

PEREGRINE PHARMACEUTICALS INC

FORM 10-Q (Quarterly Report)

Filed 12/16/1996 For Period Ending 10/31/1996

Address	14282 FRANKLIN AVE TUSTIN, California 92780
Telephone	714-508-6000
CIK	0000704562
Industry	Biotechnology & Drugs
Sector	Healthcare
Fiscal Year	04/30

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended OCTOBER 31, 1996

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 0-17085

TECHNICLONE INTERNATIONAL CORPORATION

(Exact name of Registrant as specified in its charter)

CALIFORNIA

(State or other jurisdiction
of incorporation or organization)

95-3698422

(I.R.S. Employer
Identification Number)

14282 FRANKLIN AVENUE, TUSTIN, CALIFORNIA
(Address of principal executive offices)

92780
(Zip Code)

(714) 838-0500

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed, since last
report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. YES . NO .

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. YES . NO .

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

21,535,266 shares of Common Stock as of November 30, 1996

PART I -- FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

The following financial statements required to be provided by this Item 1 and Rule 10.01 of Regulation S-X are filed herewith, at the respective pages indicated on this Quarterly Report, Form 10-Q:

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ITEM 2 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q includes certain forward-looking statements, the realization of which may be impacted by certain important factors discussed in "Additional Factors that May Affect Future Results".

GOING CONCERN -- The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, the Company experienced losses in fiscal 1996 and during the first six months of fiscal 1997 and has an accumulated deficit at October 31, 1996. Management has restructured certain of its license agreements to provide it with greater control over the development and clinical trials of its antibodies. If the Company is able to achieve certain goals in relation to these antibodies, it will receive certain additional financing pursuant to the terms of an existing license agreement. Historically, the Company has relied on third party and investor funds to fund its operations and clinical trials, and management expects that additional funds will be required in the future to continue to fund operations and clinical trials. There can be no assurances that this funding will be received. If the Company does not receive additional funding, it will be forced to scale back operations and it could have a material adverse effect on the Company. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required and, ultimately to

attain successful operations. During the year ended April 30, 1996, the Company received significant funding through the issuance of preferred stock and a foreign distribution agreement which has resulted in cash and short-term investment balances of \$4,884,487 as of October 31, 1996. Management believes that additional capital must be raised to support the Company's continued operations and other cash needs, including facilities expansion and construction, during the twelve months ending on October 31, 1997.

RESULTS OF OPERATIONS

The Company's net loss of \$1,520,031 for the quarter ended October 31, 1996 represents an increased loss of \$981,010 in comparison to the net loss of \$539,021 for the prior year quarter ended October 31, 1995. This increase in the net loss for the quarter ended October 31, 1996 is primarily attributable to an \$1,067,043 increase in total costs and expenses partially offset by a \$86,033 increase in total revenues. The Company's net loss of \$2,468,295 for the six months ended October 31, 1996 represents an increase of \$1,414,172 in comparison to the net loss of \$1,054,123 for the six months ended October 31, 1995. This increase in the year-to-date loss is primarily attributable to a \$1,034,566 increase in total costs and expenses partially offset by a \$172,324 increase in total revenues.

Revenues for the quarter ended October 31, 1996 increased \$86,033, compared to the same prior year period ended October 31, 1995. This increase resulted from a \$80,989 increase in interest income and a \$5,044 increase in rental income in comparison to the same prior year period ended October 31, 1995. Revenues for the six months ended October 31, 1996 increased \$172,324 compared to the same prior year period ended October 31, 1995. This increase resulted from a \$167,280 increase in interest income and a \$5,044 increase in rental income in comparison to the same prior year period ended October 31, 1995. Interest income increased during the current year as the level of idle cash funds available for investment has increased in comparison to the prior year. Rental income increased during the current year a result of the Company's purchase of a second building on October 25, 1996, which is partially leased to tenants. Management expects interest income to increase during the remainder of the current year in comparison to the prior year due to the increase in cash and short term investments from the closing of the issuance of the Class B Convertible Preferred Stock in December 1995 and from a distribution agreement consummated in February 1996. Management expects rental income from tenants to increase to approximately \$44,000 per quarter for the remainder of the current year. Management expects revenues from the sales and licensing of antibodies to increase slightly during the remainder of the fiscal year ending April 30, 1997 as the Company ships its LYM-1 antibody for use in the Phase III clinical trials.

The Company's total costs and expenses increased \$1,067,043 during the quarter ended October 31, 1996, in comparison to the same prior year period ended October 31, 1995. This increase resulted from a \$423,381 increase in research and development expenses, a \$392,365 increase in general and administrative expenses, a \$232,736 increase for stock based compensation, and a \$18,561 increase in interest expense in comparison to the prior year quarter ended October 31, 1995. The Company's total costs and expenses increased \$1,586,496 for the six months ended October 31, 1996 in comparison to the same prior year period ended October 31, 1995. This increase resulted from a \$737,447 increase in research and development expenses, a \$579,196 increase in general and administrative expenses, a \$232,736 increase in stock compensation expense and a \$37,117 increase in interest expense in comparison to the same prior year period ended October 31, 1995. Research and development expenses increased

\$423,381 for the quarter ended October 31, 1996 and \$737,447 for the six months ended October 31, 1996 in comparison to the same prior year periods ended October 31, 1995. The increase in research and development expenses resulted from the Company's activities during the current year in preparing for and starting the Phase III clinical trials of the LYM-1 antibody and from the Company's activities in preparing for Phase I clinical trials of the TNT antibody technologies which are expected to commence in 1997. The Company expects significant research and development expenses in the future as clinical trial activities continue.

General and administrative expenses increased \$392,365 for the quarter ended October 31, 1996 and \$579,196 for the six months ended October 31, 1996 in comparison to the same periods of the prior year. This increase in current year expenses has resulted primarily from the addition of administrative personnel, from expanded public relations activities, and from the legal and printing costs associated with the Company's September 27, 1996 shareholders' meeting. Noncash stock based compensation increased \$232,736 for the three and six month periods ended October 31, 1996, primarily as a result of options to purchase the Company's common stock being granted to employees, consultants and members of the Company's Scientific Advisory Board. These options became effective in September 1996, upon the approval of the Company's 1996 Stock Incentive Plan by the shareholders of the Company. Interest expense increased \$18,561 during the quarter ended October 31, 1996 and \$37,117 for the six months ended October 31, 1996 in comparison to the same periods of the prior year due to a higher level of interest bearing debt outstanding during the current year as a result of a \$1,020,000 real estate mortgage loan originated in April 1996 in connection with the Company's purchase of its existing facility and an additional \$1,020,000 real estate mortgage loan originated in October 1996 in connection with the Company's purchase of an additional building which is adjacent to the building purchased in April 1996.

The Company believes that total costs and expenses will increase during the remainder of the current fiscal year due to the continued addition of personnel, the expansion of public relations activities, increased depreciation, additional stock based compensation expense, and increased interest expenses due to the purchase of the Company's facility and additional building.

The Company has begun Phase III testing in multi-center clinical trials of the LYM-1 antibody in late stage non-Hodgkins lymphoma patients. The clinical trials are being sponsored by Alpha Therapeutic Corporation, a wholly owned subsidiary of Green Cross of Japan. The clinical trials are being held at participating medical centers including M.D. Anderson, The Cleveland Clinic, Cornell University (N.Y.C.), George Washington University and University of Cincinnati. Following the completion of the clinical trials the Company expects to file an application with the FDA to market LYM-1 in the United States.

On February 5, 1996, the Company entered into an agreement with Cambridge Antibody Technology, Ltd. ("CAT") to develop and market a new class of products for cancer therapy and diagnosis. The Agreement provides that the Company and CAT will develop a monoclonal antibody based upon CAT's patented technology for producing fully human monoclonal antibodies and the Company's Tumor Necrosis Technologies ("TNT"). The Agreement provides that equity in the joint venture and costs associated with the development of the product would be shared equally between the Company and CAT. The Company would retain exclusive world-wide manufacturing rights. It is anticipated that the joint venture would conduct clinical trials of TNT in both the United States and Europe.

On February 29, 1996 the Company entered into a Distribution Agreement with Biotechnology Development, Ltd. ("BTD"), a limited partnership controlled by a major shareholder and a member of the Board of Directors of the Company. Pursuant to the Distribution Agreement, BTD acquired the marketing rights for the LYM-1 antibody technology for certain European countries and other geographic areas not covered by the Company's existing license agreement with Alpha Therapeutic Corporation. BTD paid the Company \$3,000,000 for these marketing rights. Under the terms of the Distribution Agreement, the Company retains all manufacturing rights to LYM-1 and will supply LYM-1 to BTD at preset prices. Additionally, the Company has the option under an Option Agreement to repurchase the marketing rights to LYM-1 for a thirty month period. The repurchase price, if repurchase is elected by the Company at its sole discretion, includes a combination of cash, stock options and royalty payments to be made to BTD, the amount of which depends on when the repurchase option is elected by the Company.

LIQUIDITY AND CAPITAL RESOURCES

At October 31, 1996, the Company had \$4,884,487 in cash and short term investments and working capital of \$4,260,894 compared to \$8,078,201 in cash and short term investments and working capital of \$7,460,514 at April 30, 1996.

CAPITAL COMMITMENTS

During the remainder of the year ending April 30, 1997 the Company expects to acquire significant additional assets including additional building improvements, furniture, fixtures and equipment to expand operations.

As of October 31, 1996, the Company had commitments to spend approximately \$400,000 on building improvements, furniture, and equipment in connection with the construction of office facilities in the building which was purchased in April 1996. As of October 31, 1996, the Company had no additional firm commitments to acquire laboratory and production equipment. However, the Company expects to acquire significant additional laboratory and production equipment during the remainder of the current year ending on April 30, 1997, to expand antibody production capabilities.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

FUTURE OPERATING RESULTS. Future operating results may be impacted by a number of factors that could cause actual results to differ materially from those stated herein. These factors include worldwide economic and political conditions, industry specific factors, the Company's ability to maintain access to external financing sources and its financial liquidity, the Company's ability to timely develop and produce commercially viable products at competitive prices, the availability and cost of components of those products, and the Company's ability to manage expense levels.

NEED FOR ADDITIONAL CAPITAL. At October 31, 1996, the Company had \$4,884,487 in cash and short term investments. It also had significant commitments for expenditures for building improvements, equipment, furniture and fixtures and expects these expenditures to increase in the future. The Company has continued to experience negative cash flows since its inception and expects the negative cash flow to continue for the foreseeable future. The

Company expects that the monthly negative cash flow will increase as a result of increased activities with the Phase III clinical trials for LYM-1 and as a result of significantly increased research, development and clinical trial costs associated with the Company's other products, including Tumor Necrosis Therapy ("TNT"). As a result of the increased expenditure of funds, the Company believes that it will be necessary for the Company to raise additional capital to sustain research and development and provide for future clinical trials. The Company must raise additional equity funds in order to continue its operations until it is able to generate sufficient additional revenue from the sale and licensing of its products. There can be no assurance that the Company will be successful in raising such funds on terms acceptable to it or at all, or that sufficient additional capital will be raised to research and develop the Company's additional products. The Company is discussing the possibility of raising additional funds with various investment banking firms and private investors, but as of October 31, 1996, the Company had not entered into any firm commitments for additional funds. If the initial results from the Phase III clinical trials of LYM-1 are poor, the results may have a material adverse effect upon the Company's ability to raise additional capital, which would affect the Company's ability to continue a full-scale research and development effort for its antibody technologies. The Company's future success is highly dependent upon its continued access to sources of financing which it believes are necessary for the continued growth of the Company. In the event the Company is unable to maintain access to its existing financing sources, or obtain other sources of financing there would be a material adverse effect on the Company's business, financial position and results of operations.

COMPETITION. The biotechnology industry is intensely competitive and changing rapidly. Substantially all of the Company's existing competitors have larger technical staffs, more established and larger research budgets and significantly greater financial resources than the Company. There can be no assurance that these competitors will not be able to expend resources to develop their products prior to the Company's product being granted approval for marketing by the U.S. Food and Drug Administration. There can be no assurance that the Company will be able to compete successfully or that competition will not have a material adverse effect on the Company's results of operation.

TECHNOLOGY. The Company's future success will depend significantly upon its ability to develop and test workable products which the Company will seek FDA approval to market to certain defined groups. A significant risk remains as to the technological, performance and commercial success of the Company's technology and products. The products currently under development by the Company will require significant additional laboratory and clinical testing and investment over the foreseeable future. The significant research, development, and testing activities, together with resultant increases in associated expenses, are expected to result in operating losses for the foreseeable future. Although the Company is optimistic that it will be able to successfully complete development of one or more of its products, there can be no assurance that the Company's research and development activities will be successfully completed; that any proposed products will prove to be effective in clinical trials; that the Company will be able to obtain all necessary governmental clearances and approvals to market its products; that such proposed products will prove to be commercially viable or successfully marketed; or that the Company will ever achieve significant revenues or profitable operations. In addition, the Company may encounter unanticipated problems, including development, manufacturing, distribution and marketing difficulties. The failure to adequately address such difficulties could have a material adverse effect on the Company's prospects.

REGULATION. The Company's products are subject to extensive government regulation in the United States by federal, state and local agencies including the Food and Drug Administration. The process of obtaining and maintaining FDA and other required regulatory approvals for the Company's products is lengthy, expensive and uncertain. There can be no assurance that the Company can obtain FDA or other regulatory approval for the marketing of its products or that changes in existing regulations or the adoption of new regulations will not occur which will adversely affect the Company.

EARTHQUAKE RISKS. The Company's corporate headquarters facility, at which the majority of its research and development activities are conducted, is located near major earthquake faults which have experienced earthquakes in the past. The Company does not carry earthquake insurance on its facility due to its prohibitive cost. In the event of a major earthquake or other disaster affecting the Company's facilities, the operations and operating results of the Company could be adversely affected.

STOCK PRICE FLUCTUATIONS AND LIMITED TRADING VOLUME. The Company's participation in the highly competitive biotechnology industry often results in significant volatility in the Company's common stock price. Also, at times there is a limited trading volume in the Company's stock. This volatility in the stock price and limited trading volume are significant risks investors should consider.

FORWARD LOOKING STATEMENTS. This Quarterly Report on Form 10-Q contains certain forward-looking statements that are based on current expectations. In light of the important factors that can materially affect results, including those set forth above and elsewhere in this Form 10-Q, the inclusion of forward-looking information herein should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. The Company may encounter competitive, technological, financial and business challenges making it more difficult than expected to continue to develop, market and manufacture its products; competitive conditions within the industry may change adversely; upon development of the Company's products, demand for the Company's products may weaken; the market may not accept the Company's products; the Company may be unable to retain existing key management personnel; the Company's forecasts may not accurately anticipate market demand; and there may be other material adverse changes in the Company's operations or business. Certain important factors affecting the forward looking statements made herein include, but are not limited to (i) accurately forecasting capital expenditures, and (ii) obtaining new sources of external financing prior to the expiration of existing support arrangements or capital. Assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause the Company to alter its capital expenditure or other budgets, which may in turn affect the Company's financial position and results of operations.

PART II

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 Security Holders.

The Company held an annual meeting of the shareholders (the "Shareholder Meeting") on September 27, 1996.

At the Shareholder Meeting the incumbent directors Lon H. Stone, William V. Moding, R.C. Shepard, Clive R. Taylor and Edward Joseph Legere, II were re-elected and Carmelo J. Santoro was elected to the Board of Directors to serve until the next meeting of the shareholders or until their respective successors are elected and qualified.

The number of shares voted in favor of the election of Lon H. Stone to the Board of Directors was 18,131,271 and the number of shares voted against or withheld were 67,406. The number of shares voted in favor of the election of William V. Moding to the Board of Directors was 18,133,871 and the number of shares voted against or withheld were 64,806. The number of shares voted in favor of the election of R.C. Shepard to the Board of Directors was 18,133,871 and the number of shares voted against or withheld were 64,806. The number of shares voted in favor of the election of Clive R. Taylor to the Board of Directors was 18,114,912 and the number of shares voted against or withheld were 83,765. The number of shares voted in favor of the election of Edward Joseph Legere II to the Board of Directors was 18,129,176 and the number of shares voted against or withheld were 69,501. The number of shares voted in favor of the election of Carmelo J. Santoro to the Board of Directors was 18,133,628 and the number of shares voted against or withheld were 65,049.

In addition, the shareholders approved the following:

(i) a change in the Company's state of incorporation from California to Delaware and certain other changes in the charter documents of the Company (Proposal 2);

(ii) the Company's 1996 Stock Incentive Plan (Proposal 3); (iii) the appointment of Deloitte & Touche LLP as independent auditors (Proposal 4). The number of shares voting in favor of Proposal 2 was 11,420,710, the number of shares voting against or withheld were 260,267 and the number of shares which abstained were 68,970. The number of shares voting in favor of Proposal 3 was 11,120,445, the number of shares voting against or withheld were 509,699 and the number of shares which abstained were 109,803. The number of shares voting in favor of Proposal 4 was 18,217,178, the number of shares voting against or withheld were 39,553 and the number of shares which abstained were 40,546.

Item 5. Other Information. None.

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

(a) Exhibits:

Exhibit Number -----	Description -----
27	Financial Data Schedule

(b) Reports on Form 8-K: Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 1, 1996 reporting the close of the purchase of the real property commonly known as 14272 Franklin Avenue, Tustin, California.

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.

TECHNICLONE INTERNATIONAL CORPORATION

By: /ss/ Lon H. Stone

By: /ss/ William V. Moding

TECHNICLONE INTERNATIONAL CORPORATION

BALANCE SHEETS

	April 30, 1996 ----	October 31, 1996 ---- (Unaudited)
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,179,313	\$ 3,900,404
Short-term investments	3,898,888	984,083
Accounts receivable, net	95,146	19,942
Inventories, net	93,921	190,362
Prepaid expenses and other current assets	17,294	5,802
	-----	-----
Total current assets	8,284,562	5,100,593
	-----	-----
PROPERTY:		
Land	525,255	1,050,510
Buildings and improvements	1,298,416	2,663,226
Laboratory equipment	1,139,663	1,307,114
Furniture and fixtures	78,155	107,196
	-----	-----
Total	3,041,489	5,128,046
Less accumulated depreciation and amortization	(722,436)	(855,017)
	-----	-----
Property--net	2,319,053	4,273,029
	-----	-----
OTHER ASSETS:		
Patents, net	166,585	157,106
Other	5,557	5,557
	-----	-----
Total other assets	172,142	162,663
	-----	-----
TOTAL	\$ 10,775,757	\$ 9,536,285
	=====	=====

See accompanying notes to financial statements.

TECHNICLONE INTERNATIONAL CORPORATION

BALANCE SHEETS

	April 30, 1996 ----	October 31, 1996 ---- (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY:		

CURRENT LIABILITIES:		
Accounts payable	\$ 230,144	\$ 220,366
Accrued legal and accounting fees (primarily to a related party)	99,495	60,258
Accrued payroll and related costs	88,791	86,875
Accrued license termination fee	100,000	100,000
Accrued royalties	61,667	61,667
Accrued interest	--	7,956
Reserve for contract losses	173,563	173,563
Current portion of long-term debt	32,968	67,809
Other current liabilities	37,420	61,205
	-----	-----
Total current liabilities	824,048	839,699
	-----	-----
LONG TERM DEBT - MORTGAGE LOANS	987,032	1,959,468
	-----	-----
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Preferred Stock--\$1.00 par value (authorized, 100,000 shares; Class B Convertible Preferred Stock, outstanding, 6,800 shares at April 30, 1996 and 2,750 shares at October 31, 1996) (liquidation preference of \$2,980,548 at October 31, 1996)	6,800	2,750
Common Stock--no par value (authorized, 30,000,000 shares; outstanding, 20,048,014 shares at April 30, 1996 and 21,446,389 shares at October 31, 1996)	21,133,968	24,667,211
Additional paid-in capital	6,061,171	2,772,714
Accumulated deficit	(17,760,680)	(20,228,975)
	-----	-----
Total	9,441,259	7,213,700
Less notes receivable from sale of common stock	(476,582)	(476,582)
	-----	-----
Net stockholders' equity	8,964,677	6,737,118
	-----	-----
TOTAL	\$ 10,775,757	\$ 9,536,285
	=====	=====

See accompanying notes to financial statements.

TECHNICLONE INTERNATIONAL CORPORATION

STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	October 31, 1995 ----- (Unaudited)	October 31, 1996 ----- (Unaudited)	October 31, 1995 ----- (Unaudited)	October 31, 1996 ----- (Unaudited)
REVENUES:				
Net sales	\$ --	\$ --	\$ --	\$ --
Licensing fees	--	--	--	--
Interest income	10	80,999	21	167,301
Rental income	--	5,044	--	5,044
	-----	-----	-----	-----
Total revenues	10	86,043	21	172,345
	-----	-----	-----	-----
COSTS AND EXPENSES:				
Cost of sales	--	--	--	--
Research and development	336,772	760,153	600,828	1,338,275
General and administrative:				
Unrelated entities	161,137	512,670	374,489	888,885
Affiliates	34,925	75,757	66,212	131,012
Noncash - Stock based compensation	--	232,736	--	232,736
Interest	6,197	24,758	12,615	49,732
	-----	-----	-----	-----
Total costs and expenses	539,031	1,606,074	1,054,144	2,640,640
	-----	-----	-----	-----
NET LOSS	\$ (539,021)	\$ (1,520,031)	\$ (1,054,123)	(2,468,295)
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES				
OUTSTANDING	18,070,954	21,256,972	17,503,998	20,971,894
	=====	=====	=====	=====
LOSS PER COMMON SHARE	\$ (.03)	\$ (.07)	\$ (.06)	\$ (.12)
	=====	=====	=====	=====

See accompanying notes to financial statements.

TECHNICLONE INTERNATIONAL CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK SHARES	STOCK AMOUNT	COMMON STOCK SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMU- LATED DEFICIT	NOTES RECEIVABLE FROM SALE OF STOCK	TOTAL
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE AT April 30, 1996.....	6,800	\$ 6,800	20,048,014	\$21,133,968	\$6,061,171	\$(17,760,680)	\$(476,582)	\$8,964,677

Common stock issued upon exercise of stock options (unaudited).....			8,000	8,000				8,000
Common Stock issued upon conversion of Class B Convertible Preferred Stock (unaudited).....	(4,050)	(4,050)	1,390,375	3,525,243	(3,521,193)			--
Noncash Stock based compensation.....					232,736			232,736
Net loss (unaudited).....						(2,468,295)		(2,468)295
BALANCE AT OCTOBER 31, 1996 (unaudited).....	2,750	\$ 2,750	21,446,389	\$24,667,211	\$2,772,714	\$(20,228,975)	\$(476,582)	\$6,737,118
	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to financial statements.

TECHNICLONE INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 31, 1995	OCTOBER 31, 1996	OCTOBER 31, 1995	OCTOBER 31, 1996
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING EXPENSES:				
Net loss	\$ (539,021)	\$ (1,520,031)	\$ (1,054,123)	\$ (2,468,245)
Adjustments to reconcile net loss to net cash used by operating activities:				
Depreciation and amortization	40,404	78,449	87,918	148,235
Common stock issued for services	--	--	57,100	--
Stock based compensation expense	--	232,736	--	232,736
Changes in operating assets and liabilities:				
(Increase) Decrease in accounts receivable ...	--	(364)	2,378	75,204
(Increase) in inventory	(16,671)	(9,482)	(18,543)	(96,441)
Decrease in prepaid expenses	--	3,392	--	11,492
Increase (Decrease) in accounts payable	(116,671)	(21,628)	(34,156)	(38,776)
Increase in accrued and other current liabilities	(86,532)	19,415	9,237	19,586
Net cash used by operating activities	(717,888)	(1,217,513)	(950,189)	(2,116,259)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of short-term investments	--	--	--	3,898,888
Purchase of short-term investments	--	(984,083)	--	(984,083)
Property acquisitions	(7,906)	(1,897,127)	(26,340)	(2,086,557)
Patent costs capitalized	6,556	--	(28,719)	(6,175)
Net cash (used) provided by investing activities	(1,350)	(2,881,210)	(55,059)	822,073

[Continued on next page]

See accompanying notes to financial statements.

TECHNICLONE INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS

[Continued from previous page]

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 31, 1995	OCTOBER 31, 1996	OCTOBER 31, 1995	OCTOBER 31, 1996
	----- (Unaudited)	----- (Unaudited)	----- (Unaudited)	----- (Unaudited)
CASH FLOWS FROM				
FINANCING ACTIVITIES:				
Principal payments on short- and long-term borrowings	\$ --	\$ (7,623)	\$ --	\$ (12,723)
Proceeds from issuance of long-term debt	--	1,020,000	--	1,020,000
Proceeds from sale of common stock	1,020,802	--	1,318,952	8,000
	-----	-----	-----	-----
Net cash provided by financing activities	1,020,802	1,012,377	1,318,952	1,015,277
	-----	-----	-----	-----
INCREASE (DECREASE) IN CASH	301,564	(3,086,346)	313,704	(278,909)
CASH AT BEGINNING OF PERIOD	47,782	6,986,750	35,642	4,179,313
	-----	-----	-----	-----
CASH AT END OF PERIOD	\$ 349,346	\$ 3,900,404	\$ 349,346	\$ 3,900,404
	-----	=====	=====	=====
SUPPLEMENTAL INFORMATION:				
Interest paid	\$ 1,027	\$ 25,105	\$ 2,275	\$ 41,776
	=====	=====	=====	=====
Income taxes paid	\$ --	\$ 234	\$ 800	\$ 1,034
	=====	=====	=====	=====

See accompanying notes to financial statements.

TECHNICLONE INTERNATIONAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

(1) The accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of the Company at October 31, 1996, and the results of its operations and its cash flows for the three month and six month periods ended October 31, 1996 and 1995. Certain information and footnote disclosures normally included in the financial statements have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission although the Company believes that the disclosures in the financial statements are adequate to make the information presented not misleading. The financial statements included herein should be read in conjunction with the financial statements of the Company, included in the Company's Annual Report on Form 10-K for the year ended April 30, 1996, filed with the Securities and Exchange Commission on July 26, 1996.

(2) Going Concern -- The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, the Company experienced losses in fiscal 1996 and during the first six months of fiscal 1997 and has an accumulated deficit at October 31, 1996. Management has restructured certain of its license agreements to provide it with greater control over the development and clinical trials of its antibodies. If the Company is able to achieve certain goals in relation to these antibodies, it will receive certain additional financing pursuant to the terms of an existing license agreement. Historically, the Company has relied on third party and investor funds to fund its operations and clinical trials, and management expects that additional funds will be required in the future. There can be no assurances that this funding will be received. If the Company does not receive additional funding, it will be forced to scale back operations and it could have a material adverse effect on the Company. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required and, ultimately to attain successful operations. During the year ended April 30, 1996, the Company received significant funding through the issuance of preferred stock and a foreign distribution agreement which has resulted in cash and short-term investment balances of \$4,884,487 as of October 31, 1996. Management believes that additional capital must be raised to support the Company's continued operations and other cash needs, including facilities expansion and construction, during the twelve months ending on October 31, 1997.

(3) On October 25, 1996, the Company purchased land and a building which is adjacent to the Company's existing facility. The Company purchased the property for \$1,524,663, including a cash down payment of \$504,663 and the origination of a new mortgage loan in the amount of \$1,020,000, which bears interest at the rate of 9.5% per annum.

(4) During the three months ended October 31, 1996, the Company recorded \$232,736 in noncash stock based compensation expense. The increase in this expense primarily related to option grants made under the Company's 1996 Stock Incentive Plan (the "Plan"), which became effective upon the approval of the Plan by the shareholders, to various employees, consultants and members of the Company's Scientific Advisory

Board. The options were granted at prices ranging between \$1.50 and \$5.00 per share and have vesting periods of up to 48 months. The Company expects to incur additional noncash based compensation expense relating to these grants and other grants which may be made in the future.

(5) Results of operations for the interim periods covered by this Report may not necessarily be indicative of results of operations for the full fiscal year.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-K FOR THE PERIOD ENDED 4/30/96 AND FORM 10-Q FOR THE PERIOD ENDED 07/31/96.

CIK: 0000704562

NAME: TECHNICLONE INTERNATIONAL CORPORATION

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	6 MOS
FISCAL YEAR END	APR 30 1997
PERIOD START	MAY 01 1996
PERIOD END	OCT 31 1996
EXCHANGE RATE	1,000
CASH	3,900
SECURITIES	984
RECEIVABLES	195
ALLOWANCES	175
INVENTORY	190
CURRENT ASSETS	5,101
PP&E	5,128
DEPRECIATION	855
TOTAL ASSETS	9,536
CURRENT LIABILITIES	840
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	3
COMMON	24,667
OTHER SE	(17,933)
TOTAL LIABILITY AND EQUITY	9,536
SALES	0
TOTAL REVENUES	172
CGS	0
TOTAL COSTS	2,640
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	50
INCOME PRETAX	(2,468)
INCOME TAX	0
INCOME CONTINUING	(2,468)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(2,468)
EPS PRIMARY	(.12)
EPS DILUTED	(.12)

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