
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2002.

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number 0-8092

OXIS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-1620407
(I.R.S. Employer
Identification No.)

6040 N. Cutter Circle, Suite 317, Portland, Oregon
(Address of principal executive offices)

97217
(Zip Code)

(503) 283-3911
(Registrant's telephone number, including area code)

At June 30, 2002, the issuer had outstanding the indicated number of shares of common stock: 9,761,792

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2002 (UNAUDITED) AND DECEMBER 31, 2001

| | June 30, 2002 | December 31, 2001 |
|-----------------------------------|---------------------------------------|--------------------------|
| | (unaudited) | |
| | (rounded to the nearest 1,000) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 934 | \$ 221 |
| Accounts receivable | 136 | 149 |
| Inventories | 322 | 292 |
| Prepaid and other current assets | 212 | 44 |
| | 1,604 | 706 |
| Property and equipment | 73 | 102 |
| Technology for developed products | 332 | 433 |
| Patents | 524 | 426 |
| Other assets | 55 | 54 |
| | \$ 2,588 | \$ 1,721 |

The accompanying notes are an integral part of these consolidated financial statements.

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS—CONTINUED

| | <u>June 30, 2002</u> | <u>December 31, 2001</u> |
|--|---------------------------------------|------------------------------|
| | (unaudited) | |
| | (rounded to the nearest 1,000) | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable to shareholder | \$ 160 | \$ 160 |
| Current portion of long-term debt | 21 | 92 |
| Accounts payable | 486 | 589 |
| Accrued liabilities | 144 | 211 |
| Accrued payroll | 102 | 91 |
| Customer deposits | 6 | 43 |
| | <u>919</u> | <u>1,186</u> |
| Long-term debt, net of current portion | — | 2 |
| Shareholders' equity: | | |
| Preferred stock—\$.01 par value; 15,000,000 shares authorized: | | |
| Series B—428,389 shares issued and outstanding (liquidation preference of \$1,000,000) | 4 | 4 |
| Series C—296,230 shares issued and outstanding (no liquidation preference) | 3 | 3 |
| Series F—1,500,000 shares issued and outstanding at June 30, 2002 (liquidation preference of \$1,500,000) | 15 | — |
| Common stock—\$.001 par value; 95,000,000 shares authorized; 9,761,792 shares issued and outstanding at June 30, 2002 (9,660,458 at December 31, 2001) | 10 | 10 |
| Warrants | 2,009 | 1,670 |
| Additional paid-in capital | 58,302 | 57,155 |
| Accumulated deficit | (58,240) | (57,881) |
| Accumulated other comprehensive loss | (434) | (428) |
| | <u>1,669</u> | <u>533</u> |
| Total shareholders' equity | 1,669 | 533 |
| | <u>\$ 2,588</u> | <u>\$ 1,721</u> |
| Total liabilities and shareholders' equity | \$ 2,588 | \$ 1,721 |

The accompanying notes are an integral part of these consolidated financial statements.

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|---------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| | (rounded to the nearest 1,000) | | | |
| Revenues | \$ 721 | \$ 841 | \$ 1,149 | \$ 1,814 |
| Costs and expenses: | | | | |
| Cost of sales | 457 | 738 | 675 | 1,627 |
| Write-down of inventory | — | 516 | — | 516 |
| Cost of product sales | 457 | 1,254 | 675 | 2,143 |
| Gross profit (loss) | 264 | (413) | 474 | (329) |
| Operating expenses: | | | | |
| Research and development | 127 | 191 | 196 | 509 |
| Selling, general and administrative | 294 | 782 | 692 | 1,707 |
| Write-down of equipment | — | 369 | — | 369 |
| Total operating expenses | 421 | 1,342 | 888 | 2,585 |
| Operating loss | (157) | (1,755) | (414) | (2,914) |
| Other income | — | — | 62 | — |
| Interest income | 2 | 5 | 4 | 22 |
| Interest expense | (6) | (6) | (11) | (12) |
| Loss prior to income taxes | (161) | (1,756) | (359) | (2,904) |
| Income taxes | — | — | — | — |
| Net loss | (161) | (1,756) | (359) | (2,904) |
| Other comprehensive loss—foreign currency translation adjustments | (6) | (39) | (6) | (29) |
| Comprehensive loss | \$ (167) | \$ (1,795) | \$ (365) | \$ (2,933) |
| Net loss per share—basic and diluted | \$ (.02) | \$ (.18) | \$ (.04) | \$ (.30) |
| Weighted average number of shares used in computation—basic and diluted | 9,761,792 | 9,660,458 | 9,713,696 | 9,613,068 |

The accompanying notes are an integral part of these consolidated financial statements.

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (UNAUDITED)

| | Six Months Ended June 30, | |
|--|-----------------------------------|------------|
| | 2002 | 2001 |
| | (rounded to the nearest 1,000) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (359) | \$ (2,904) |
| Adjustments to reconcile net loss to cash used for operating activities: | | |
| Depreciation and amortization | 130 | 234 |
| Litigation settlement | — | 57 |
| Write-down of inventory and equipment | — | 885 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 13 | 148 |
| Inventories | (30) | 234 |
| Other current assets | (168) | (49) |
| Accounts payable | (103) | 71 |
| Customer deposits | (37) | (137) |
| Accrued payroll, payroll taxes and other | (55) | (54) |
| | (609) | (1,515) |
| Cash flows from investing activities: | | |
| Purchases of equipment | — | (10) |
| Additions to other assets | (99) | (28) |
| Other, net | — | (29) |
| | (99) | (67) |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | (73) | (15) |
| Proceeds from issuance of preferred stock | 1,162 | — |
| Proceeds from issuance of warrants | 338 | — |
| | 1,427 | (15) |
| Effect of exchange rate on cash | (6) | — |
| Net increase (decrease) in cash and cash equivalents | 713 | (1,597) |
| Cash and cash equivalents—beginning of period | 221 | 2,059 |
| Cash and cash equivalents—end of period | \$ 934 | \$ 462 |
| Non-cash transactions: | | |
| Cancellation of note payable as a result of litigation settlement | — | \$ 63 |

The accompanying notes are an integral part of these consolidated financial statements.

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the period ended December 31, 2001. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions that could have a material effect on the reported amounts of the Company's financial position and results of operations.

Operating results for the three-month and six-month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

2. GOING CONCERN UNCERTAINTY

These financial statements have been prepared on a going concern basis, which contemplated the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred recurring losses and at December 31, 2001 had an accumulated deficit of \$57,881,000. For the six months ended June 30, 2002 the Company sustained a net loss of \$359,000. These factors, among others, indicate that the Company may be unable to continue as a going concern for a reasonable period of time. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is contingent upon its ability to obtain additional financing, and to generate revenue and cash flow to meet its obligations on a timely basis.

3. STOCKHOLDERS' EQUITY

The Company has a stock incentive plan under which 4,250,000 shares of the Company's common stock are reserved for issuance (the "Plan"). The Plan permits the Company to grant stock options to acquire shares of the Company's common stock, award stock bonuses of the Company's common stock, and grant stock appreciation rights.

At June 30, 2002, options issued pursuant to the Plan to acquire 2,135,537 shares of common stock at exercise prices ranging from \$0.085 to \$17.50 remained outstanding. Options issued outside the Plan to acquire 220,176 shares of common stock at exercise prices of \$0.085 to \$8.438 and warrants to acquire 4,940,127 shares of common stock at an exercise price of \$1.00 (see following paragraph) also remained outstanding at June 30, 2002.

In January 2002, the Board of Directors of the Company agreed to unilaterally offer to certain holders of warrants an extended maturity date and reduced exercise price. The holders of warrants to purchase 3,440,127 shares of the Company's common stock issued during 1998 through 2000 in connection with the sale of common shares received this offer. The exercise price for these warrants previously ranged from \$5.25 to \$7.13 per share. The exercise price for all of these warrants was reduced to \$1.00 per share, and the maturity date for 1,376,949 warrants issued in 2000 was extended to May 7, 2003. All warrants issued prior to May 1998 have lapsed and were not affected by this board action. This unilateral offer to the warrant holders was made in January 2002 with the opportunity of any offeree to decline the amendments by the expiration date of February 15, 2002. None of the warrant holders declined the offer, and all such warrants are now deemed to be amended under the terms offered.

On January 30, 2002 the Company entered into an agreement with a third party investor to sell up to 2,000,000 shares of Series F convertible preferred stock. The agreement provides for the Company's issuance of warrants to the investor to purchase up to 2,000,000 shares of common stock at an exercise price per share of \$1.00. The initial conversion ratio provided under the terms of this Series F preferred stock is ten shares of the Company's common stock for every one share of Series F preferred stock converted at the right of the holder. The Company has reserved 22,000,000 shares of common stock as a reserve for future issuance of its common stock pursuant to conversion and exercise of the warrants. Effective March 1, 2002, the Company issued 1,500,000 shares of Series F convertible preferred stock at a price per share of \$1.00 to the investor under this agreement. The investor also received warrants to purchase 1,500,000 shares of common stock at \$1.00 per share. In the event of any liquidation, the holders of the Series F preferred stock are entitled to receive, subject to the prior rights, if any, of the holders of Series B preferred stock, a preference of \$1.00 per share (subject to adjustment) prior to any distribution of any assets or surplus funds to the holders of common stock, plus any declared but unpaid dividends. The holders of Series F preferred stock are entitled to noncumulative dividends after the payment of dividends on Series B preferred stock if and when declared by the Company's board of directors. These preferred shares vote on an as if converted basis, and therefore the issuance of these shares resulted in a change of control of the Company.

4. OTHER INCOME

In association with the closing of the Company's instrument manufacturing facility in 2001, during the first quarter of 2002, the Company settled certain trade payables with creditors resulting in other income of \$62,000.

5. OPERATING SEGMENTS

The Company is organized into two reportable segments—health products and therapeutic development. The two segments have different strategic goals and have been managed separately since 1997. The health products segment manufactures and sells diagnostic products, pharmaceutical forms of SOD and other fine chemicals. The therapeutic development segment operates a drug discovery business focused on development of new drugs to treat diseases associated with tissue damage from free radicals and reactive oxygen species.

In the second quarter of 2001, the Company's health products segment decided to cease operating its instrument manufacturing facility and its wellness services program. All employees of the instruments manufacturing facility and wellness services program were terminated during the second quarter of 2001. Accordingly the inventory and equipment for manufacturing instruments and for the wellness services program was written down by \$885,000 during 2001 to their estimated net realizable value.

General corporate expenses were allocated equally to the health products and therapeutics development segments in 2002 and 2001.

The following table presents information about the Company's two operating segments:

| | <u>Health Products</u> | <u>Therapeutic Development</u> | <u>Total</u> |
|----------------------------------|----------------------------|------------------------------------|--------------|
| Quarter ended June 30, 2002: | | | |
| Revenues from external customers | \$ 721,000 | \$ — | \$ 721,000 |
| Segment income (loss) | 20,000 | (181,000) | (161,000) |
| As of June 30, 2002— | | | |
| Segment assets | 1,436,000 | 1,152,000 | 2,588,000 |
| Quarter ended June 30, 2001: | | | |
| Revenues from external customers | \$ 841,000 | \$ — | \$ 841,000 |
| Segment income (loss) | (1,514,000) | (242,000) | (1,756,000) |
| As of June 30, 2001— | | | |
| Segment assets | 1,561,000 | 1,053,000 | 2,614,000 |
| Six months ended June 30, 2002: | | | |
| Revenues from external customers | \$ 1,149,000 | \$ — | \$ 1,149,000 |
| Segment income (loss) | (17,000) | (342,000) | (359,000) |
| Six months ended June 30, 2001: | | | |
| Revenues from external customers | \$ 1,814,000 | \$ — | \$ 1,814,000 |
| Segment income (loss) | (2,270,000) | (634,000) | (2,904,000) |

6. SUBSEQUENT EVENTS

An issuance of common stock for 305,452 shares at approximately \$0.14 per share will take place in the third quarter of 2002 due to a settlement of an accounts payable debt equaling \$42,500.

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

Certain statements set forth below may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ from those expressed or implied by the forward-looking statements. With respect to the Company, the following factors, among others, could cause actual results or outcomes to differ materially from current expectations: the possible inability to obtain additional financing; uncertainties relating to patents and proprietary information; the potential for patent-related litigation expenses and other costs resulting from claims asserted against the Company or its customers by third parties; achievement of product performance specifications; the ability of new products to compete successfully in either existing or new markets; the effect of product or market development activities; availability and future costs of materials and other operating expenses; competitive factors; the performance and needs of industries served by the Company and the financial capacity of customers in these industries to purchase the Company's products; as well as other factors discussed under the heading "RISK FACTORS" in Item 1 of the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2001 which is incorporated herein by reference. Given these uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements. The Company disclaims any obligation subsequently to revise or update forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital increased during the first half of 2002 by \$1,165,000, from a working capital deficit of \$480,000 at December 31, 2001 to a positive \$685,000 at June 30, 2002. The increase in working capital resulted from the issuance of Series F preferred stock in March 2002.

Cash and cash equivalents increased from \$221,000 at December 31, 2001 to \$934,000 at June 30, 2002. This increase is also due to the cash investment of \$1,500,000 made in March 2002 as a result of the issuance of Series F preferred stock.

The Company expects to incur operating losses for the foreseeable future. These losses and expenses may increase and fluctuate from quarter to quarter as the Company expands their activities. There can be no assurance that the Company will ever achieve profitable operations. The report of the Company's independent auditors on the Company's financial statements for the period ended December 31, 2001, includes an explanatory paragraph referring to the Company's ability to continue as a going concern. The Company anticipates that it will expend capital resources for the continuation of operations (marketing, product research and development, therapeutic and nutraceutical development). Capital resources may also be used for the acquisition of complementary businesses, products or technologies. The Company's future capital requirements will depend on many factors including: continued marketing and scientific progress in their research and development programs; the magnitude of these programs; the success of pre-clinical and potential clinical trials; the costs associated with the scale-up of manufacturing; the time and costs required for regulatory approvals; the time and costs involved in filing, prosecuting, enforcing and defending patent claims; technological competition and market developments; the establishment of and changes in collaborative relationships and the cost of commercialization activities and arrangements.

While the Company believes that the existing and new products and technologies show considerable promise, its ability to realize revenues therefrom is dependent upon the Company's success in marketing and sales, along with developing business alliances with related industry companies to assist in developing and marketing these products. To date, the Company has established marketing and sales relationships but has not established any therapeutic business alliances and there can be no assurance that the Company's effort to develop such therapeutic business alliances will be successful.

The Company has incurred losses in each of the last six years. As of June 30, 2002, the Company has an accumulated deficit of \$58,240,000. The Company expects to incur operating losses for the foreseeable future. The Company currently has sufficient capital for continuing operations of the health products segment but does not have sufficient capital resources to complete the Company's contemplated drug development programs and no assurances can be given that the Company will be able to raise such capital on terms favorable to the Company or at all. The unavailability of additional capital could cause the Company to cease or curtail its operations and/or delay or prevent the development and marketing of the Company's existing products and potential pharmaceutical/nutraceutical products.

**RESULTS OF OPERATIONS—THREE MONTHS ENDED JUNE 30, 2002
COMPARED WITH THREE MONTHS ENDED JUNE 30, 2001**

Revenues

The Company's revenues for the quarters ended June 30, 2002 and 2001 were as follows:

| | 2002 | 2001 |
|---|-------------------|-------------------|
| Research assays and fine chemicals | \$ 337,000 | \$ 388,000 |
| Bovine superoxide dismutase (bSOD) for research and human use | 380,000 | 117,000 |
| Medical instruments (closed June 30, 2001) | — | 300,000 |
| Other | 4,000 | 36,000 |
| | <u>\$ 721,000</u> | <u>\$ 841,000</u> |

Sales of research assays and fine chemicals decreased by \$51,000 from \$388,000 in the second quarter of 2001 to \$337,000 in the second quarter of 2002 due primarily to a decrease in sales volumes.

Sales of bSOD in each the second quarter of 2002 and 2001 consisted of one shipment of bulk bSOD to the Company's Spanish licensee. Future sales of bulk bSOD beyond 2002 are largely dependent on the needs of the Company's Spanish licensee. Because such needs are uncertain and difficult to predict, no assurance can be given that the Company will continue to sell bulk bSOD to its Spanish licensee.

Revenue from instrument sales of product and development have ceased due to the closure of this portion of the Company's operations in July 2001.

Costs and Expenses

Cost of sales was 88% of revenues for the second quarter of 2001 and decreased to 63% of revenues for the second quarter of 2002. This decrease in the cost of sales as a percentage of sales is due primarily to the closure of the wellness program that generated cost of sales of \$207,000 with no revenue during the second quarter of 2001 and the closure of the instruments business, which had a 406% cost of sales in the second quarter of 2001.

Gross profit for the second quarter of 2001 was a negative \$414,000 after the recording of a write down in instruments inventory of \$516,000. The gross profit for the second quarter of 2002 was \$264,000, which equaled 37%. This change is primarily due to the closure of the wellness and instruments programs in June 2001.

Research and development expenses decreased from \$191,000 in the second quarter of 2001 to \$127,000 in the second quarter of 2002. The decrease in research and development expenses resulted primarily from a reduction in the Company's therapeutic development efforts.

Selling, general and administrative expenses decreased from \$782,000 in the second quarter of 2001 to \$294,000 in the second quarter of 2002. The closure of the instruments business resulted in a \$240,000 reduction of expenses and the remaining \$248,000 decrease is due to reductions of management personnel and associated overhead.

Cost and expenses for the second quarter of 2001 includes a charge of \$369,000 to write down the equipment values relating to the closure of the Company's instrument manufacturing facility and wellness services program.

Net Loss

The Company continued to experience losses in the second quarter of 2002. The second quarter 2002 net loss of \$161,000 (\$0.02 per share-basic and diluted) was \$1,595,000 less than the \$1,756,000 (\$0.18 per share-basic and diluted) net loss for the second quarter of 2001. The decrease in the net loss is primarily due to the closure of the wellness and instrument businesses (\$1,306,000). The \$141,000 reduction in loss in the Company's health products segment and \$71,000 reduction in corporate expense is primarily due to the reduction of overhead expense; along with a \$77,000 reduction in the Company's therapeutic segment for expenditures primarily due to the closure of the United Kingdom office.

RESULTS OF OPERATIONS—SIX MONTHS ENDED JUNE 30, 2002 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2001

Revenues

The Company's revenues for the six-month periods ended June 30, 2002 and 2001 were as follows:

| | <u>2002</u> | <u>2001</u> |
|--|---------------------|---------------------|
| Research assays and fine chemicals | \$ 758,000 | \$ 713,000 |
| Bovine superoxide dismutase (bSOD) for research and human use | 380,000 | 117,000 |
| Therapeutic drug monitoring assays (contract ended March 31, 2001) | — | 378,000 |
| Medical instruments (closed June 30, 2001) | — | 554,000 |
| Other | 11,000 | 52,000 |
| | <u>\$ 1,149,000</u> | <u>\$ 1,814,000</u> |

Sales of research assays and fine chemicals increased by \$45,000, from \$713,000 in the first half of 2001 to \$758,000 in the first half of 2002. This increase was due primarily to an increase in sales volumes.

Sales of bSOD in the first half of 2002 and 2001 consisted of one shipment of bulk bSOD to the Company's Spanish licensee. Future sales of bulk bSOD beyond 2002 are largely dependent on the needs of the Company's Spanish licensee. Because such needs are uncertain and difficult to predict, no assurance can be given that the Company will continue to sell bulk bSOD to its Spanish licensee.

The Company's contract to manufacture therapeutic drug monitoring assays has terminated, and the Company ceased manufacturing and selling these products in the first quarter of 2001.

Revenue from instrument sales of product and development have ceased due to the closure of this portion of the Company's operations in July 2001.

Costs and Expenses

Cost of product sales for the first half of 2001 includes a charge of \$516,000 to write down inventory relating to the closure of the Company's instrument manufacturing facility and wellness services program. Excluding this \$516,000 charge, cost of product sales for the first half of 2001 was \$1,627,000, or 90% of revenues, compared to \$675,000, or 59% of revenues for the first half of 2002. This decrease in the cost of sales as a percentage of sales is due primarily to the closure of the wellness program that generated cost of sales of \$283,000 with no revenue during the first half of 2001 and the closure of the instruments business, which had a 289% cost of sales in the first half of 2001.

Gross profit for the first six months of 2001 was a negative \$329,000 after the recording of a write down in instruments inventory of \$516,000. The gross profit was \$474,000 (41%) for the first six months of 2002. This change is primarily due to the closure of the wellness and instruments programs in June 2001.

Research and development expenses decreased from \$509,000 in the first half of 2001 to \$196,000 in the first half of 2002. The decrease in research and development expenses resulted primarily from a reduction in the Company's therapeutic development efforts.

Selling, general and administrative expenses decreased by \$1,015,000, from \$1,707,000 in the first half of 2001 to \$692,000 in the first half of 2002. The decrease is primarily the result of the closure of the wellness program (\$111,000) and the instruments business (\$338,000). Also partial responsible are corporate reductions totaled \$296,000 and decreases in the Company's health products segment overhead totaled \$339,000.

Cost and expenses for the first half of 2001 includes a charge of \$369,000 to write down the equipment values relating to the closure of the Company's instrument manufacturing facility and wellness services program.

Other Income

In association with the closing of the Company's instrument manufacturing facility in 2001, during the first quarter of 2002, the Company settled certain trade payables with creditors resulting in other income of \$62,000.

Net Loss

The Company continued to experience losses in the first six months of 2002. The first half 2002 net loss of \$359,000 (\$.04 per share-basic and diluted) was \$2,545,000 less than the \$2,904,000 (\$.30 per share-basic and diluted) net loss for the first half of 2001. The decrease in the net loss is primarily due to the closure of the wellness and instruments programs of \$1,732,000. The \$245,000 reduction in loss of the Company's health products segment and \$296,000 reduction in corporate expense is primarily due to the reduction of overhead expense; along with a \$194,000 reduction in the Company's therapeutic segment for expenditures primarily due to the closure of the United Kingdom office.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

None

Item 2. *Changes in Securities*

None

Item 3. *Defaults Upon Senior Securities*

None

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

At the Company's 2002 Annual Meeting of Stockholders held on June 14, 2002 ("2002 Stockholders Meeting"), the Company's stockholders elected the following persons to Company's Board of Directors:

| <u>Name</u> | <u>Common shares FOR</u> | <u>Common shares WITHHELD</u> | <u>Series B Preferred FOR*</u> | <u>Series B Preferred WITHHELD*</u> | <u>Series C Preferred FOR*</u> | <u>Series C Preferred WITHHELD*</u> | <u>Series F Preferred FOR*</u> | <u>Series F Preferred WITHHELD*</u> |
|-------------------|--------------------------|-------------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|
| Richard A. Davis | 5,307,863 | 90,115 | 85,667 | 0 | 0 | 65,837 | 15,000,000 | 0 |
| Marvin S. Hausman | 5,306,593 | 91,385 | 85,667 | 0 | 0 | 65,837 | 15,000,000 | 0 |
| Stuart S. Lang | 5,308,093 | 89,885 | 85,667 | 0 | 0 | 65,837 | 15,000,000 | 0 |
| Timothy C. Rodell | 5,308,093 | 89,885 | 85,667 | 0 | 0 | 65,837 | 15,000,000 | 0 |
| Ray R. Rogers | 5,306,949 | 91,029 | 85,667 | 0 | 0 | 65,837 | 15,000,000 | 0 |
| Thomas M. Wolf | 5,305,923 | 92,055 | 85,667 | 0 | 0 | 65,837 | 15,000,000 | 0 |

* In equivalent common votes.

At the 2002 Stockholders' Meeting, the stockholders also approved an amendment to the Company's 1994 Stock Incentive Plan to increase the number of shares of common stock available for issuance thereunder by 2,000,000 shares, to an aggregate of 4,250,000 shares (1,289,190 common shares, Series B Preferred shares with 85,678 equivalent common votes and Series F Preferred shares with 15,000,000 equivalent common votes voting for; 184,888 common shares voting against; Series C Preferred shares with 65,837 equivalent common votes and 52,248 common shares abstaining; and 4,363,816 broker non-votes).

Item 5. Other Information

None

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

- (a) Exhibits—See Exhibit Index on page 17.
- (b) No reports were filed on Form 8-K for the second quarter ended June 30, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OXIS INTERNATIONAL, INC.

By: /s/ RAY R. ROGERS

Ray R. Rogers
Chairman, President and Chief Executive Officer

August 14, 2002

By: /s/ SHARON ELLIS

Sharon Ellis
Principal Financial Officer

August 14, 2002

EXHIBIT INDEX

**Exhibit
Number**

Description of Document

| | |
|------|---|
| 99.1 | Certification pursuant to 18 U.S.C. Section 1340 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.2 | Certification pursuant to 18 U.S.C. Section 1340 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OXIS International, Inc. (the "Company") on Form 10-QSB for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date therein specified (the "Report"), I, Ray R. Rogers, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RAY R. ROGERS

Ray R. Rogers
Chief Executive Officer

August 14, 2002

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OXIS International, Inc. (the "Company") on Form 10-QSB for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date therein specified (the "Report"), I, Sharon Ellis, Chief Financial and Operations Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ SHARON ELLIS

Sharon Ellis
Chief Financial and Operations Officer

August 14, 2002