA and local regulatory authorities along with our response to the clinical hold.

iv. Pafuramidine for African Sleeping Sickness Treatment

African sleeping sickness is a parasitic disease that is spread by tsetse flies in sub-Saharan Africa. Doctors Without Borders estimates that the geographical range in sub-Sahara Africa where African sleeping sickness occurs encompasses 36 countries, in which more than 60 million people are at risk of contracting the disease.

- Pivotal Phase III Clinical Trial

The Phase III clinical trial for first stage African sleeping sickness caused by Trypanosoma brucei gambiense, the West African form of sleeping sickness ("West African sleeping sickness") was conducted in six clinical sites in central Africa and is being wound down. We had completed enrollment of 273 patients. Patients in the study were administered a study drug, which was either pafuramidine or pentamidine (the current standard of care for first stage African sleeping sickness). The last patient was treated with pafuramidine in March 2007. Follow up visits are in progress and patients will be followed for 24 months after completion of their treatment. The interim analysis for this study was completed by the Data Safety Monitoring Board ("DSMB") in August 2007 after half of the subjects had completed the 12 month follow up visit. All subjects have now completed the 12 month follow up visit and a report of the primary efficacy endpoint of the trial is in preparation.

No patient prematurely discontinued study drug treatment due to an adverse event. Three patients have died during follow up in this trial in the past year; two of these deaths were related to a relapse of African sleeping sickness. None of these deaths were considered to be related to receiving the study drug.

We were granted access to the information about whether a patient received pafuramidine or pentamidine in order to fully participate in the review of safety data with the Data Safety Monitoring Board and the risk-benefit assessment that was conducted by the Governance Council for the UNC-CH grant (as discussed below). The safety data from all prior and then on-going pafuramidine studies was reviewed subsequent to the clinical hold with particular attention focused on prior reports of abnormal liver function that were identified in subjects. These data were presented to the Governance Council in early February 2008 prior to the hospitalization of five subjects in the Phase I safety study for kidney abnormalities. Following discovery of the renal adverse events, the safety data from all prior studies was again reviewed for potential kidney abnormalities. Three subjects in the Phase III African sleeping sickness study had experienced kidney-related serious adverse events, two of which are considered to be possibly related to pafuramidine. These data were presented to the Governance Council and the Data Safety Monitoring Board. The consensus of these committees, our research partners, and our management was that the development program for pafuramidine should be discontinued.

In the next year, we expect to complete the 12 month follow up analysis, which is planned for the second half of 2008, and we intend to complete the 24 month follow up visits of all patients enrolled in the trial by March 2009. These reports will be submitted to the FDA.

Our clinical trials of pafuramidine to treat African sleeping sickness were financially supported by a grant to UNC-CH from the Bill and Melinda Gates Foundation ("Foundation") under a Clinical Research Sub-contract (see "Funding for African Sleeping Sickness Research and Clinical Trials" below). We do not expect to receive future funding under the Clinical Research Subcontract unless additional funding is necessary to close out the pafuramidine development program.

- Funding for African Sleeping Sickness Research and Clinical Trials

Our development of pafuramidine for treating African sleeping sickness has been supported financially by a grant to UNC-CH from the Foundation. To date, the Foundation has granted to UNC-CH approximately $40 million for the development of pafuramidine to treat this disease. This total includes a grant to UNC-CH for $22.6 million in 2006 to complete the Phase III clinical trial of pafuramidine to treat African sleeping sickness and prepare the drug for commercialization, initiate a Phase IIIb expanded access clinical trial, develop a pediatric formulation for use by infants and children, and test pafuramidine in a pilot program for the East African form of African sleeping sickness. Pursuant to the Clinical Research Subcontract and Amended and Restated Clinical Research Subcontract (as discussed below), we have received approximately $17.3 million of the approximately $40 million granted to UNC-CH by the Foundation.

In November 2000, the Foundation awarded a $15.1 million grant to a research group led by UNC-CH to develop new drugs to treat African sleeping sickness and leishmaniasis. The

research group led by UNC-CH includes Immtech and, in addition to UNC-CH, five other universities and research centers around the world that collectively employ scientists and physicians considered to be the foremost experts in one or both of these diseases.

On March 29, 2001, we entered into a clinical research subcontract ("Clinical Research Subcontract") with UNC-CH to advance the work funded by the Foundation's $15.1 million grant. Under the terms of the Clinical Research Subcontract, we are responsible for the oversight of Phase II and Phase III clinical trials of the drug candidate pafuramidine for African sleeping sickness. The terms of the Clinical Research Subcontract require us to segregate the Clinical Research Subcontract funds from our other funds and to use the proceeds only for developing a drug to treat African sleeping sickness.

In June 2003, the Foundation awarded an additional $2.7 million grant to the UNC-CH led research group to (i) expand the Phase IIb trial of pafuramidine to treat African sleeping sickness into the pivotal multi-phase, multi-site Phase II/III randomized clinical trial described below, (ii) implement an improved method of synthesizing pafuramidine to reduce drug manufacturing costs and (iii) improve the formulation of pafuramidine to facilitate increased drug absorption into blood circulation. Under the Clinical Research Subcontract, approximately $1.0 million of the additional grant was paid to us in June 2003 and approximately $1.4 million was paid to us on March 14, 2005 (approximately $1.4 million of the $3.0 million March 14, 2005 payment described below was attributable to our services under the additional grant).

Effective March 28, 2006, we amended and restated the Clinical Research Subcontract ("Amended and Restated Clinical Research Subcontract") to continue the Phase III clinical trial of pafuramidine to treat African sleeping sickness and to prepare the drug for commercialization, conduct an expanded access trial, develop a pediatric formulation for infants and children, and test pafuramidine in a pilot study of the East African form of African sleeping sickness. Under the Amended and Restated Clinical Research Subcontract, we received from the UNC-CH led consortium a five year funding commitment of approximately $13.6 million to support the Phase III trial and development of the drug for commercialization, and to conduct the additional research. Under the Amended and Restated Clinical Research Subcontract, we received on May 24, 2006, the first payment of approximately $5,649,000 and on November 2, 2007, the second payment of approximately $5,123,000 of the five year approximately $13.6 million contract. Since the pafuramidine program was cancelled on February 22, 2008, no further funding is expected under the Amended and Restated Clinical Research Subcontract unless more funds are required for closing out the project.

In the aggregate, we have received the following under the Clinical Research Subcontract and the Amended and Restated Clinical Research Subcontract: (a) $4.3 million paid to us in fiscal year 2001 to fund Phase II clinical trials to test the safety/tolerability and efficacy of pafuramidine against African sleeping sickness in approximately 30 patients; (b) approximately $1.4 million paid to us in September 2002 upon the successful completion of our Phase IIa clinical trial; (c) approximately $2.0 million paid to us in December 2002 upon the delivery of the final Phase IIa report in respect of the Phase II clinical trial; (d) approximately $1.0 million paid to us in June 2003 relating to the additional grant for improving drug synthesis and formulation; (e) approximately $3.0 million paid to us on March 14, 2005 (a portion of which was from the additional acceleration grant described above) to fund Phase IIb and Phase III

clinical trials to test the efficacy and safety/tolerability of pafuramidine against African sleeping sickness in a larger, more diverse group of patients in calendar year 2005; (f) approximately $5.6 million paid to us in May 2006; and (g) approximately $5.1 million paid to us in November 2007.

v. Pafuramidine for Malaria Prophylaxis (Prevention)

An exploratory study was designed to determine whether we should focus on commercializing a blood-stage or a liver-stage malaria prevention drug. The malaria parasite initially travels to the liver where it grows for about seven days before spreading to the blood. Malaria prevention drugs can work by preventing the infection in the liver or in the blood stream. A liver stage regimen would continue for seven days after travel and a blood stage regiment would continue for 30 days after travel.

We completed this Phase II malaria challenge clinical trial in healthy volunteers in September 2007. In this study, volunteers were exposed to mosquitoes infected with a well-characterized strain of malaria that is readily treated with chloroquine. Nineteen volunteers participated in this study, which included a screening period, a dosing period and a period following exposure to the mosquitoes in which subjects were monitored for the development of disease due to malaria. The subjects were randomized to receive one of three treatments prior to mosquito exposure: (a) one pafuramidine 100 mg tablet was administered on Day 8 (eight days before challenge with the malaria-infected mosquitoes), (b) one pafuramidine 100 mg tablet was administered on Day 1 (the day prior to challenge), or (c) a placebo was administered on both days. Clinical trial volunteers were regularly monitored for up to three months after the exposure, including assessment of fever or other clinical symptoms of malaria, and also by regular blood sampling to detect the presence of malaria parasites.

All but one volunteer who received pafuramidine and all volunteers who received placebo developed evidence of malaria and were promptly treated with chloroquine and carefully monitored until they were determined to be free of disease. These results indicate that a single dose of pafuramidine did not prevent infection but did not determine whether additional doses prior to exposure and/or after exposure would have prevented infection. These subjects will undergo their one year follow up evaluations in June 2008, as required by the study protocol and per FDA requirements.

vi. Pafuramidine for Malaria Treatment

In April 2007, we commenced enrollment in a new Phase IIb clinical trial of pafuramidine in the treatment of uncomplicated malaria. The study was conducted in Thailand and was to include up to 140 patients. The study is a partial factorial design and comprised of two stages. The first stage randomized 60 patients (15 per group) to evaluate the variable components in dosing of pafuramidine tablets, including total daily dose (400 mg vs. 600 mg), dosing frequency (once daily vs. divided twice daily), and in combination with artesunate (Yes vs. No). The study was designed such that if none of the three day regimens was considered acceptable, the stage two treatments would be administered for five days. All patients were to be treated and monitored for 28 days, which was the primary endpoint for the study.

Patients' blood samples were evaluated for parasites prior to enrollment in the study to establish a baseline and checked at regular times during the therapy, and then periodically until 28 days after commencement of the study. For purposes of this study, patients were considered "cured" if the malaria parasites were eliminated seven days after the start of therapy and did not recur within 28 days after the start of treatment.

Following the first stage of the study, the efficacy for each of the four regimens administered for three days was approximately 80%. Based on these data, the second stage enrollment was initiated and subjects were randomized to either pafuramidine 200 mg BID for three days or for five days. This study had enrolled 107 subjects at the time of the clinical hold. Follow up and analysis of data from this study is currently underway.

vii. Pafuramidine Licensing Agreements

On June 8, 2007, we entered into an exclusive licensing agreement pursuant to which we licensed to Par Pharmaceutical Companies, Inc. ("Par") commercialization rights in the U.S. to pafuramidine for the treatment of PCP in AIDS patients ("Par License Agreement"). In addition, under the Par License Agreement, we could collaborate with Par on efforts to develop pafuramidine as a preventative therapy for patients at risk of developing PCP, including people living with HIV, cancer and other immunosuppressive conditions.

In return, we received an initial payment of $3 million. Par was to also pay us as much as $29 million in development milestones if pafuramidine advanced through ongoing Phase III clinical trials and FDA regulatory review and approval. In addition to royalties on sales, we could have received up to $115 million in additional milestone payments on future sales and retain the right to co-market pafuramidine in the U.S. We granted Par a right of first offer to enter into a license agreement if we determined that pafuramidine could be used for the treatment and/or prophylaxis of malaria. The Par License Agreement was terminated by Par on May 9, 2008.

Additionally, on December 3, 2007, we entered into a licensing agreement with BioAlliance Pharma SA ("BioAlliance") pursuant to which we granted BioAlliance and its affiliates an exclusive license to commercialize pafuramidine in Europe for the treatment of PCP in AIDS patients and African sleeping sickness ("BioAlliance License Agreement"). We also granted BioAlliance an option to commercialize pafuramidine in Europe for the prevention and treatment of malaria in travelers. Pursuant to the BioAlliance License Agreement, we received an initial payment of $3 million from BioAlliance, and we could receive an additional $13 million upon achieving certain regulatory and pricing milestones. In addition, we could receive an additional $10 million upon achieving certain sales milestones and also receive double-digit royalties based on sales.

2. Drug Discovery and Development Programs

i. Antifungal Program

We have identified several aromatic cationic compounds with the potential to treat both Candida and Aspergillus infections, which account for a significant percentage of morbidity and mortality in hospitalized patients. In vitro studies conducted by our consortium scientists and an independent laboratory have identified several compounds that display broad based antifungal activity against Candida, Aspergillus and Cryptococcus fungi. From these studies, we have identified a lead group of compounds that display significant in vitro activity against both drug-sensitive and drug-resistant strains of fungi.

The market for an effective antifungal drug was estimated by Datamonitor in 2003-04 to be approximately $4.0 billion annually. Datamonitor forecasts the systemic antifungal market to be worth approximately $5.7 billion by 2014 due to the increasing number of patients who are susceptible to fungal diseases, such as patients undergoing cancer chemotherapy, patients with HIV and those who have undergone organ transplants. In addition, the frequency of infections acquired while a patient is in a hospital caused by fungi is now the third most common cause of sepsis, replacing Escherichia coli (E. coli). Sepsis is an uncommon but serious consequence of an infection that quickly overwhelms the immune system and can rapidly lead to death. Recently, strains of fungi resistant to currently available treatments have developed. There is a significant opportunity for new drugs effective against specific strains of fungi, including drug resistant strains, as well as drugs with broad spectrum effectiveness for both Candida and Aspergillus infections.

ii. Hepatitis C

According to a December 2005 Decision Resources, Inc. report, the number of prevalent cases of HCV in the major markets exceeded 11 million in 2004. The HCV drug market, which was approximately $3 billion in 2005, is projected to grow to $9 billion in 2012 and over $10 billion annually by 2014. Growth in use of HCV therapies also will come from increasing numbers of patients who do not respond to initial treatments, and are being retreated with second courses of standard and/or other new therapies.

We base our HCV research activities upon published findings that show compounds active in an HCV-related animal virus, bovine viral diarrhea virus (“BVDV”), may have similar activity against HCV. We have tested several classes of compounds against the BVDV virus in vitro, and several compounds exhibited potent inhibitory effects on the BVDV viral life cycle. We have identified a class of compounds that prevents BVDV infection at very low concentrations in cell culture, and have evaluated these compounds in in vitro cell culture assays of HCV infection. Certain classes of compounds exhibit potent cross-reactivity in this assay and preliminary time of addition studies point to the compounds having an effect on early events in the virus life-cycle. We are following this important proof-of-concept with new medicinal chemistry efforts to further optimize the pharmacokinetics, safety and pharmacological activity characteristics of the lead compound series. The potential novel mechanism of action suggests a compound from this class could have synergies with other existing and developing anti-HCV compounds.

iii. Antibacterial Program

We have recently identified a unique class of compounds within our proprietary library that demonstrate significant activity in inhibiting the growth of antibiotic-susceptible and antibiotic-resistant, Gram positive pathogens, frequently referred to as "superbugs." The underserved need for new antibiotics to combat superbugs represents a significant potential future opportunity for us and these compounds will serve as a starting point for the discovery and development of a potential new clinical candidate.

In 2004, the global antibacterial market was valued at approximately $24 billion. Following the introduction of virtually every class of antibiotics in the past 50 years, antibiotic resistance has emerged that limits or is threatening to limit their efficacy. Drug resistance has and will continue to be an incessant source of medical need. Novel classes of antibacterials are needed to combat multi-drug resistant infections and expand physician treatment options. Rapid uptake of products focused on drug-resistant infections has been driven by the increasing numbers of immunocompromised patients in hospitals.

Several of our compounds show potent, submicrogram/mL activity against a panel of methicillin-resistant staph (methicillin-resistant Staphylococcus aureus, "MRSA"), methicillin-sensitive staph ("MSSA"), and vancomycin-resistant enterococcus ("VRE"). MRSA is a type of bacteria that is resistant to certain antibiotics including methicillin, oxacillin, penicillin and amoxicillin. Healthcare-associated MRSA and VRE occur most frequently among persons in hospitals and healthcare facilities who have weakened immune systems. MRSA is a major cause of hospital-acquired infections that are becoming increasingly difficult to combat because of emerging resistance to all current antibiotic classes and its appearance as an outpatient infection in individuals with normal immune systems. According to a May 2006 Espicom Business Intelligence report, the market for anti-MRSA antibiotics is expected to reach $2 billion by 2006.

Selected compounds are being tested in in vivo models of efficacy. The first compound to be tested demonstrated potent activity against a MSSA infection in a neutropenic mouse thigh infection model. Medicinal chemistry lead optimization is in progress to improve the pharmacokinetics, safety and efficacy profile.

Through macromolecular synthesis profiling, we have determined that our antibiotic compounds are acting through inhibition of bacterial protein synthesis. The lead compounds in the class were found to be non-selective since they also inhibited mammalian cell protein synthesis. This observation created a challenge for the program and the class since mammalian cell protein synthesis inhibition will lead to significant acute systemic toxicity in vivo. A major medicinal chemistry effort has been undertaken to modify the design of the lead compound to maintain antibiotic potency while attempting to design out mammalian cell protein synthesis inhibition.

iv. Other Programs and Trials

We have recently generated data that indicates that a subset of compounds generated for the HCV program shows potent in vitro activity against West Nile virus. Work is ongoing to evaluate the drug development potential of these findings. We continue to screen our library for

activity against other viral diseases in search of hits. In addition, research indicates that our aromatic cationic compounds may be useful as small molecule drugs that can potentially selectively control gene expression.

C.Collaboration in Contract Research Services

On June 18, 2008, we entered into a letter of intent to provide contract research services ("CRS") in China in collaboration with Beijing Capital Medical University ("BCMU") with a primary focus on pre-clinical drug development. CRS will be available to international corporate and academic institutions seeking to advance research and discovery platforms quickly and cost effectively. The joint venture will seek to expand access to BCMU's robust and well-established research capabilities and experience in in vivo and in vitro characterization for drug discovery.

Through this collaboration, CRS will be available to support all phases of early stage discovery from research, planning and risk assessment through clinical study design. Our collaboration will also be positioned to support later-stage clinical development and to provide counsel and support services related to clinical research regulatory guidelines and regulatory review in China.

The letter of intent provides for the operations of the joint venture to be controlled by us. Services will be available to guide pre-clinical research efforts within standards compliant with US FDA requirements and other U.S. regulatory guidelines including both General Lab Practice (GLP) and non-GLP preclinical studies.

D.Technology of Aromatic Cationic Compounds

The pharmaceutical compounds made by the scientists at our consortium universities UNC-CH and Georgia State generally fall under the broad class of "aromatic cationic" compounds. Aromatic cations are molecules that have at least one positively charged end and at least one benzene ring in their structure. The cationic species in our library are largely comprised of amidines, substituted amidines, amidine bioisosteres and prodrugs. Many of the active compounds in our library are aromatic dications. Our library of compounds also includes a subclass of aromatic compounds containing a single positive charge (monocations).

One mechanism of action of many of our aromatic cationic compounds involves binding to segments of deoxyribonucleic acid ("DNA"). Some aromatic cation drugs bind in the minor groove of DNA and in so doing, interfere with the activity of enzymes needed for microbial and cell growth. The composition of the dications, with positive charges on the ends and linkers of different length, shape, flexibility and curvature, allows binding to specific sites of the DNA or other receptors, interfering with key biochemical processes fundamental to microbe growth and development.

Scientists at UNC-CH and Georgia State used pentamidine as a template to design aromatic compounds that have significant advantages over pentamidine. While pentamidine has broad based activity against many diseases including fungal infections and cancer, it can only be administered intravenously, by intramuscular injection, or via inhalation, and is therefore costly

and difficult to administer outside of a hospital setting. In addition, pentamidine has many adverse effects and due to its narrow margin of safety, it needs to be administered by a person trained in the use and administration of this drug.

Consortium scientists have developed a large and growing library of compounds based on decades of work on aromatic compounds. Several compounds have been tested in a wide variety of assays and animal models for activity against various diseases. These compounds and their methods of use and manufacture are the subject of over 150 patents that have issued to date to our partner universities, patents to which we have exclusive, worldwide licenses. See "— Collaborations."

In the wake of the recent discontinuation of pafuramidine, the emphasis on the consortium's library of dicationic compounds and prodrugs thereof is waning. New and independent efforts by us are underway to pursue leads that differ substantially in structure, mechanism of action, and metabolic fate from dications related to pafuramidine. To that end, the lead compounds in the antibiotic program appear to act by inhibiting bacterial protein synthesis. The monocations in the antiviral program appear, in general, to inhibit an early step in the virus lifecycle likely associated with virus entry.

E.Collaborations

1. Scientific Consortium at UNC-CH, Georgia State, Duke, and Auburn

On January 15, 1997, we entered into a consortium agreement with UNC-CH and a third party ("Consortium Agreement") (to which each of Georgia State, Duke University and Auburn University shortly thereafter joined (collectively with UNC-CH, the "Scientific Consortium")). The Consortium Agreement provided that aromatic cations developed by the Scientific Consortium were to be exclusively licensed to us for global commercialization. As contemplated by the Consortium Agreement, on January 28, 2002, we entered into a license agreement with the Scientific Consortium whereby we received the exclusive license to commercialize all future technology and compounds ("future compounds") developed or invented by one or more of the consortium scientists after January 15, 1997 (the "License Agreement"), and which also incorporated into such License Agreement our license with the Scientific Consortium with regard to compounds developed on or prior to January 15, 1997 (defined in the Consortium Agreement as "current compounds"). The License Agreement was amended and restated effective as of March 24, 2006 (the "Amended and Restated License Agreement").

Pursuant to the Consortium Agreement, the worldwide license and exclusive right to commercialize (together with related technology and patents), 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 (current compounds), was transferred to us by the third party. The License Agreement granted to us a similar worldwide license and exclusive right to commercialize discoveries covering products based on aromatic cationic technology developed by the Scientific Consortium after January 15, 1997 (defined in the License Agreement as "future compounds") and incorporated the worldwide license and exclusive right to commercialize discoveries assigned to us by the Consortium Agreement. The key modifications included in the Amended

and Restated License Agreement are expansion of the Company's rights to future technology developed by the consortium with future grants and increased access to the consortium's patent counsel.

The Consortium Agreement gives us rights to the Scientific Consortium's large and growing library of aromatic cationic compounds and to all future aromatic cation technology designed by them. The consortium scientists are considered to be among the world's leading experts in aromatic cations, infectious diseases, computer modeling of cationic pharmaceutical drugs and computer-generated drug designs.

The Consortium Agreement requires us to (i) reimburse UNC-CH, on behalf of our consortium scientists for certain patent and patent-related fees, (ii) pay certain milestone payments, and (iii) make royalty payments based on revenue derived from the licensed technology. Each month on behalf of the consortium scientist or university, as the case may be, UNC-CH submits to us an invoice to reimburse patenting-related fees incurred prior to the invoice date and related to patents and patent applications to which we hold a license under the Consortium Agreement. For the fiscal year ended March 31, 2008, we reimbursed UNC-CH approximately $380,000 for such patent and patent-related costs, and through March 31, 2008, we have reimbursed to UNC-CH approximately $3,418,000 in the aggregate for patent and patent-related costs. We are also required to make milestone payments in the form of issuance of 100,000 shares of our Common Stock to the consortium upon the filing of our first new New Drug Application or an Abbreviated New Drug Application based on consortium technology developed and are required to pay to UNC-CH on behalf of the consortium (other than Duke University), (i) royalty payments capped at a percentage 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, we are required to negotiate in good faith with UNC-CH (on behalf of Duke University) royalty, milestone or other fees at the time of such event, consistent with the terms of the Consortium Agreement.

2. Clinical Research Agreement with UNC-CH

In November 2000, the Foundation awarded to UNC-CH a $15.1 million grant to develop new drugs to treat African sleeping sickness and leishmaniasis (the "Foundation Grant"). On March 29, 2001, we entered into the Clinical Research Subcontract with UNC-CH, whereby we were to receive up to $9.8 million to be paid contingent upon UNC-CH's receipt of the Foundation Grant. Our continued funding under the Clinical Research Subcontract was subject to certain terms and conditions over the succeeding five year period. We were required to conduct certain clinical and research studies related to the Foundation Grant. In April 2003, the Foundation increased the Foundation Grant by approximately $2.7 million for the expansion of Phase IIb/III clinical trials of pafuramidine to treat African sleeping sickness and improved manufacturing processes. As of March 31, 2006, we had received, pursuant to the Clinical Research Subcontract, inclusive of our portion of the Foundation Grant increase, a total amount of funding of approximately $11.7 million. In March 2006, we amended and restated the Clinical Research Subcontract with UNC-CH and UNC-CH in turn obtained an expanded funding commitment of $13.6 million from the Foundation. Under the Amended and Restated

Clinical Research Subcontract, on May 24, 2006, the Company received the first payment of approximately $5.6 million, and on November 2, 2007, the second payment of approximately $5.1 million of a five year $13.6 million contract, bringing funds awarded under all Foundation Grants to approximately $22.4 million. Since the pafuramidine program was discontinued, no further funding is expected on this grant unless more funds are required for closing out the project.

F.Our Subsidiaries

1. Immtech Hong Kong Limited

On January 13, 2003, we entered into an agreement with an investor who owned, through Lenton Fibre Optics Development Limited ("Lenton"), a Hong Kong company, a 1.6 plus acre commercial real estate parcel located in a "free-trade zone" called the Futian Free Trade Zone, Shenzhen, in China. Under the agreement, we purchased an 80% interest in Lenton by issuing to the investor 1.2 million unregistered shares of our Common Stock. We subsequently resold to the investor our interest in Lenton and the parcel of land in exchange for 100% ownership in the improved property described below under the headings "Super Insight Limited" and "Immtech Life Science Limited." In connection with the sale of Lenton, we acquired 100% ownership of Immtech Hong Kong Limited ("Immtech HK"), a Hong Kong company, including Immtech HK's interest in Immtech Therapeutics Limited ("Immtech Therapeutics").

Subsequently, through a sublicense agreement, we transferred to Immtech HK the rights licensed to us under the Consortium Agreement to develop and license the aromatic cation technology platform in certain Asian countries and to commercialize resulting products. We intend to use Immtech HK as a vehicle to further sublicense rights to develop specific indications through other subsidiaries formed for the purpose that are expected to partner with investors who fund development costs of those indications.

2. Immtech Therapeutics Limited

Immtech Therapeutics, a Hong Kong company, provides assistance to healthcare companies seeking access to China to conduct clinical trials and to manufacture and/or distribute pharmaceutical products in China.

Immtech Therapeutics is majority owned by Immtech HK. Its minority owners are Centralfield International Limited (a British Virgin Islands ("BVI") company and wholly-owned subsidiary of TechCap Holdings Limited ("TechCap")) and Bingo Star Limited ("Bingo Star"). TechCap has assets and resources in China upon which Immtech Therapeutics may draw. Bingo Star has substantial financial and medical expertise and resources located in Hong Kong and throughout China.

3. Super Insight Limited

On November 28, 2003, we purchased (i) from an investor, 100% of Super Insight Limited ("Super Insight"), a BVI company, and Immtech Life Science Limited ("Immtech Life Science") (Immtech Life Science is a wholly-owned subsidiary of Super Insight) and (ii) from

Lenton, a 100% interest in Immtech HK. As payment for the acquisition, we transferred to the investor our 80% interest in Lenton and $400,000 in cash.

4. Immtech Life Science Limited

Immtech Life Science, a Hong Kong company, owns two floors of a building (the "Property") located in the Futian Free Trade Zone, Shenzhen, in China. We are exploring the possibility of housing a pharmaceutical production facility for the manufacture of drug products here or at other locations within China. The Property comprises the first two levels of a building named the Immtech Life Science Building. The duration of the land use right associated with the building on which the Property is located is 50 years, which expires May 24, 2051.

Under current law, we would enjoy reduced tax on the business located on the Property because the local government has granted incentives to business in high technology industrial sectors located in the Futian Free Trade Zone. Our intended pharmaceutical manufacture use would qualify for the tax incentives.

G.Manufacturing

1. Pafuramidine Maleate

Immtech finalized the drug substance process scale-up to commercial scale and validated the process. The drug substance micronization process had also been validated. The drug product (tablet) process had been scaled up to the expected commercial scale and had been validated. All pafuramidine maleate drug activities have been terminated in conjunction with the program discontinuation.

2. Aromatic Cationic Compounds

The scientists at our consortium universities, specifically the synthetic chemistry laboratories at Georgia State and UNC-CH, have the capability to produce and inventory small quantities of aromatic cations under license to us. To date, Georgia State and UNC-CH have produced and supplied the aromatic cations requested in the quantities required under various testing agreements with third parties. We believe that these scientists will continue to produce and deliver small quantities of compounds as needed for testing purposes.

3. Third Party Sources

In April 2005, we entered into an agreement with Dr. Reddy's Laboratories, Inc. ("DRL") to improve a selected step in the synthetic process for producing pafuramidine, which work had been successfully completed. Since April 2005, we had entered into several more work orders with DRL. At this time no further work is being done by DRL.

4. Property in China

The Property is located in a mixed-use office park and is suitable for administrative offices and research and development operations, as well as potentially housing a small-scale pharmaceutical production facility capable of producing up to 10 tons of drug product per year.

In addition, we have begun the site selection process to find a location in China for a manufacturing plant capable of producing up to 60 tons of Good Manufacturing Practice quality drug product per year. This has been put on hold since the discontinuation of the pafuramidine program. See discussion above under the heading "Immtech Life Science Limited".

H.Strategy

Our strategy is to develop and commercialize a pipeline of new drugs to treat infectious diseases and other disorders. Infectious diseases in the global population have increased significantly during the past 20 years and are the most common cause of death worldwide according to the WHO. Relatively few new drugs for the treatment of infectious diseases have been brought to market during this period. New drugs are needed to overcome the health risks of multi-drug resistant strains of known diseases, as well as to combat emerging new pathogens. Accordingly, we plan to target infectious diseases that represent significant unmet needs.

Our drug development strategy represents a new paradigm focused on reducing the time and cost to develop drugs aimed at solving global health issues. It leverages biomedical discoveries made by the leading scientists and researchers who are members of our Consortium Agreement. It also seeks to put into action the public health commitments of governments and major health-related non-governmental organizations. The compounds we investigate include aromatic cations and dications, which have shown activity against a range of pathogens, as well as other substances identified within our large library of proprietary compounds. Our drug discovery activities include programs in fungal diseases, bacterial infections, HCV, and other viral diseases.

We intend to proceed with the development and commercialization of aromatic cations. We also seek to capitalize upon on our presence in China by utilizing our unique resources to penetrate China's healthcare infrastructure. We intend to bring approved drugs, healthcare products and services from developed markets to China for sales and distribution. Similarly, we expect to partner with local Chinese institutions to provide CRS to other international companies involved in drug development.

Moreover, we anticipate cultivating business opportunities in China to distribute healthcare information to consumers and to provide continuing education and training programs to professional medical staff. We believe timing is ideal to expand our business activities from drug development into the CRS business and healthcare content distribution because the healthcare market in China is projected to grow at 20% per year.

I.Research and Development

Our success will depend in part on our ability to develop and commercialize products derived from a large library of well defined compounds to which we hold worldwide licenses and exclusive rights to commercialize.

We estimate that we have spent approximately $4.3 million, $5.8 million, and $7.0 million respectively, in fiscal years ended March 31, 2006, 2007 and 2008, on Company- sponsored research and development and approximately $5.4 million, $3.0 million, and $4.6 million respectively, in fiscal years ended March 31, 2006, 2007 and 2008, on research and

development sponsored by others. All research and development activity for fiscal years ended March 31, 2006, 2007 and 2008 has been in support of our pharmaceutical commercialization effort.

J.Patents and Trade Secrets

Our pharmaceutical compounds are protected by multiple patents secured by our research partners. We consider the protection of our proprietary technologies and products to be important to our business. We rely on a combination of patents, licenses, copyrights and trademarks to protect these technologies and products. Protection of our aromatic cation technology platform includes exclusive licensing rights to, as of May 28, 2008, 224 patents and patent applications, 148 of which have issued in the United States and in various global markets. We also own separately six issued patents that have been assigned to us. Generally, United States patents have a term of 17 years from the date of issue for patents issued from applications submitted prior to June 8, 1995, and 20 years from the date of filing of the application in the case of patents issued from applications submitted on or after June 8, 1995. Patents in most other countries have a term of 20 years from the date of filing the patent application.

Our policy is to file patent applications and defend the patents licensed to and/or owned by us covering the technology we consider important to our business in all countries where such protection is available and worthwhile. We intend to continue to file and defend patent applications we license or own. Although we pursue and encourage patent protection and defend our patents and those licensed to us, obtaining patents for pharmaceutical drugs and their specific uses involves complex legal and factual questions and consequently involves a high degree of uncertainty. In addition, others may independently develop similar products, duplicate our potential products or design around our patent claims. Because of the time delay in patent approval and the secrecy afforded patent applications during the first 18 months after they are filed, we do not know if other applications, which might have priority over our applications, have been filed. We also rely on trade secrets, unpatented know-how and continuing technological innovation to develop and maintain our competitive position.

Publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months at a minimum. As a result, there can be no assurance that patents will be issued from any of our patent applications or from applications licensed to us. The scope of any of our issued patents may not be sufficiently broad to offer meaningful protection. In addition, our issued patents or patents licensed to us could be successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier.

The patents and patent applications to which we hold an exclusive worldwide license right include claims to pharmaceutical compounds, methods of their manufacture, and their uses to treat conditions related to diseases including PCP, TB, Cryptosporidium parvum, Giardia lamblia, Leishmania mexicana amazonensis, Trypanosoma brucei rhodesiense, various fungi, Plasmodium falciparum, Alzheimer's disease, amyloidosis, Type II diabetes, HCV, BVDV and HIV. We are obligated to reimburse or pay for the patents and patent prosecution process for any patent applications which claim subject matter to which we want to have an exclusive license. Patents and patent applications also protect certain processes for making prodrugs and

the uses of compounds to detect and treat specific diseases as well as for a new method for making chemical compounds that stack on top of each other (called dimers) when they are bound to DNA.

We also rely in part on trade secret, copyright and trademark protection of our intellectual property. We protect our trade secrets by entering into confidentiality agreements with third parties, employees and consultants. Generally, employees and consultants sign agreements to assign to us their interests in patents and copyrights arising from their work for us. Key employees also generally agree not to engage in unfair competition with us during and after their employment with us. We have additional secrecy measures as well. However, these agreements can be breached and, if they were, there might not be an adequate remedy available to us. Also, a third party could learn our trade secrets through means other than by breach of our confidentiality agreements, or our trade secrets could be independently developed by our competitors.

K.Governmental Regulation

The manufacturing and marketing of our potential products and our ongoing research and development activities are subject to extensive regulation by numerous governmental authorities in the United States and other countries. Before marketing in the United States, any new drug developed by us must undergo rigorous preclinical testing, clinical trials and an extensive regulatory clearance process implemented by the FDA under the Federal Food, Drug, and Cosmetic Act, as amended (the "FFDCA"). The FDA regulates, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertising, promotion, sale and distribution of biopharmaceutical products. None of our drug candidates has been approved for sale in the United States or any foreign market. The regulatory review and approval process, which includes preclinical testing and clinical trials of each drug candidate, is lengthy, expensive and uncertain.

In the United States, drug candidates are tested in animals until adequate proof of safety is established. Clinical trials for new drug candidates are typically conducted in three sequential phases that may overlap. Phase I trials involve the initial introduction of the drug candidate into healthy human volunteers. The emphasis of Phase I trials is on testing for safety or adverse effects, dosage, tolerance, metabolism, distribution, excretion and clinical pharmacology. Phase II involves studies in a limited patient population to determine the initial efficacy of the compound for specific targeted indications, to determine dosage tolerance and optimal dosage and to identify possible adverse side effects and safety risks. Once a compound shows evidence of effectiveness and is found to have an acceptable safety profile in Phase II evaluations, Phase III trials are undertaken to more fully evaluate clinical outcomes. Before commencing clinical investigations in humans, we or our collaborators must submit to the FDA an Investigational New Drug Application, or IND.

Regulatory authorities may require additional data before allowing the clinical studies to commence or proceed from one phase to another, and could demand that the studies be discontinued or suspended at any time if there are significant safety issues. Clinical testing must also meet requirements for institutional review board oversight, informed consent and good clinical practices.

To establish a new drug candidate's safety and efficacy, the FDA requires companies seeking approval to market a drug product to submit extensive preclinical and clinical data, along with other information, for each indication. The data and information are submitted to the FDA in the form of a New Drug Application, or NDA. Generating the required data and information for an NDA takes many years and requires the expenditure of substantial resources. Information generated in this process is susceptible to varying interpretations that could delay, limit or prevent regulatory approval at any stage of the process. The failure to demonstrate adequately the quality, safety and efficacy of a drug candidate under development would delay or prevent regulatory approval of the drug candidate. We cannot assure you that, even if clinical trials are completed, either our collaborators or we will submit applications for required authorizations to manufacture and/or market potential products or that any such application will be reviewed and approved by the appropriate regulatory authorities in a timely manner, if at all. Under applicable laws and FDA regulations, each NDA submitted for FDA approval is usually given an internal administrative review within 60 days following submission of the NDA. If deemed sufficiently complete to permit a substantive review, the FDA will "file" the NDA, thereby triggering substantive review of the application. The FDA can refuse to file any NDA that it deems incomplete or not properly reviewable. The FDA has established internal goals of six months for priority review for NDAs that cover drug candidates that offer major advances in treatment or provide a treatment where no adequate therapy exists, and 10 months for the standard review of non-priority NDAs. However, the FDA is not legally required to complete its review within these periods and these performance goals may change over time. Moreover, the outcome of the review, even if generally favorable, may not be an actual approval but an "action letter" that describes additional work that must be done before the NDA can be approved. The FDA's review of an NDA may involve review and recommendations by an independent FDA advisory committee.

Before receiving FDA approval to market a potential product, we or our collaborators must demonstrate through adequate and well-controlled clinical studies that the potential product is safe and effective on the patient population that will be treated. If regulatory approval of a potential product is granted, this approval will be limited to those disease states and conditions for which the product is approved. Marketing or promoting a drug for an unapproved indication is generally prohibited. Furthermore, FDA approval may entail ongoing requirements for post-marketing studies. Even if approval is obtained, a marketed product, its manufacturer and its manufacturing facilities are subject to continuing review and periodic inspections by the FDA. Discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on the product or manufacturer, including labeling changes, costly recalls or withdrawal of the product from the market.

Any drug is likely to produce some toxicities or undesirable side effects in animals and in humans when administered at sufficiently high doses and/or for sufficiently long periods of time. Unacceptable toxicities or side effects may occur at any dose level at any time in the course of studies in animals designed to identify unacceptable effects of a drug candidate, known as toxicological studies, or during clinical trials of our potential products. The appearance of any unacceptable toxicity or side effect could cause us or regulatory authorities to interrupt, limit, delay or abort the development of any of our drug candidates. Further, such unacceptable toxicity or side effects could ultimately prevent a potential product's approval by the FDA or

foreign regulatory authorities for any or all targeted indications or limit any labeling claims, even if the product is approved.

We and our collaborators also are required to comply with the applicable FDA current good manufacturing practice regulations. Good manufacturing practice regulations include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation. Manufacturing facilities are subject to inspection by the FDA. These facilities must be approved before we can use them in commercial manufacturing of our potential products. The FDA may conclude that we or our collaborators are not in compliance with applicable good manufacturing practice requirements and other FDA regulatory requirements.

If the product is approved, we must also comply with post-marketing requirements, including, but not limited to, compliance with the Prescription Drug Marketing Act and post-marketing safety surveillance. In addition, we are subject to state regulation including, but not limited to, implementation of corporate compliance programs and gift reporting to healthcare professionals.

Outside of the United States, our ability to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Community, or EC, registration procedures are available to companies wishing to market a product in more than one EC member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficacy has been presented, marketing authorization will be granted. This foreign regulatory approval process involves all of the risks associated with FDA marketing approval discussed above.

1. Drugs for Serious or Life-Threatening Illnesses

The FFDCA and FDA regulations provide certain mechanisms for the accelerated “Fast Track” approval of potential products intended to treat serious or life-threatening illnesses which have been studied for safety and effectiveness and which demonstrate the potential to address unmet medical needs. These procedures permit early consultation and commitment from the FDA regarding the preclinical and clinical studies necessary to gain marketing approval. Provisions of this regulatory framework also permit, in certain cases, NDAs to be approved on the basis of valid surrogate markers of product effectiveness, thus accelerating the normal approval process. Certain potential products employing our technology might qualify for this accelerated regulatory procedure. Even if the FDA agrees that these potential products qualify for accelerated approval procedures, the FDA may deny approval of our drugs or may require that additional studies be required before approval. The FDA may also require us to perform post-approval, or Phase IV, studies as a condition of such early approval. In addition, the FDA may impose restrictions on distribution and/or promotion in connection with any accelerated approval, and may withdraw approval if post-approval studies do not confirm the intended clinical benefit or safety of the potential product.

2. Other U.S. Regulatory Requirements

In the United States, the research, manufacturing, distribution, sale, and promotion of drug products are potentially subject to regulation by various federal, state and local authorities in addition to the FDA, including the Centers for Medicare & Medicaid Services, other divisions of the United States Department of Health & Human Services, including, for example, the Office of Inspector General, and state and local governments. For example, if a drug product is reimbursed by Medicare, Medicaid or other federal or state health care programs, sales, marketing and scientific/educational grant programs must comply with the Medicare-Medicaid Anti-Fraud and Abuse Act, as amended, the False Claims Act, also as amended, and similar state laws. If a drug product is reimbursed by Medicare or Medicaid, pricing and rebate programs must comply with, as applicable, the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990, as amended, and the Medicare Prescription Drug Improvement and Modernization Act of 2003. If drug products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to federal and state consumer protection and unfair competition laws.

L.Competition

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

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

Our competition will be determined in part by the indications for which our products are developed and ultimately approved by regulatory authorities. We rely on our collaborations with our university partners and other joint venture partners to enhance our competitive edge by

providing manufacturing, testing and commercialization support. We are developing products to treat infectious diseases and other diseases, some with no current or effective therapies. There are a number of companies of which we are aware which manufacture products that may compete with other products we are currently developing. However, many of these companies' competing products have limitations in terms of effectiveness to treat their indicated diseases, toxicity, severity of side-effects, and/or difficulty of delivery.

M.Employees

As of June 2, 2008, we had 24 employees (including two employees who work for Immtech HK, our Hong Kong subsidiary), nine of whom hold advanced degrees. Twelve of our employees work in support of clinical trials, research and development, and regulatory compliance, and the other 12 work in general and administrative capacities which include business development, finance, investor relations and administration. In addition, there are over 50 scientists affiliated with our consortium university partners who are engaged in the research and discovery of novel pharmaceutical compounds to which we have exclusive license and commercialization rights. We expect to reduce the number of employees by at least six by the end of June 2008.

ITEM 1A. RISK FACTORS

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

We are in various stages of preclinical development activities required for drug approval and commercialization. Since our formation in October 1984, we have engaged in research and development programs, expanding our network of scientists and scientific advisors, licensing technology agreements and, since obtaining the rights thereto in 1997, advancing the commercialization of the aromatic cation technology platform that we expect will be the basis for our drug candidates. We have generated no revenue from product sales, do not have any products currently available for sale, and none are expected to be commercially available for sale until after March 31, 2009, if at all. We cannot assure that the research we fund and manage will lead to commercially viable products.

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

We have experienced significant operating losses since our inception and we expect to incur additional operating losses as we continue research and development, clinical trial and commercialization efforts. As of March 31, 2008, we had an accumulated deficit of approximately $111.6 million. Losses from operations were approximately $11.7 million and $11.0 million for the fiscal years ended March 31, 2007 and March 31, 2008, respectively.

New business strategies that we may pursue may present unforeseen integration obstacles or costs.

We may selectively pursue complementary business initiatives and joint ventures in China, including the distribution of approved drug and other healthcare products, partnerships with local entities to provide CRS and provision of healthcare information, each of which inherently involve a number of risks and present financial, managerial and operational challenges, including:

- potential disruption of our on-going business and distraction of management;
- difficulty with integration of personnel and financial and other systems;
- hiring additional management and other critical personnel; and
- increasing the scope, geographic diversity and complexity of our operations.

In addition, we may encounter unforeseen obstacles or costs in the integration of our new strategies. We have designed our new strategy to help us take advantage of expected market trends. However, our expectations may not be accurate and these markets may not develop or they may take longer to develop than expected. Additionally, we cannot assure that our customers and potential customers will accept our products quickly enough or in sufficient volume to grow revenue and profit. A lack of market acceptance would materially and adversely affect our results of operations, financial position and cash flow.

We need substantial additional funds, currently and in future years, to continue our research and development. If such financing is not available, we may be required to pursue other financing alternatives, reduce spending for our research programs or cease operations.

Our operations to date have consumed substantial amounts of cash. Negative cash flow from operations is expected to continue in the foreseeable future. Without substantial additional financing, we may be required to reduce some or all of our research programs or cease operations. Our cash requirements may vary materially from those now planned because of results of research and development, results of preclinical and clinical testing, responses to our grant requests, relationships with strategic partners, changes in the focus and direction of our research and development programs, delays or failure in the enrollment and completion of our clinical trials, competitive and technological advances, FDA and foreign regulatory approval processes and other factors. In any of these circumstances, we may require substantially more funds than we currently have available or intend to raise to continue our business. We may seek to satisfy future funding requirements through public or private offerings of equity securities, by collaborative or other arrangements with pharmaceutical or biotechnology companies, issuance of debt or from other sources. Additional financing may not be available when needed or may not be available on acceptable terms. If adequate financing is not available, we may not be able to continue as a going concern or may be required to delay, scale back or eliminate certain research and development programs, relinquish rights to certain technologies or drug candidates, forego desired opportunities or license third parties to commercialize our products or technologies that we would otherwise seek to pursue internally. To the extent we raise additional capital by issuing equity securities, ownership dilution to existing stockholders may result.

We receive funding primarily from research and development programs, fees associated with licensing of our technology, grants and from sales of equity securities. To date we have directed most of such funds not used for general and administrative overhead toward our research and development and commercialization programs (including preparation of submissions to regulatory agencies). Until one or more of our drug candidates is approved for sale, our funding is limited to funds from research and development programs, fees associated with licensing of our technology, grants and proceeds from sales of equity or debt securities.

Although we formally discontinued development of pafuramidine and expect to reduce our workforce, we may be unable to successfully manage our remaining resources, including available cash, while we seek to identify new drug development candidates or complete a strategic transaction.

We formally discontinued clinical development of pafuramidine in February 2008 after the pafuramidine program had been placed on clinical hold. We had previously devoted a majority of our research, development and clinical efforts and financial resources toward the development of pafuramidine, and we have few product candidates in clinical or preclinical development. In connection with the termination of our clinical development of pafuramidine, we anticipate workforce reductions. By the end of June 2008, we expect to reduce our workforce by six full-time employees. We cannot predict whether we will be able to identify alternate strategic transactions which will either provide us with new drug development candidates or return value to our stockholders on a timely basis or at all. We also cannot predict whether any

potential strategic transaction would be consummated on favorable terms, and anticipate that such transaction may require us to incur significant additional costs.

There is substantial doubt about our ability to continue as a going concern.

We currently have enough cash to operate through December 31, 2008 and capital resources through the sale of the land use rights that we believe to be sufficient to support our operations beyond March 31, 2009. Our recent decision to terminate our pafuramidine development program has significantly depressed our stock price and severely impaired our ability to raise additional funds. We are currently evaluating our strategic alternatives with respect to all aspects of our business. We may be unable to realize value from our assets and discharge our liabilities in the normal course of business. All of these factors raise substantial doubt about our ability to continue as a going concern.

If we become unable to continue as a going concern, we would have to liquidate our assets, and we might realize significantly less than the values at which they are carried on our financial statements. In addition, the accompanying financial statements do not include any adjustments or charges that might be necessary should we be unable to continue as a going concern, such as charges related to impairment of our assets, the recoverability and classification of assets or the amounts and classification of liabilities or other similar adjustments. The report of our independent registered public accounting firm on the accompanying financial statements contains an explanatory paragraph regarding going-concern uncertainty.

We may not be successful in retaining key employees and in attracting qualified new employees as required in the future. If we are unable to retain our management, scientific staff and scientific advisors or to attract additional qualified personnel, our ability to operate our business will be seriously jeopardized.

By the end of June 2008, we expect to reduce our workforce by 6 employees. Competition among biotechnology companies for qualified employees is intense, and the ability to retain and attract qualified individuals is critical to our success. We may experience further reductions in our workforce due to voluntary employee resignations and a diminished ability to recruit new employees. We may be unable to attract or retain key personnel on acceptable terms, if at all.

All of our employees are “at will” and may leave at any time. None of our executive officers has as of this date, expressed any intention to retire or leave our employ. We do not have “key-man” life insurance policies on any of our executives.

Most of the financial aspects of our business, including investor relations, intellectual property control and corporate governance, are under the supervision of Eric L. Sorkin, Cecilia Chan and Gary Parks. Together, Mr. Sorkin, Ms. Chan and Mr. Parks hold institutional knowledge and business acumen that they utilize to assist us to forge new relationships and foster new business opportunities without diminishing or undermining existing programs and obligations.

A substantial portion of our proprietary intellectual property is developed by scientists who are not employed by us.

Our business depends to a significant degree on the continuing contributions of our key management, scientific and technical personnel, as well as on the continued discoveries of scientists, researchers and specialists at UNC-CH, Georgia State University, Duke University, Auburn University, and Tulane University and other research groups that form part of our Scientific Consortium and assist in the development of our drug candidates. A substantial portion of our proprietary intellectual property is developed by scientists who are employed by our partner universities and other research groups. We do not have control over, knowledge of, or access to those employment arrangements. We have not been advised by any of our key employees, key members of the scientific research groups or other research groups that form part of our Scientific Consortium of their intention to leave their employ with these parties or the programs they conduct.

There can be no assurance that the loss of certain members of our management or the scientists, researchers and technicians from the universities or other members of our Scientific Consortium would not materially adversely affect our business.

Additional research grants to fund our operations may not be available or, if available, not on terms acceptable to us.

We have funded our product development and operations as of March 31, 2008 through a combination of sales of equity instruments and revenue generated from research agreements and grants. As of March 31, 2008, our accumulated deficit was approximately $111.6 million, net of approximately $34.8 million, which was funded either directly or indirectly with grant funds and payments from research and testing agreements, and licensing agreements. We have received funding from different sources pursuant to research and testing agreements; however, we do not anticipate any future funds under any such agreement unless we require more funds to close out our pafuramidine development program.

We will continue to apply for new grants to support continuing research and development of our proprietary aromatic cation technology platform and other drug candidates. The process of obtaining grants is extremely competitive and there can be no assurance that any of our grant applications will be acted upon favorably. Some charitable organizations that directly or indirectly provide funding to us may require licenses to our proprietary information or may impose price restrictions on the products we develop with their funds. We may not be able to negotiate terms that are acceptable to us with such organizations. In the event we are unable to raise sufficient funds to advance our product developments with such grant funds we may seek to raise additional capital with the issuance of equity or debt securities. There can be no assurance that we will be able to place or sell equity or debt securities on terms acceptable to us and, if we sell equity, existing stockholders may suffer dilution. See "— Shares eligible for future sale may adversely affect our ability to sell equity securities" and "— Our outstanding options and warrants may adversely affect our ability to consummate future equity financings due to the dilution potential to future investors."

None of our drug candidates have been approved for sale by any regulatory agency. Such approval is required before we can sell drug products commercially.

There can be no assurance that any of our drug candidates will be successfully developed, demonstrated to be safe and effective in human clinical trials, meet applicable regulatory standards, be approved by regulatory authorities, be eligible for third-party reimbursement from governmental or private insurers, be successfully marketed or achieve market acceptance. If we are unable to commercialize our drug candidates in a timely manner we may be required to seek additional funding, reduce or cancel some or all of our development programs, sell or license some of our proprietary information or cease operations.

Delays in successfully completing any clinical trials we may conduct could jeopardize our ability to obtain regulatory approval or market our potential product candidates on a timely basis.

As we develop potential product candidates, our business prospects may depend on our ability to complete patient enrollment in clinical trials, to obtain satisfactory results, to obtain required regulatory approvals and to successfully commercialize our product candidates. Product development, undertaken to show adequate evidence of effectiveness in animal models and safety and efficacy in humans, is a long, expensive and uncertain process, and delay or failure can occur at any stage of our non-clinical studies or clinical trials. Any delay or significant adverse clinical events arising during any of our clinical trials could force us to abandon a product candidate altogether or to conduct additional clinical trials in order to obtain approval from the FDA or other regulatory body. These development efforts and clinical trials are lengthy and expensive, and the outcome is uncertain. Completion of any clinical trials we may commence, announcement of results of the trials and our ability to obtain regulatory approvals could be delayed for a variety of reasons, including:

- slower-than-anticipated enrollment of volunteers in the trials;
- lower-than-anticipated recruitment or retention rate of volunteers in the trials;
- serious adverse events related to the product candidates;
- unsatisfactory results of any clinical trial;
- the failure of our principal third-party investigators to perform our clinical trials on our anticipated schedules; or
- different interpretations of our preclinical and clinical data, which could initially lead to inconclusive results.

Our development costs will increase if we have material delays in any clinical trial or if we need to perform more or larger clinical trials than planned. If the delays are significant, or if any of our product candidates do not prove to be safe or effective or do not receive required regulatory approvals, our financial results and the commercial prospects for our product

candidates will be harmed. Furthermore, our inability to complete our clinical trials in a timely manner could jeopardize our ability to obtain regulatory approval.

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

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

We are dependent on third party relationships for critical aspects of our business. Problems that develop in these relationships may increase costs and/or diminish our ability to develop our drug candidates.

We use the expertise and resources of strategic partners and third parties in a number of key areas, including (i) discovery research, (ii) preclinical and human clinical trials, (iii) product development, (iv) manufacturing of pharmaceutical drugs, and (v) distribution. We have a worldwide license and exclusive commercialization rights to a proprietary aromatic cation technology platform and are developing drugs intended for commercial use based on that platform. This strategy creates risks by placing critical aspects of our business in the hands of third parties, whom we may not be able to control. If these third parties do not perform in a timely and satisfactory manner, we may incur costs and delays as we seek alternate sources of such products and services, if available. Such costs and delays may have a material adverse effect on our business if the delays jeopardize our licensing arrangements by causing us to become non-compliant with certain license agreements.

We may seek additional third party relationships in certain areas, particularly in clinical testing, manufacturing, marketing, distribution and other areas where pharmaceutical and biotechnology company collaborators will enable us to develop particular products or geographic markets that are otherwise beyond our current resources and/or capabilities. There is no assurance that we will be able to obtain any such collaboration or any other research and development, clinical trial, manufacturing, marketing or distribution relationships. Our inability to obtain and maintain satisfactory relationships with third parties may have a material adverse effect on our business by slowing our ability to develop new products, requiring us to expand our internal capabilities, increasing our overhead and expenses, hampering future growth opportunities or causing us to delay or terminate affected programs.

We are uncertain about our ability to protect or obtain necessary patents and protect our proprietary information. Our ability to develop and commercialize drug candidates would be compromised without adequate intellectual property protection.

We have spent and continue to spend considerable funds to develop our drug candidates and we are relying on the potential to exploit commercially without competition the results of

our product development. Much of our intellectual property is licensed to us under various agreements, including the Consortium Agreement, Amended and Restated License Agreement, and the Tulane License Agreement. It is the primary responsibility of the discoverer to develop his, her or its invention confidentially, insure that the invention is unique, and to obtain patent protection. In most cases, our role is to reimburse patent related costs after we decide to develop any such invention. We therefore rely on the inventors to insure that technology licensed to us is adequately protected. Without adequate protection for our intellectual property we believe our ability to realize profits on our future commercialized product would be diminished. Without protection, competitors might be able to copy our work and compete with our products without having invested in the development.

There can be no assurance that any particular patent will be granted or that issued patents (issued to us directly or through licenses) will provide us with the intellectual property protection contemplated by such patents. Patents and licenses of patents can be challenged, invalidated or circumvented. Patent litigation is expensive and time-consuming and the outcome cannot be predicted. It is also possible that competitors will develop similar products simultaneously. Our breach of any license agreement or the failure to obtain a license to any technology or process which may be required to develop or commercialize one or more of our drug candidates may have a material adverse effect on our business, including the need for additional capital to develop alternate technology, the potential that competitors may gain unfair advantage and lessen our expectation of potential future revenues.

The pharmaceutical and biotechnology fields are characterized by a large number of patent filings, and a substantial number of patents have already been issued to other pharmaceutical and biotechnology companies. Third parties may have filed applications for, or may have been issued, certain patents and may obtain additional patents and proprietary rights related to products or processes competitive with or similar to those that we are attempting to develop and commercialize. We may not be aware of all of the patents potentially adverse to our interests that may have been issued to others. No assurance can be given that patents do not exist, have not been filed or could not be filed or issued, which contain claims relating to or competitive with our technology, drug candidates, product uses or processes. If patents have been or are issued to others containing preclusive or conflicting claims, then we may be required to obtain licenses to one or more of such patents or to develop or obtain alternative technology. There can be no assurance that the licenses or alternative technology that might be required for such alternative processes or products would be available on commercially acceptable terms, or at all.

Because of the substantial length of time and expense associated with bringing new drug products to market through the development and regulatory approval process, the pharmaceutical and biotechnology industries place considerable importance on patent and trade secret protection for new technologies, products and processes. Since patent applications filed in the United States are confidential for eighteen months after filing and some are confidential until their date of issue as a patent and since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we cannot be certain that we (or our licensors) were the first to make the inventions covered by pending patent applications or that we (or our licensors) were the first to file patent applications for such inventions. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual

questions and, therefore, the breadth of claims allowed in pharmaceutical and biotechnology patents, or their enforceability, cannot be predicted. There can be no assurance that any patents under pending patent applications or any further patent applications will be issued. Furthermore, there can be no assurance that the scope of any patent protection will exclude competitors or provide us competitive advantages, that any of our (or our licensors') patents that have been issued or may be issued will be held valid if subsequently challenged, or that others, including competitors or current or former employers of our employees, advisors and consultants, will not claim rights in, or ownership to, our (or our licensors') patents and other proprietary rights. There can be no assurance that others will not independently develop substantially equivalent proprietary information or otherwise obtain access to our proprietary information, or that others may not be issued patents that may require us to obtain a license for, and pay significant fees or royalties for, such proprietary information.

We rely on technology developed by others and shared with collaborators to develop our drug candidates, which puts our proprietary information at risk of unauthorized disclosure.

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

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

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

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

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

Confidentiality agreements may not adequately protect our intellectual property, which could result in unauthorized disclosure or use of our proprietary information.

We require our employees, consultants and third parties with whom we share proprietary information to execute confidentiality agreements upon the commencement of their relationship with us. The agreements generally provide that trade secrets and all inventions conceived by the individual and all confidential information developed or made known to the individual during the term of the relationship will be our exclusive property and will be kept confidential and not disclosed to third parties except in specified circumstances. There can be no assurance, however, that these agreements will provide meaningful protection for our proprietary information in the event of unauthorized use or disclosure of such information. If our unpatented proprietary information is publicly disclosed before we have been granted patent protection, our competitors could be unjustly enriched and we could lose the ability to profitably develop products from such information.

Our industry has significant competition; our drug candidates may become obsolete prior to commercialization due to alternative technologies, thereby rendering our development efforts obsolete or non-competitive.

The pharmaceutical and biotechnology fields are characterized by extensive research efforts and rapid technological progress. Competition from other pharmaceutical and biotechnology companies and research and academic institutions is intense and other companies are engaged in research and product development to treat the same diseases that we target. New developments in pharmaceutical and biotechnology fields are expected to continue at a rapid pace in both industry and academia. There can be no assurance that research and discoveries by others will not render some or all of our programs or products non-competitive or obsolete.

We are aware of other companies and institutions dedicated to the development of therapeutics similar to those we are developing. Many of our existing or potential competitors have substantially greater financial and technical resources than we do and therefore may be in a better position to develop, manufacture and market pharmaceutical products. Many of these competitors are also more experienced performing preclinical testing and human clinical trials and obtaining regulatory approvals. The current or future existence of competitive products may also adversely affect the marketability of our drug candidates.

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

There is no assurance that we will receive FDA or corollary foreign approval for any of our drug candidates for any indication. We are subject to government regulation for the commercialization of our drug candidates.

We have not made application to the FDA or any other regulatory agency to sell commercially or label any of our drug candidates. All new pharmaceutical drugs, including our drug candidates, are subject to extensive and rigorous regulation by the federal government, principally the FDA under the FFDCA and other laws and by applicable state, local and foreign governments. Such regulations govern, among other things, the development, testing, manufacturing, labeling, storage, pre-market clearance or approval, advertising, promotion, sale and distribution of pharmaceutical drugs. If drug products are marketed abroad, they are subject to extensive regulation by foreign governments. Failure to comply with applicable regulatory requirements may subject us to administrative or judicially imposed sanctions such as civil penalties, criminal prosecution, injunctions, product seizure or detention, product recalls, total or partial suspension of production and FDA refusal to approve pending applications.

Each of our drug candidates must be approved for each indication for which we believe it to be viable. We have not yet determined from which regulatory agencies we will seek approval for our drug candidates or indications for which approval will be sought. Once determined, the approval process is subject to those agencies' policies and acceptance of those agencies' approvals, if obtained, in the countries where we intend to market our drug candidates.

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

The process of obtaining FDA or other regulatory approvals, including foreign approvals, often takes many years and varies substantially based upon the type, complexity and novelty of the products involved and the indications being studied. Furthermore, the approval process is extremely expensive and uncertain. There can be no assurance that our drug candidates will be approved for commercial sale in the United States by the FDA or regulatory agencies in foreign countries. The regulatory review process can take many years and we will need to raise additional funds to complete the regulatory review process for our current drug candidates. The failure to receive FDA or other governmental approval would have a material adverse effect on our business by precluding us from marketing and selling such products and negatively impacting our ability to generate future revenues. Even if regulatory approval of a product is granted, there can be no assurance that we will be able to obtain the labeling claims (a labeling claim is a product's description and its FDA permitted uses) necessary or desirable for the promotion of such product. FDA regulations prohibit the marketing or promotion of a drug for unapproved indications. Furthermore, regulatory marketing approval may entail ongoing requirements for post-marketing studies if regulatory approval is obtained. We will also be subject to ongoing FDA obligations and continued regulatory review. In particular, we, or our third party manufacturers, will be required to adhere to good manufacturing practices, which require us (or our third party manufacturers) to manufacture products and maintain records in a prescribed manner with respect to manufacturing, testing and quality control. Further, we (or our third party manufacturers) must pass a manufacturing facilities pre-approval inspection by the FDA or corollary agency before obtaining marketing approval. Failure to comply with applicable regulatory requirements may result in penalties, such as restrictions on a product's

marketing or withdrawal of the product from the market. In addition, identification of certain side-effects after a drug is on the market or the occurrence of manufacturing problems could cause subsequent withdrawal of approval, reformulation of the drug, additional preclinical testing or clinical trials and changes in labeling of the product.

Prior to the submission of an application for FDA or other regulatory approvals, our pharmaceutical drugs undergo rigorous preclinical and clinical testing, which may take several years and the expenditure of substantial financial and other resources. Before commencing clinical trials in humans in the United States, we must submit to the FDA and receive clearance of an IND. There can be no assurance that submission of an IND for future clinical testing of any of our drug candidates under development or other future drug candidates will result in FDA permission to commence clinical trials or that we will be able to obtain the necessary approvals for future clinical testing in any foreign jurisdiction. Further, there can be no assurance that if such testing of drug candidates under development is completed, any such drug compounds will be accepted for formal review by the FDA or any foreign regulatory agency or approved by the FDA for marketing in the United States or by any such foreign regulatory agencies for marketing in foreign jurisdictions.

Shares eligible for future sale may adversely affect our ability to sell equity securities.

Sales of our Common Stock (including the issuance of shares upon conversion of our preferred stock (the "Preferred Stock")) in the public market could materially and adversely affect the market price of shares because prior sales have been executed at or below our current market price. We have outstanding five series of Preferred Stock that convert to our Common Stock at prices equivalent to $4.42, $4.00, $4.42, $9.00 and $7.04, respectively, for our series A convertible preferred stock ("Series A Preferred Stock"), series B convertible preferred stock ("Series B Preferred Stock"), series C convertible preferred stock ("Series C Preferred Stock"), series D convertible preferred stock ("Series D Preferred Stock") and series E convertible preferred stock ("Series E Preferred Stock") (subject to adjustment for stock splits, stock dividends and similar dilutive events). Our obligation to convert our Preferred Stock upon demand by the holders may depress the price of our Common Stock and also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that we deem appropriate.

As of June 2, 2008 we had 15,876,983 shares of Common Stock outstanding, plus (1) 50,500 shares of Series A Preferred Stock, convertible into approximately 285,633 shares of Common Stock at the conversion rate of 1:5.6561, (2) 11,464 shares of Series B Preferred Stock convertible into approximately 71,650 shares of Common Stock at the conversion rate of 1:6.25, (3) 45,536 shares of Series C Preferred Stock convertible into approximately 257,556 shares of Common Stock at the conversion rate of 1:5.6561, (4) 115,200 shares of Series D Preferred Stock convertible into approximately 320,003 shares of Common Stock at the conversion rate of 1:2.7778, (5) 98,600 shares of Series E Preferred Stock convertible into approximately 350,143 shares of Common Stock at the conversion rate of 1:3.5511, (6) 2,031,236 options to purchase shares of Common Stock with a weighted-average exercise price of $10.29 per share, and (7) 2,259,800 warrants to purchase shares of Common Stock with a weighted-average exercise price of $8.20. Of the shares outstanding, 15,093,771 shares of Common Stock are freely tradable without restriction. All of the remaining 783,212 shares are restricted from resale,

except pursuant to certain exceptions under the Securities Act of 1933, as amended (the "Securities Act").

Our outstanding options and warrants may adversely affect our ability to consummate future equity financings due to the dilution potential to future investors.

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

As of June 2, 2008, we have outstanding vested options to purchase 1,664,937 shares of Common Stock at a weighted-average exercise price of $9.29 and vested warrants to purchase 2,249,800 shares of Common Stock with a weighted-average price of $8.18.

Due to the number of shares of Common Stock we are obligated to sell pursuant to outstanding options and warrants described above, potential investors may not purchase our future equity offerings at market price because of the potential dilution such investors may suffer as a result of the exercise of the outstanding options and warrants.

The market price of our Common Stock has experienced significant volatility.

The securities markets from time to time experience significant price and volume fluctuations unrelated to the operating performance of particular companies. In addition, the market prices of the Common Stock of many publicly traded pharmaceutical companies have been and can be expected to be especially volatile. Our Common Stock price in the 52-week period ended March 31, 2008 had a high of $8.99 and a low of $0.48, and on June 2, 2008 had a high of $1.00 and a low of $0.93. Announcements of technological innovations or new products by us or our competitors, developments or disputes concerning patents or proprietary rights, publicity regarding actual or potential clinical trial results relating to products under development by us or our competitors, regulatory developments in both the United States and foreign countries, delays in our testing and development schedules, public concern as to the safety of pharmaceutical drugs and economic and other external factors, as well as period-to-period fluctuations in our financial results, may have a significant impact on the market price of our Common Stock. The realization of any of the risks described in these "Risk Factors" may have a significant adverse impact on such market prices.

We may pay vendors and advisors in stock as consideration for their services. This may result in stockholder dilution, additional costs and difficulty retaining certain vendors.

In order for us to preserve our cash resources, we have previously paid and may in the future pay vendors and advisors in shares, warrants or options to purchase shares of our Common Stock rather than cash. Payments for services in stock may materially and adversely affect our stockholders by diluting the value of outstanding shares of our Common Stock. In addition, in situations where we have agreed to register the shares issued to a vendor or advisor, we may incur additional expenses associated with such registration. Paying vendors or advisors in

shares, warrants or options to purchase shares of Common Stock may also limit our ability to contract with the vendor or advisor of our choice should that vendor or advisor decline payment in stock.

We do not intend to pay dividends on our Common Stock. Until such time as we pay cash dividends, our stockholders must rely on increases in our stock price for appreciation.

We have never declared or paid dividends on our Common Stock. We intend to retain future earnings to develop and commercialize our products and therefore we do not intend to pay cash dividends in the foreseeable future. Until such time as we determine to pay cash dividends on our Common Stock, our stockholders must rely on increases in our Common Stock's market price for appreciation.

We incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which may adversely affect our operating results and failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could cause investors to lose confidence in our operating results and in the accuracy of our financial reports and could have a material adverse effect on our business and on the price of our Common Stock.

As a public company, we are required, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for our 2008 fiscal year. Management is responsible for implementing controls and other procedures designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is disclosed accurately and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In the event that we are not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act in a timely manner, or are unable to produce timely or accurate financial statements, we may be subject to sanctions or investigations by regulatory authorities such as the SEC or AMEX and investors may lose confidence in our operating results and our stock price could decline. Furthermore, if we or our auditors are unable to certify that our internal control is effective and in compliance with Section 404 we may be subject to sanctions or investigations by regulatory authorities such as the SEC or AMEX and we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on our business and on the price of our common stock.

Furthermore, as a public company, we incur significant additional legal, accounting and other expenses. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including regulations implemented by the SEC and AMEX may increase legal and financial compliance costs and make some activities more time consuming. These laws, regulations and standards are subject to varying interpretations and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If notwithstanding our efforts to comply with new laws, regulations and

standards, we fail to comply, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Failure to comply with these rules might also make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we might be forced to accept reduced policy limits and coverage and/or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as executive officers.

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

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

We believe that our limitation of officer and director liability assists us to attract and retain qualified officers and directors. However, in the event an officer, a director or our board of directors commits an act that may legally be indemnified under Delaware law, we will be responsible to pay for such officer(s) or director(s) legal defense and potentially any damages resulting therefrom. Furthermore, the limitation on director liability may reduce the likelihood of derivative litigation against directors, and may discourage or deter stockholders from instituting litigation against directors for breach of their fiduciary duties, even though such an action, if successful, might benefit us and our stockholders. Given the difficult environment and potential for incurring liabilities currently facing directors of publicly-held corporations, we believe that director indemnification is in our and our stockholders' best interests because it enhances our ability to attract and retain highly qualified directors and reduce a possible deterrent to entrepreneurial decision-making.

Nevertheless, limitations of director liability may be viewed as limiting the rights of stockholders, and the broad scope of the indemnification provisions contained in our certificate of incorporation and bylaws could result in increased expenses. Our board of directors believes, however, that these provisions will provide a better balancing of the legal obligations of, and protections for, directors and will contribute positively to the quality and stability of our corporate governance. Our board of directors has concluded that the benefit to stockholders of improved corporate governance outweighs any possible adverse effects on stockholders of reducing the exposure of directors to liability and broadened indemnification rights.

ITEM 2. PROPERTIES

Our executive offices are in New York, located at One North End Avenue, New York, New York 10282. We have paid rent of approximately $10,100 per month, on a month-to-month basis, for approximately 2,500 square feet of space for our New York office. The current rate effective February 2008 is approximately $12,000 per month. Our research and development offices are located at 150 Fairway Drive, Suite 150, Vernon Hills, Illinois 60061. We occupy approximately 9,750 square feet of space under a lease that expires on March 14, 2010. Our rent for the Vernon Hills facility has been approximately $8,200 per month. The current rate effective March 2008 is approximately $8,600 per month. We are also charged by the landlord of our Vernon Hills, Illinois office and the New York office a portion of the real estate taxes and common area operating expenses. In December 2007, the Company entered into a one year lease of an office facility in Beijing, China that requires monthly lease payments of approximately $5,000 with an option to extend the lease upon sixty days notice prior to the end of the lease. Additionally in November 2007, the Company entered into a one year residential lease in Beijing, China that requires monthly lease payments of approximately $1,800. We believe our current facilities are adequate for our needs for the foreseeable future and, in the opinion of our management, the facilities are adequately insured.

Our indirectly wholly-owned subsidiary, Immtech Life Science, owns two floors of a newly-constructed building located in the Futian Free Trade Zone, Shenzhen, in China. The property comprises the first two floors of an industrial building named the Immtech Life Science Building. The duration of the land use right associated with the building on which the property is located is 50 years which expires May 24, 2051.

ITEM 3. LEGAL PROCEEDINGS

We are a party to the following legal proceeding:

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

In October 2003, Gerhard Von der Ruhr and his son Mark (the “Von der Ruhr Plaintiffs”) filed a complaint in the United States District Court for the Northern District of Illinois against the Company and certain officers and directors alleging breaches of a stock lock-up agreement, option agreements and a technology license agreement by the Company. The Von de Ruhr Plaintiffs also alleged a claim for intentional interference with contractual relations by certain officers of the Company. The complaint sought unspecified monetary damages and punitive

damages, in addition to equitable relief and costs. In a filing made in late February 2005, the Von der Ruhr Plaintiffs specified damages of approximately $44.5 million in damages.

In 2005, one of the breach of contract claims was dismissed upon the Company's motion for summary judgment. On October 26, 2006, a preliminary pre-trial conference was held and the court granted the Company's motions in limine to exclude plaintiffs' damage claim for lost profits and prohibited plaintiff from offering expert testimony at trial on this issue. The court subsequently granted a motion to sever the trial on Count V, regarding the technology license agreement, from the trial on the remaining counts. The trial on the remaining counts concluded on December 7, 2007, and a jury returned a verdict against the Company and certain officers and directors for a total amount of $361,704.90. The Company immediately filed a motion with the court seeking to overturn the jury verdict, which the court subsequently denied.

In the first quarter of 2008, the Von der Ruhr Plaintiffs appealed the trial court's ruling excluding their damage claim for lost profits. Separately, the Company's officers and directors have appealed the jury's finding on the intentional interference with contractual relations claim. The United States Court of Appeals for the Seventh Circuit has consolidated these appeals and now will be briefed to the appellate court. The last brief is now scheduled to be filed in September 2008.

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

We did not submit any matters to a vote of security holders during the fourth quarter of our most recent fiscal year.

PART II.

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

A.Market Information

Our common stock is listed on the American Stock Exchange and trades under the symbol "IMM". Following are the reported high and low share trade prices as reported by IDD Information Services, NASDAQ Online and Lexis/Nexis for each of the quarters set forth below since the fiscal quarter ended March 31, 2005.

	High	Low
2005		
Quarter ended March 31, 2005	$15.70	$10.03
Quarter ended June 30, 2005	$13.89	$9.50
Quarter ended September 30, 2005	$12.63	$10.61
Quarter ended December 31, 2005	$11.94	$6.30
2006		
Quarter ended March 31, 2006	$9.62	$6.80
Quarter ended June 30, 2006	$8.25	$6.66
Quarter ended September 30, 2006	$6.98	$4.50
Quarter ended December 31, 2006	$9.60	$4.80
2007		
Quarter ended March 31, 2007	$8.90	$5.00
Quarter ended June 30, 2007	$8.50	$5.68
Quarter ended September 30, 2007	$8.99	$5.80
Quarter ended December 31, 2007	$8.40	$2.10
2008		
Quarter ended March 31, 2008	$3.75	$0.48

B.Stockholders

As of June 2, 2008, the Company had approximately 214 stockholders of record of our Common Stock and the number of beneficial owners of shares of Common Stock as of such date was approximately 2,854. As of June 2, 2008, the Company had approximately 15,876,983 shares of Common Stock issued and outstanding.

C.Dividends

We have never declared or paid dividends on our Common Stock and we do not intend to pay any Common Stock dividends in the foreseeable future. Our Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, and Series E Preferred Stock earn dividends of 6%, 8%, 8%, 6%, and 6% per annum, respectively, each payable semi-annually on each April 15 and October 15 while outstanding, and which, at our option, may be paid in cash or in shares of our Common Stock valued at the 10-day volume-weighted average of the closing sale price of our Common Stock as reported by the primary stock exchange on which such stock is listed or traded.

D.Recent Sales of Unregistered Securities

We issued unregistered securities in the following conversion of Preferred Stock to Common Stock, pursuant to Section 4(2) of the Securities Act and Regulation 506 thereunder, during the fiscal quarter ended March 31, 2008:

- On January 8, 2008, a holder of Series A Preferred Stock converted 4,000 shares of Series A Preferred Stock and accrued dividends into 23,083 shares of Common Stock.

E.Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder returns for our Common Stock, the S&P 500 Index and the Peer Group. The graph assumes the investment of $100 on April 1, 2003, and the reinvestment of all dividends. The performance shown is not necessarily indicative of future performance.

The information contained in the graph above shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, or subject to Regulation 14A or 14C promulgated under the Exchange Act, other than as provided in Item 402 of the SEC’s Regulation S-K, or to the liabilities of Section 18 of the Exchange Act, except to the extent that Immtech specifically requests that the information be treated as soliciting material or specifically incorporates it by reference in such filing.

TOTAL STOCKHOLDER RETURNS

Total Return To Stockholder's
(Dividends reinvested monthly)

	ANNUAL RETURN PERCENTAGE YEARS ENDED				
Company Name / Index	Mar 04	Mar 05	Mar 06	Mar 07	Mar 08
Immtech Pharmaceuticals, Inc.	311.58	-32.93	-37.59	-25.80	-85.74
S&P 500 Index	35.13	6.67	11.71	11.83	-5.07
Peer Group	158.50	0.30	28.17	-14.58	-19.37

Peer Group Companies
Cubist Pharmaceuticals, Inc. (NASDAQ: CBST)
EntreMed, Inc. (NASDAQ: ENMD)
Encysive Pharmaceuticals, Inc. (NASDAQ: ENCY)

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data that was derived from our consolidated financial statements (dollars in thousands except share and per share data):

	Fiscal Year Ended March 31,			
	2008	2007	2006	
Statement of Operations:				
REVENUES	$ 9,717	$ 4,318	$ 3,575	$
EXPENSES:				
Research and development	11,570	8,760	9,680	
General and administrative	9,100(7)	9,095(5)	9,631(4)	
Other		(1,875)(6)		
Total expenses	20,670	15,980	19,311	
LOSS FROM OPERATIONS	(10,953)	(11,662)	(15,736)	
OTHER INCOME (EXPENSE):				
Interest income	440	530	210	
Interest expense				
Other income (expense) – net	440	530	210	
NET LOSS	(10,513)	(11,132)	(15,526)	
PREFERRED STOCK DIVIDENDS(2)	(529)	(551)	(764)	
NET (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	(11,042)	(11,683)	(16,290)	
BASIC AND DILUTED NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:				
Net loss	(0.68)	(0.78)	(1.31)	
Preferred Stock dividends	(0.03)	(0.04)	(0.06)	
BASIC AND DILUTED NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (0.71)	$ (0.82)	$ (1.37)	$
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED LOSS PER SHARE	15,477,463	14,207,048	11,852,630	10

	Fiscal Year Ended March 31,				
	2008	2007	2006	2005	2004
Balance Sheet Data:					
Cash and cash equivalents	5,996	12,462	14,138	9,472	6,745
Restricted funds on deposit	3,776	3,119	530	2,044	2,155
Working capital	4,242	10,991	11,910	8,069	6,136
Total assets	13,438	19,144	18,554	15,276	12,586
Preferred Stock	8,267	8,796	10,015	7,752	9,522
Deficit accumulated during development stage	(111,567)	(100,525)	(88,842)	(72,552)	(58,539)
Stockholders' equity	7,600	14,456	15,603	11,741	9,748

(1) Includes non-cash charges of (i) $2,744 of costs related to the issuance of warrants to purchase 600,000 shares of Common Stock issued to China Harvest International Ltd as payment for "services to assist in obtaining regulatory approval to conduct clinical trials in China, (ii) $63 for the issuance of 10,000 shares of Common Stock issued to Mr. David Tat Koon Shu for consulting services in China, (iii) $1,400 for the issuance of 100,000 shares of Common Stock issued to Fulcrum for assisting with listing the Company's securities on a recognized stock exchange and for consulting services, (iv) $2,780 for the vested portion of 91,667 shares of Common Stock and the vested portion of warrants to purchase 320,835 shares of Common Stock issued to Fulcrum during the fiscal year based on agreements signed March 21, 2003 and (v) $247 for the attainment of certain milestones with respect to the vesting of warrants to purchase 20,000 shares of Common Stock issued to Pilot Capital Groups, LLC (f/k/a The Gabriela Group, LLC) based upon agreements signed July 31, 2002.

(2) See Note 8 to the notes to our consolidated financial statements included in this Annual Report on Form 10-K for a discussion on the Preferred Stock dividends.

(3) Includes non-cash charges of (i) $4,531 of costs related to the four year extension of warrants received from RADE Management Corporation ("RADE"), (ii) $233 for the issuance of 20,000 options to Mr. Tony Mok for consulting services in China, (iii) $301 for the extension of the unexercised Fulcrum warrants to December 23, 2005 and (iv) $10 for the extension of warrants initially issued to underwriters to purchase 21,400 shares of Common Stock from April 24, 2004 to May 11, 2004.

(4) Includes non-cash charges of $125 for the repricing and reduced exercise period of 125,000 Fulcrum warrants. Fulcrum exercised 35,000 warrants. The remaining 90,000 expired.

(5) Includes non-cash charges of (i) $36 for the issuance of 5,000 common shares to Tulane University for the AQ13 agreement, (ii) $36 for the issuance of 5,000 common shares to T. Stephen Thompson under his retirement agreement, and (iii) $564,000 for the issuance of 80,000 common shares to China Pharmaceutical for the attainment of certain milestones.

(6) Includes the award by the International Court of Arbitration of the International Chamber of Commerce for the breach of a testing agreement by Neurochem, Inc., and attorneys' fees and costs of approximately $1,875,000.

(7) Includes non-cash charges of (i) $172 for the issuance of 50,000 warrants to a consultant, (ii) $118 for the issuance of 30,000 warrants to an investor relations firm, and (iii) $440 for the two year extension of warrants to China Harvest International Ltd. referenced in Note 1 above.

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

A.Overview

With the exception of certain research funding agreements and certain grants, we have not generated any revenue from operations. For the period from the date of our inception, October 15, 1984, to March 31, 2008, we incurred cumulative net losses of approximately $106,597,000. We have incurred additional operating losses since March 31, 2008 and expect to incur operating losses for the foreseeable future. We expect that our cash sources for at least the next year will be limited to:

- payments from charitable foundations and other research collaborators under arrangements that may be entered into in the future;

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

- sales of equity securities or borrowing funds.

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

We currently have enough cash to operate through December 31, 2008 and capital resources through the sale of the land use rights that we believe are sufficient to support our operations beyond March 31, 2009. We are unlikely to raise sufficient funds to continue our existing operations beyond that time. Our recent decision to terminate our pafuramidine development program has significantly depressed our stock price and impaired our ability to raise additional funds. We are evaluating our strategic alternatives with respect to all aspects of the business. We cannot assure you that any actions that we take would raise or generate sufficient capital to fully address the uncertainties of our financial position. Moreover, we may not successfully identify or implement any of these alternatives, and, even if we determine to pursue one or more of these alternatives, we may be unable to do so on acceptable financial terms. As a result, we may be unable to realize value from our assets and discharge our liabilities in the normal course of business. All of these factors raise substantial doubt about our ability to continue as a going concern. If we become unable to continue as a going concern, we may need to liquidate our assets, and we might realize significantly less than the values at which they are carried on our financial statements. However, the accompanying financial statements do not include any adjustments or charges that might be necessary should we be unable to continue as a going concern, such as charges related to impairment of our assets, the recoverability and classification of assets or the amounts and classification of liabilities or other similar adjustments. In addition, the report of our independent registered public accounting firm on the accompanying financial statements included in this Annual Report on Form 10-K contains an explanatory paragraph regarding going concern uncertainty.

B.Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 of the notes to our consolidated financial statements included in this Annual Report on Form 10-K. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to the fair value of our Preferred Stock and Common Stock and related options and warrants, the recognition of revenues and costs related to our research contracts, and the useful lives or impairment of our property and equipment. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis of judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Grants to perform research are our 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. Prepaid cash payments from research and development grants are reported as deferred revenue until such time as the research and development activities covered by the grant are performed.

Revenue from licensing arrangements is recorded when earned based on the performance requirements of the contract. Nonrefundable upfront license fees, for product candidates where the Company is providing continuing services related to product development, are deferred and recognized as revenue over the development period or as the Company provides services required under the agreement. The timing and amount of revenue the Company recognizes from licenses, either from upfront fees or milestones where the Company is providing continuing services related to product development, is dependent upon the Company's estimates of filing dates. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of the Company's control. The impact on revenue changes in the Company's estimates and the timing thereof, is recognized prospectively over the remaining estimated product development period.

Effective April 1, 2006, we adopted SFAS No. 123(R), "Share-Based Payment," using the modified prospective method. SFAS No. 123(R) requires entities to recognize the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). That cost, based on the estimated number of awards that are expected to vest, will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for awards for which employees do not render the requisite service. Upon adoption, the grant-date fair value of employee share options and similar instruments was estimated using the Black-Scholes valuation model. The Black-Scholes valuation requires the input of highly subjective

assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions used are management's best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the recorded and pro forma stock-based compensation expense could have been materially different from that depicted in the financial statements.

Effective April 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48), which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. There are no significant matters determined to be unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on our consolidated financial statements for the year ended March 31, 2008. Additionally, there were no interest or penalties related to income taxes that have been accrued or recognized for open tax years.

In December 2007, the FASB issued Statement No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) changes the requirements for an acquirer's recognition and measurement of the assets acquired and the liabilities assumed in a business combination. SFAS 141(R) is effective for us in fiscal year 2009. The impact of SFAS 141(R) will depend on future acquisitions.

In September 2006, the FASB issued Statement No. 157 ("SFAS 157"), "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. Subsequently in February 2008, the FASB issued FASB Staff Position 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP 157-1") and FASB Staff Position 157-2, "Partial Deferral of the Effective Date of Statement 157" ("FSP 157-2"). FSP 157-1 removed leasing transactions accounted for under Statement No. 13 and related guidance from the scope of SFAS 157. FSP 157-2 deferred the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. SFAS 157 is effective for us in fiscal year 2009. We do not expect the impact of adoption to be material.

In February 2007, the FASB issued Statement No. 159 ("SFAS 159"), "Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 establishes the irrevocable option to elect to carry certain financial assets and liabilities at fair value, with changes in fair value recorded in earnings. SFAS 159 is effective for us in fiscal year 2009. We have assessed the standard and will not elect the fair value option.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 requires (a) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (b) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (c) that changes in a parent's

ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (d) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (e) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for us in fiscal year 2009 and should be applied prosectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. We do not expect the impact of adoption to be material.

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

C.Research and Development Expenses

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

All of our research and development projects contain high levels of risk. Even if development is completed on schedule, there is no guarantee that any of our products will be licensed for sale. Human trials conducted in foreign and developing countries have additional risks, including governmental instability and local militia uprisings that may interrupt or displace our work. We are unable to quantify the impact to our operations, financial position or liquidity if we are unable to complete on schedule, or at all, any of our product commercialization programs.

Since we have terminated the pafuramidine development program and we expect to reduce our workforce, we expect our research and development expenditures to decrease significantly during the fiscal year ending March 31, 2009. We are seeking funding and evaluating strategic alternatives with respect to all aspects of our business. Many factors can affect the cost of the development of our product candidates, including the timing of the results of our preclinical tests and the timing of the filing of an IND. The development of our products is subject to extensive governmental regulation. These factors make it difficult for us to predict the timing and costs of further development, if any, of our product candidates.

D.Liquidity and Capital Resources

From our inception through March 31, 2008, we have financed our operations with:

- proceeds from various private placements of debt and equity securities, secondary public stock offerings, our initial public stock offering (our "IPO") and other cash contributed from stockholders, which in the aggregate raised approximately $77,608,000;

- payments from research agreements, licensing agreements, foundation grants and SBIR grants and Small-Business Technology Transfer program grants of approximately $34,800,000; and

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

On February 13, 2007, we completed a secondary public offering of Common Stock which raised approximately $6,750,000 of gross proceeds through the issuance of 1,000,000 shares of Common Stock sold to the public at $6.75 per share. Net proceeds were approximately $6,114,000.

On February 13, 2006, we completed a secondary public offering of Common Stock which raised approximately $14,880,000 of gross proceeds through the issuance of 2,000,000 shares of Common Stock sold to the public at $7.44 per share. Net proceeds were approximately $14,713,000.

On December 13, 2005, we issued an aggregate of 133,600 shares of our Series E Preferred Stock in a private placement to certain accredited and non-United States investors in reliance on Regulation D and Regulation S, respectively, under the Securities Act. The gross proceeds of the offering were $3,340,000. The net proceeds were approximately $3,286,000. We issued to the purchasers of the Series E Preferred Stock, in connection with the offering, warrants to purchase in the aggregate 83,500 shares of our Common Stock at an exercise price of $10.00 per share of Common Stock (a warrant to purchase one share of Common Stock for each $40 invested in Series E Preferred Stock). The warrants expire on December 12, 2008. The securities were sold pursuant to exemptions from registration under the Securities Act. Each purchaser of the Series E Preferred Stock was also granted an option to purchase, at $25.00 per share, up to an additional 25% of the number of shares of Series E Preferred Stock purchased on December 13, 2005 (the option period terminated on March 10, 2006). On March 10, 2006, we completed private placements to the Series E Preferred Stock option holders of 27,000 additional shares of Series E Preferred Stock, which resulted in gross proceeds to us of approximately $675,000. Each share of Series E Preferred Stock, among other things, (i) earns a 6% dividend payable, at our discretion, in cash or Common Stock, (ii) has a $25.00 (plus accrued but unpaid dividends) liquidation preference pari passu with our other outstanding Preferred Stock over our Common Stock, (iii) is convertible at the initial conversion rate into 3.5511 shares of Common Stock, and (iv) may be converted to Common Stock by us at any time.

On July 30, 2004, we completed a secondary public offering of Common Stock wherein we sold 899,999 shares of Common Stock. The shares were sold to the public at $10.25 per share. The net proceeds were approximately $8,334,000.

On January 22, 2004, we sold in private placements pursuant to Regulation D and Regulation S of the Securities Act (i) 200,000 shares of our Series D Preferred Stock, $0.01 par value, at a stated value of $25.00 per share and (ii) warrants to purchase 200,000 shares of our Common Stock with a $16.00 per share exercise price, for the aggregate consideration of $5,000,000 before issuance cost. The net proceeds were approximately $4,571,000. Each share of Series D Preferred Stock, among other things, (i) earns a 6% dividend payable, at our discretion, in cash or Common Stock, (ii) has a $25.00 (plus accrued but unpaid dividends) liquidation preference pari passu with our other outstanding preferred stock, (iii) is convertible at the initial conversion rate into 2.7778 shares of Common Stock, and (iv) may be converted to Common Stock by us at any time. The related warrants expire five years from the date of grant.

From June 6, 2003 through June 9, 2003, we issued an aggregate of 125,352 shares of our Series C Preferred Stock in private placements to certain accredited and non-United States investors in reliance on Regulation D and Regulation S, respectively, under the Securities Act. The securities were sold pursuant to exemptions from registration under the Securities Act and were subsequently registered on Form S-3 (Registration Statement No. 333-108278). The gross proceeds of the offering were $3,133,800 and the net proceeds were approximately $2,845,000.

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

On February 14, 2002 and February 22, 2002, we issued an aggregate of 160,100 shares of our Series A Preferred Stock and 400,250 related warrants in private placements to certain accredited and non-United States investors in reliance on Regulation D and Regulation S, respectively, under the Securities Act. In connection with this offering, we issued in the aggregate 60,000 shares of Common Stock and 760,000 warrants to purchase shares of Common Stock to consultants assisting in the private placements. The warrants have an exercise period of five years from the date of issuance and exercise prices of (i) $6.00 per share for 500,000 warrants, (ii) $9.00 per share for 130,000 warrants, and (iii) $12.00 per share for 130,000 warrants. The $9.00 and $12.00 warrants did not vest, and therefore were cancelled, since our Common Stock did not meet or exceed the respective exercise price for 20 consecutive trading days prior to January 31, 2003. The gross proceeds of the offering were $4,003,000 and the net proceeds were $3,849,000.

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

On April 26, 1999, we issued 1,150,000 shares of Common Stock through our IPO, resulting in net proceeds of approximately $9,173,000. The underwriters in our IPO received warrants to purchase 100,000 additional shares of Common Stock at $16.00 per share. Those warrants were due to expire on April 25, 2004. All warrants other than warrants to purchase 21,400 shares expired. The warrant to purchase 21,400 shares was pursuant to an agreement with the holder and subsequently exercised.

Negative cash flows in operating activities and investing activities are due to the fact that we are an early development stage pharmaceutical company. Positive cash flow financing activities for the year have included primarily the exercise of warrants. Our cash resources have been used to finance research and development, including sponsored research, capital expenditures, expenses associated with the efforts of our Scientific Consortium and general and administrative expenses. Over the next several years, we expect to incur substantial additional research and development costs, including costs related to early-stage research in preclinical and clinical trials, increased administrative expenses to support research and development and commercialization operations and increased capital expenditures for regulatory approvals, expanded research capacity and various equipment needs.

As of March 31, 2008, the Company had federal net operating losses carryforwards of approximately $86,388,000, and federal income tax credit carryforwards of approximately $2,422,000, which expire from 2009 through 2028. As of March 31, 2008, the Company also had state net operating losses (primarily in Illinois) of approximately $85,838,000 which expire from 2009 to 2023 and foreign operating losses totaling approximately $500,000, which carryforward indefinitely.

We currently have enough cash to operate through December 31, 2008 and capital resources through the sale of land use rights that we believe are sufficient to support our operations beyond March 2009, although there can be no assurance that we will not require additional funds. Our working capital requirements will depend upon numerous factors, including the progress of our research and development programs (which may vary as drug candidates are added or abandoned), preclinical testing and clinical trials, achievement of regulatory milestones, our partners fulfilling their obligations to us, the timing and cost of seeking regulatory approvals, the level of resources that we devote to the development of manufacturing, our ability to maintain existing collaborative arrangements and establish new ones with other companies to provide funding to us to support these activities and other factors. In any event, we will require substantial funds in addition to our existing working capital to develop our drug candidates and otherwise to meet our business objectives. See “Risk Factors — We need substantial additional funds, currently and in future years, to continue our research and development. If such financing is not available, we may be required to pursue other financing alternatives, reduce spending for our research programs or cease operations. ”

E.Payments Due under Contractual Obligations

We have future commitments at March 31, 2008 consisting of operating lease obligations as follows:

Year Ending March 31,	Lease Payments