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PEREGRINE PHARMACEUTICALS INC

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2011

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

PEREGRINE PHARMACEUTICALS, INC.

(Exact name of Registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**95-3698422** *(I.R.S. Employer Identification No.)*
14282 Franklin Avenue, Tustin, California *(Address of principal executive offices)*	**92780-7017** *(Zip Code)*

(714) 508-6000

(Registrant's telephone number, including area code)

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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer ☐	Accelerated Filer ☒
Non- Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of December 9, 2011, there were 86,788,817 shares of common stock, $0.001 par value, outstanding.

PEREGRINE PHARMACEUTICALS, INC.

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The terms "we," "us," "our," "the Company," and "Peregrine," as used in this Report on Form 10-Q refers to Peregrine Pharmaceuticals, Inc. and its wholly-owned subsidiary, Avid Bioservices, Inc.

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

PEREGRINE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	OCTOBER 31, 2011	APRIL 30, 2011
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,055,000	$ 23,075,000
Trade and other receivables, net	1,191,000	1,389,000
Government contract receivables	-	93,000
Inventories, net	3,178,000	5,284,000
Prepaid expenses and other current assets, net	1,125,000	974,000
Total current assets	23,549,000	30,815,000
Property, net	2,540,000	2,209,000
Other assets	1,187,000	1,742,000
TOTAL ASSETS	$ 27,276,000	$ 34,766,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 4,425,000	$ 4,046,000
Accrued clinical trial and related fees	2,222,000	2,292,000
Accrued payroll and related costs	1,523,000	1,455,000
Notes payable, current portion and net of discount	333,000	1,321,000
Deferred revenue	2,012,000	5,617,000
Customer deposits	1,703,000	1,759,000
Other current liabilities	1,117,000	1,189,000
Total current liabilities	13,335,000	17,679,000
Deferred revenue	601,000	632,000
Other long-term liabilities	844,000	1,037,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock-$0.001 par value; authorized 5,000,000 shares; non-voting; nil shares outstanding	-	-
Common stock-$0.001 par value; authorized 325,000,000 shares; outstanding – 82,638,201 and 69,837,142, respectively	82,000	70,000
Additional paid-in capital	328,566,000	311,353,000
Accumulated deficit	(316,152,000)	(296,005,000)
Total stockholders' equity	12,496,000	15,418,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 27,276,000	$ 34,766,000

See accompanying notes to condensed consolidated financial statements.

PEREGRINE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED OCTOBER 31,		SIX MONTHS ENDED OCTOBER 31,	
	2011	**2010**	**2011**	**2010**
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*
REVENUES:				
Contract manufacturing revenue	$ 4,154,000	$ 3,627,000	$ 9,593,000	$ 4,610,000
Government contract revenue	-	966,000	-	3,077,000
License revenue	78,000	78,000	294,000	193,000
Total revenues	4,232,000	4,671,000	9,887,000	7,880,000
COSTS AND EXPENSES:				
Cost of contract manufacturing	3,718,000	3,003,000	6,735,000	4,159,000
Research and development	9,818,000	7,344,000	17,578,000	14,411,000
Selling, general and administrative	2,732,000	2,702,000	5,661,000	5,200,000
Total costs and expenses	16,268,000	13,049,000	29,974,000	23,770,000
LOSS FROM OPERATIONS	(12,036,000)	(8,378,000)	(20,087,000)	(15,890,000)
OTHER INCOME (EXPENSE):				
Interest and other income	9,000	996,000	22,000	1,014,000
Interest and other expense	(28,000)	(131,000)	(82,000)	(332,000)
NET LOSS	$ (12,055,000)	$ (7,513,000)	$ (20,147,000)	$ (15,208,000)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and Diluted	77,523,005	56,761,412	74,089,786	55,559,493
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.16)	$ (0.13)	$ (0.27)	$ (0.27)

See accompanying notes to condensed consolidated financial statements.

PEREGRINE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED OCTOBER 31,	
	2011	2010
	Unaudited	*Unaudited*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (20,147,000)	$ (15,208,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	1,679,000	1,287,000
Depreciation and amortization	426,000	295,000
Amortization of discount on notes payable and debt issuance costs	32,000	161,000
Amortization of expenses paid in shares of common stock	-	956,000
Common stock issued for services	-	30,000
Changes in operating assets and liabilities:		
Trade and other receivables, net	198,000	(1,041,000)
Government contract receivables	93,000	(58,000)
Inventories, net	2,106,000	(432,000)
Prepaid expenses and other current assets, net	(171,000)	(476,000)
Other non-current assets	747,000	59,000
Accounts payable	307,000	(534,000)
Accrued clinical trial and related fees	(70,000)	1,151,000
Accrued payroll and related expenses	68,000	(542,000)
Deferred revenue	(3,636,000)	704,000
Deferred government contract revenue	-	(43,000)
Customer deposits	(56,000)	707,000
Other current liabilities	(35,000)	156,000
Other long-term liabilities	(193,000)	94,000
Net cash used in operating activities	(18,652,000)	(12,734,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property acquisitions	(685,000)	(579,000)
Increase in other assets	(192,000)	(170,000)
Net cash used in investing activities	(877,000)	(749,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of issuance costs of $785,000 and $314,000, respectively	15,450,000	12,094,000
Proceeds from issuance of common stock under the Employee Stock Purchase Plan	96,000	-
Principal payments on notes payable and capital leases	(1,037,000)	(1,024,000)
Net cash provided by financing activities	14,509,000	11,070,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,020,000)	(2,413,000)
CASH AND CASH EQUIVALENTS , beginning of period	23,075,000	19,681,000
CASH AND CASH EQUIVALENTS , end of period	$ 18,055,000	$ 17,268,000
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property acquired under capital lease	$ -	$ 180,000
Accounts payable for purchase of property	$ 72,000	$ 296,000

See accompanying notes to condensed consolidated financial statements.

1. ORGANIZATION AND BUSINESS

Peregrine Pharmaceuticals, Inc. ("Peregrine" or "Company") is a clinical-stage biopharmaceutical company developing first-in-class monoclonal antibodies for the treatment of cancer and viral infections. The Company is advancing two Phase II oncology programs with our lead product candidates, bavituximab and Cotara, as well as our Phase II hepatitis C virus ("HCV") program for bavituximab. Peregrine also has in-house manufacturing capabilities through its wholly-owned subsidiary Avid Bioservices, Inc. ("Avid"), a Contract Manufacturing Organization ("CMO") that provides fully integrated services from cell line development to commercial cGMP biomanufacturing for Peregrine and its third party customers.

2. BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to quarterly reports on Form 10-Q. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for a complete set of financial statements. These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2011. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this quarterly report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year.

The interim unaudited condensed consolidated financial statements include the accounts of Peregrine Pharmaceuticals, Inc., and its wholly-owned subsidiary, Avid Bioservices, Inc. All intercompany accounts and transactions have been eliminated in the interim unaudited condensed consolidated financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts, as well as disclosures of commitments and contingencies in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassification

Certain comparative amounts in the interim unaudited condensed consolidated financial statements for the six months ended October 31, 2010 have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported operating expenses or net loss. The condensed consolidated balance sheet at April 30, 2011 has been derived from audited financial statements at that date. It does not include, however, all of the information and notes required by U.S. GAAP for complete financial statements.

Going Concern

Our interim unaudited condensed consolidated 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. The financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of liabilities that may be necessary should it be determined that we are unable to continue as a going concern.

At October 31, 2011, we had $18,055,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2011, 2010 and 2009 amounted to $34,151,000, $14,494,000, and $16,524,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

Therefore, our ability to continue our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, issuing additional equity or debt.

With respect to financing our operations through the issuance of equity, during the six months ended October 31, 2011, we raised $16,235,000 in gross proceeds. Subsequent to October 31, 2011 and through December 9, 2011, we raised an additional $4,609,000 in gross proceeds. As of December 9, 2011, additional shares of our common stock for aggregate gross proceeds of up to $50,868,000 remained available under two effective shelf registration statements.

Although we believe we can raise sufficient capital to meet our obligations through fiscal year 2012, our ability to raise additional capital in the equity markets is dependent on a number of factors, including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse clinical trials results, and significant delays in one or more clinical trials. If our ability to access the capital markets becomes severely restricted, it could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

We may also raise additional capital through licensing or partnering our products in development or increasing revenue from our wholly-owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in generating additional revenue from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates.

Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, and assuming we do not generate any additional revenues or raise any additional capital from the capital markets or other potential sources, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the remainder of our fiscal year 2012. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, any of which could reduce, delay or accelerate our future projected cash inflows and outflows. In addition, in the event our projected cash-inflows are reduced or delayed we might not have sufficient capital to operate our business through the remainder of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of Recent Accounting Pronouncements

On May 1, 2011, we elected to adopt on a prospective basis Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2010-17, Revenue Recognition (Topic 605): *Milestone Method of Revenue Recognition ("Milestone Method")* . Under the Milestone Method contingent consideration received from the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved, which we believe is more consistent with the substance of our performance under our various licensing agreements. A milestone is defined as an event (i) that can only be achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, and (iii) that would result in additional payments being due to the entity. A milestone is considered substantive when it meets all of the following criteria: (i) the consideration earned from the achievement of the milestone is commensurate with either the entity's performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone, (ii) the consideration relates solely to past performance, and (iii) the consideration is reasonable relative to all of the other deliverables and payments within the arrangement. Our license agreements with Affitech A/S provide for payments to us upon the achievement of development milestones, such as the completion of clinical trials or regulatory approval for drug candidates. As of May 1, 2011, potential future payments to us upon the achievement of all development milestones totaled approximately $16.5 million under our agreements with Affitech A/S. Given the challenges inherent in developing and obtaining approval for pharmaceutical products, there was substantial uncertainty whether any such milestones would be achieved at the time these licensing agreements were entered into. In addition, we evaluated whether the development milestones met the remaining criteria to be

considered substantive. As a result of our analysis, we consider our development milestones to be substantive and, accordingly, we expect to recognize as revenue these future potential milestone payments as each milestone is achieved. The election to adopt the Milestone Method did not impact the accompanying interim unaudited condensed consolidated financial statements. However, this policy election may result in revenue recognition patterns for future milestones that are materially different from those recognized for milestones received prior to adoption.

Milestone payments received prior to May 1, 2011 from arrangements where we have continuing performance obligations have been deferred and are recognized as revenue on a straight-line basis over the performance obligation period. We will continue to recognize milestones payments received prior to May 1, 2011 in this manner. As of October 31, 2011, we have deferred revenue of $431,000 from milestone payments received prior to May 1, 2011 that we are recognizing on a straight-line basis through July 2013.

On May 1, 2011, we elected to adopt on a prospective basis FASB's ASU No. 2009-13, Revenue Recognition (Topic 605): *Multiple-Deliverable Revenue Arrangements* . ASU No. 2009-13 requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. ASU No. 2009-13 eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables subject to Accounting Standards Code 605-25. This guidance became effective for revenue arrangements entered into or materially modified as of May 1, 2011. The adoption of ASU No. 2009-13 did not have a material impact on the accompanying interim unaudited condensed consolidated financial statements.

Pending Adoption of Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): *Presentation of Comprehensive Income* . In ASU No. 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in ASU No. 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in ASU No. 2011-05 are effective for fiscal years, and interim period within those years, beginning after December 15, 2011. We do not expect the adoption of ASU No. 2011-05 to have a material impact on our consolidated financial statements.

Revenue Recognition

We currently derive revenue from two sources: (i) contract manufacturing services provided by Avid, and (ii) licensing revenues related to agreements associated with Peregrine's technologies under development.

We recognize revenue in accordance with the authoritative guidance for revenue recognition. We recognize revenue when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery (or passage of title) has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. We also comply with the authoritative guidance for revenue recognition regarding arrangements with multiple deliverables.

Contract Manufacturing Revenue

Revenue associated with contract manufacturing services provided by Avid is recognized once the service has been rendered and/or upon shipment (or passage of title) of the product to the customer. On occasion, we recognize revenue on a "bill-and-hold" basis in accordance with the authoritative guidance. Under "bill-and-hold" arrangements, revenue is recognized once the product is complete and ready for shipment, title and risk of loss has passed to the customer, management receives a written request from the customer for "bill-and-hold" treatment, the product is segregated from other inventory, and no further performance obligations exist.

In addition, we also follow the authoritative guidance when reporting revenue as gross when we act as a principal versus reporting revenue as net when we act as an agent. For transactions in which we act as a principal, have discretion to choose suppliers, bear credit risk and perform a substantive part of the services, revenue is recorded at the gross amount billed to a customer and costs associated with these reimbursements are reflected as a component of cost of sales for contract manufacturing services.

Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements. We also record a provision for estimated contract losses, if any, in the period in which they are determined.

License Revenue

Revenue associated with licensing agreements primarily consists of non-refundable upfront license fees, non-refundable annual license fees and milestone payments. Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology. If a licensing agreement has multiple elements, we analyze each element of our licensing agreements and consider a variety of factors in determining the appropriate method of revenue recognition of each element.

Multiple Element Arrangements. Prior to the adoption of ASU No. 2009-13 on May 1, 2011, if a license agreement has multiple element arrangements, we analyze and determine whether the deliverables, which often include performance obligations, can be separated or whether they must be accounted for as a single unit of accounting in accordance with the authoritative guidance. Under multiple element arrangements, we recognize revenue for delivered elements only when the delivered element has stand-alone value and we have objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, the arrangement would then be accounted for as a single unit of accounting, and revenue is recognized over the estimated period of when the performance obligation(s) are performed.

In addition, under certain circumstances, when there is objective and reliable evidence of the fair value of the undelivered items in an arrangement, but no such evidence for the delivered items, we utilize the residual method to allocate the consideration received under the arrangement. Under the residual method, the amount of consideration allocated to delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items, and revenue is recognized upon delivery of the undelivered items based on the relative fair value of the undelivered items. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements.

For new licensing agreements or material modifications of existing licensing agreements entered into after May 1, 2011, we follow the provisions of ASU No. 2009-13. If a licensing agreement includes multiple elements, we identify which deliverables represent separate units of accounting, and then determine how the arrangement consideration should be allocated among the separate units of accounting, which may require the use of significant judgment.

If a licensing agreement includes multiple elements, a delivered item is considered a separate unit of accounting if both of the following criteria are met:

1. The delivered item has value to the licensing partner on a standalone basis based on the consideration of the relevant facts and circumstances for each agreement;

2. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the Company's control.

Arrangement consideration is allocated at the inception of the agreement to all identified units of accounting based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence ("VSOE"), of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, the Company uses its best estimate of the selling price for the deliverable. The amount of allocable arrangement consideration is limited to amounts that are fixed or determinable. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units. Changes in the allocation of the sales price between delivered and undelivered elements can impact

revenue recognition but do not change the total revenue recognized under any agreement.

Milestone Payments. Prior to the adoption of ASU No. 2010-17 on May 1, 2011, milestone payments were recognized as revenue upon the achievement of the specified milestone, provided that (i) the milestone event was substantive in nature and the achievement of the milestone was not reasonably assured at the inception of the agreement, (ii) the fees were non-refundable, and (iii) there was no continuing performance obligations associated with the milestone payment. Any milestone payments received prior to satisfying these revenue recognition criteria were recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements.

Effective May 1, 2011, we adopted on a prospective basis the Milestone Method under ASU No. 2010-17 for new licensing agreements or material modifications of existing licensing agreements entered into after May 1, 2011. Under the Milestone Method, we recognize consideration that is contingent upon the achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone is substantive in its entirety. A milestone is considered substantive when it meets all of the following criteria:

1. The consideration is commensurate with either the entity's performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone;

2. The consideration relates solely to past performance; and

3. The consideration is reasonable relative to all of the deliverables and payment terms within the arrangement.

A milestone is defined as an event (i) that can only be achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (iii) that would result in additional payments being due to the Company.

Other Income

Other income for the six months ended October 31, 2010 includes aggregate one-time grants of $978,000 awarded to us under Section 48D of the Internal Revenue Code as reimbursement for four separate qualifying therapeutic discovery projects, which we applied for under the Patient Protection and Affordable Care Act of 2010.

Fair Value Measurements

We determine fair value measurements in accordance with the authoritative guidance for fair value measurements and disclosures for all assets and liabilities within the scope of this guidance. This guidance clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. The guidance also clarifies its application in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The guidance prioritizes the inputs used in measuring fair value into the following hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as assets or liabilities whose values are based on quoted market prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.
- Level 3 – Unobservable inputs that are supported by little or no market activity and which are significant to the overall fair value measurement.

As of October 31, 2011, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash and cash equivalents are carried at fair value based on quoted market prices for identical securities (Level 1 input).

Research and Development

Research and development costs are charged to expense when incurred in accordance with the authoritative guidance for research and development costs. Research and development expenses primarily include (i) payroll and related costs associated with research and development personnel, (ii) costs related to clinical and preclinical testing of our technologies under development, (iii) costs to develop and manufacture the product candidates, including raw materials and supplies, product testing, depreciation, and facility related expenses, (iv) expenses for research services provided by universities and contract laboratories, including sponsored research funding, and (v) other research and development expenses.

Accrued Clinical Trial and Related Fees

We accrue clinical trial and related fees based on work performed in connection with advancing our clinical trials, which relies on estimates and/or representations from clinical research organizations ("CRO"), hospitals, consultants, and other clinical trial related vendors. We maintain regular communication with our vendors, including our CRO vendors, and gauge the reasonableness of estimates provided. However, actual clinical trial costs may differ from estimated clinical trial costs and are adjusted for in the period in which they become known. There were no material adjustments for a change in estimate to research and development expenses in the accompanying interim unaudited condensed consolidated statements of operations for the three and six months ended October 31, 2011 and 2010.

Share-Based Compensation

We account for stock options and other share-based awards granted under our equity compensation plans in accordance with the authoritative guidance for share-based compensation. The estimated fair value of share-based payments to employees in exchange for services is measured at the grant date, using a fair value based method, and is recognized as expense on a straight-line basis over the requisite service periods. Share-based compensation expense recognized during the period is based on the value of the portion of the share-based payment that is ultimately expected to vest during the period. Share-based compensation expense for a share-based payment with a performance condition is recognized on a straight-line basis over the requisite service period when the achievement of the performance condition is determined to be probable. If a performance condition is not determined to be probable or is not met, no share-based compensation is recognized and any previously recognized compensation expense is reversed.

In addition, we periodically grant stock options and other share-based awards to non-employee consultants, which we account for in accordance with the authoritative guidance for share-based compensation. The cost of non-employee services received in exchange for share-based awards are measured based on either the fair value of the consideration received or the fair value of the share-based award issued, whichever is more reliably measurable. In addition, guidance requires share-based compensation related to unvested options and awards issued to non-employees to be recalculated at the end of each reporting period based upon the fair market value on that date until the share-based award has vested, and any adjustment to share-based compensation resulting from the remeasurement is recognized in the current period.

Total share-based compensation expense for the three and six-month periods ended October 31, 2011 and 2010 are included in the accompanying interim unaudited condensed consolidated statements of operations as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2011	2010	2011	2010
Cost of contract manufacturing	$ 2,000	$ -	$ 5,000	$ -
Research and development	302,000	260,000	621,000	514,000
Selling, general and administrative	491,000	384,000	1,053,000	773,000
Total	$ 795,000	$ 644,000	$ 1,679,000	$ 1,287,000
Share-based compensation from:				

Stock options	$ 783,000	$ 644,000	$ 1,636,000	$ 1,278,000
Restricted stock awards	-	-	-	9,000
Employee stock purchase plan	12,000	-	43,000	-
	$ 795,000	$ 644,000	$ 1,679,000	$ 1,287,000

As of October 31, 2011, the total estimated unrecognized compensation cost related to non-vested stock options was $2,795,000. This cost is expected to be recognized over a weighted average vesting period of 1.96 years based on current assumptions.

Comprehensive Loss

Comprehensive loss is equal to net loss for all periods presented.

Basic and Dilutive Net Loss Per Common Share

Basic net loss per common share is computed by dividing our net loss by the weighted average number of common shares outstanding during the period excluding the dilutive effects of stock options, unvested stock awards and warrants in accordance with the authoritative guidance. Diluted net loss per common share is computed by dividing the net loss by the sum of the weighted average number of common shares outstanding during the period plus the potential dilutive effects of stock options, unvested stock awards and warrants outstanding during the period calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. Because the impact of options, awards and warrants are anti-dilutive during periods of net loss, there was no difference between basic and diluted loss per share amounts for the three and six months ended October 31, 2011 and 2010.

The calculation of weighted average diluted shares outstanding excludes the dilutive effect of outstanding stock options, stock awards and warrants to purchase up to 2,693 and 29,459 shares of common stock for the three and six months ended October 31, 2011, respectively, and 4,044 and 128,639 shares of common stock for the three and six months ended October 31, 2010, respectively, since their impact are anti-dilutive during periods of net loss.

The calculation of weighted average diluted shares outstanding also excludes weighted average outstanding stock options, stock awards and warrants to purchase up to 6,146,976 and 5,789,399 shares of common stock for the three and six months ended October 31, 2011, respectively, and 4,969,511 and 4,423,808 shares of common stock for the three and six months ended October 31, 2010, respectively, as their exercise prices were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect.

Subsequent to October 31, 2011 and through December 9, 2011, we issued an aggregate of 4,150,616 shares of common stock (Note 8), which are not included in the calculation of basic and dilutive net loss per common share for the three and six-month periods ended October 31, 2011.

4. ACCOUNTS RECEIVABLE

Accounts receivable is recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. Trade and other receivables primarily include amounts billed for contract manufacturing services provided by Avid (“trade” receivables). Government contract receivables include amounts billed under a former contract with the Transformational Medical Technologies (“TMT”) of the U.S. Department of Defense’s Defense Threat Reduction Agency, which expired on April 15, 2011.

These receivables are evaluated to determine if any allowance for doubtful accounts should be established at each reporting date. Based on our analysis of our receivables as of October 31, 2011 and April 30, 2011, we determined an allowance for doubtful accounts of $19,000 and $20,000, respectively, was necessary with respect to trade and other receivables.

5. PROPERTY

Property, net consists of the following at October 31, 2011 and April 30, 2011:

	October 31, 2011	April 30, 2011
Leasehold improvements	$ 1,241,000	$ 932,000
Laboratory equipment	4,564,000	4,391,000
Furniture, fixtures, office equipment and software	2,089,000	1,814,000
	7,894,000	7,137,000
Less accumulated depreciation and amortization	(5,354,000)	(4,928,000)
Property, net	$ 2,540,000	$ 2,209,000

Depreciation and amortization expense for three and six months ended October 31, 2011 was $223,000 and $426,000, respectively, and $157,000 and $295,000 for the three and six months ended October 31, 2010, respectively.

6. INVENTORIES

Inventories are stated at the lower of cost or market and primarily include raw materials, direct labor and overhead costs associated with our wholly-owned subsidiary, Avid.

Inventories consist of the following at October 31, 2011 and April 30, 2011:

	October 31, 2011	April 30, 2011
Raw materials, net	$ 1,427,000	$ 1,512,000
Work-in-process	1,751,000	3,772,000
Total inventories, net	$ 3,178,000	$ 5,284,000

7. NOTE PAYABLE

On December 9, 2008, we entered into a loan and security agreement whereby we borrowed $5,000,000 (“Loan Agreement”) from MidCap Financial LLC and BlueCrest Capital Finance, L.P (collectively, the “Lenders”).

As of October 31, 2011, the outstanding principal balance under the Loan Agreement was $333,000, bears interest at the thirty (30) day LIBOR rate (set at a floor of 3%) plus 9% (12% from inception to October 31, 2011), and is paid in thirty (30) equal monthly principal payments through December 2011. On December 1, 2011, the Loan Agreement balance was paid in full.

8. STOCKHOLDERS’ EQUITY

Our ability to continue our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, issuing additional equity.

On December 29, 2010, we entered into an At Market Issuance Sales Agreement (the “December 2010 AMI Agreement”), with McNicoll, Lewis & Vlak LLC (“MLV”), under which we may sell shares of our common stock from time to time through MLV, as our agent for the offer and sale of our shares of common stock, in an aggregate amount not to exceed the amount that can be sold under the Company’s registration statement on Form S-3 (File No. 333-171252) filed with the SEC on December 29, 2010, which amount as of October 31, 2011 was $45,477,000. MLV may sell our shares of common stock by any method permitted by law deemed to be an “at the market” offering as defined in Rule 415 of the Securities Act, including without limitation sales made directly on The NASDAQ Capital Market, on any other existing

trading market for the shares of common stock or to or through a market maker.

During the six months ended October 31, 2011, we sold 6,440,416 shares of our common stock at market prices for aggregate gross proceeds of $9,295,000 under the December 2010 AMI Agreement before deducting commissions and other issuance costs of $260,000.

On September 2, 2011, we entered into a placement agency agreement with Roth Capital Partners, LLC (the "Placement Agent"), pursuant to which the Placement Agent agreed to arrange for the sale of up to 6,252,252 shares of our common stock in a registered direct public offering (the "Offering").

In addition, on September 2, 2011, we entered into separate subscription agreements with three institutional investors in connection with the Offering, pursuant to which we agreed to sell an aggregate of 6,252,252 shares of our common stock at a purchase price of $1.11 per share for aggregate gross proceeds, before deducting fees to the Placement Agent and other estimated offering expenses payable by the Company, of approximately $6,940,000. The net proceeds received under the Offering, which closed on September 8, 2011, after deducting placement agent fees and other offering expenses were approximately $6,415,000. The shares of common stock sold in connection with the Offering were issued pursuant to a prospectus supplement filed with the SEC on September 2, 2011 to the Company's registration statement on Form S-3 (File No. 333-171252), which we filed with the SEC on December 29, 2010 and became effective on January 5, 2011.

As of October 31, 2011, aggregate gross proceeds of up to $55,477,000 remained available under two effective shelf registration statements.

Subsequent to October 31, 2011 and through December 9, 2011, we sold an additional 4,150,616 shares of common stock at market prices under the December 2010 AMI Agreement in exchange for aggregate gross proceeds of $4,609,000. As of December 9, 2011, aggregate gross proceeds of $50,868,000 remained available under our two effective shelf registration statements.

As of October 31, 2011, we reserved 17,315,210 additional shares of our common stock which may be issued under our equity compensation plans and outstanding warrant agreements, excluding shares of common stock that could potentially be issued under our current effective shelf registration statements, as further described in the following table:

	Number of Shares Reserved
Common shares reserved for issuance under outstanding option grants and available for issuance under our stock incentive plans	12,308,478
Common shares reserved for and available for issuance under our Employee Stock Purchase Plan	4,786,765
Common shares issuable upon exercise of outstanding warrants	219,967
Total shares of common stock reserved for issuance	17,315,210

9. EQUITY COMPENSATION PLANS

Stock Incentive Plans

On October 20, 2011, our stockholders approved our 2011 Stock Incentive Plan ("2011 Plan") which allows for the issuance of up to 3,500,000 shares of our common stock for the granting of incentive stock options, nonqualified stock options, restricted stock awards, performance shares and other forms of share-based awards (collectively, "Awards"). As of October 31, 2011, 3,500,000 shares of our common stock were available for Awards under the 2011 Incentive Plan.

As of October 31, 2011, we had an aggregate of 12,308,478 shares of common stock reserved for issuance under all Stock Incentive Plans, of which, 5,853,341 shares were subject to outstanding options and 6,455,137 shares were available for future grants of share-based awards.

The following summarizes our stock option transaction activity for the six months ended October 31, 2011:

Stock Options	Shares	Weighted Average Exercisable Price
Outstanding, May 1, 2011	4,869,599	$ 4.16
Granted	1,566,761	$ 2.25
Exercised	-	$ -
Canceled or expired	(583,019)	$ 4.42
Outstanding, October 31, 2011	5,853,341	$ 3.62

The following summarizes our restricted stock award transaction activity for the six months ended October 31, 2011:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Unvested, May 1, 2011	68,250	$ 2.98
Granted	-	$ -
Vested	-	$ -
Canceled or expired	(68,250)	$ 2.98
Unvested, October 31, 2011	-	$ -

Employee Stock Purchase Plan

We have reserved a total of 5,000,000 shares of common stock to be purchased under our 2010 Employee Stock Purchase Plan (the "2010 ESPP"), of which 4,786,765 shares of common stock remain available for purchase as of October 31, 2011. Under the 2010 ESPP, we will sell shares to participants at a price equal to the lesser of 85% of the fair market value of stock at the (i) beginning of a six-month offering period or (ii) at the end of the six-month offering period. The 2010 ESPP provides for two six-month offering periods each year; the first offering period will begin on the first trading day on or after each November 1; the second offering period will begin on the first trading day on or after each May 1. During the six months ended October 31, 2011, 108,391 shares of common stock were purchased under the 2010 ESPP at a weighted average purchase price per share of $0.89.

10. WARRANTS

As of October 31, 2011, we had warrants outstanding to purchase up to 219,967 shares of our common stock at an exercise price of $1.48 per share with an expiration date of December 19, 2013. The aforementioned warrants were issued during fiscal year 2009 in connection with the loan and security agreement we entered into on December 9, 2008 (Note 7). There were no warrants granted or exercised during the six months ended October 31, 2011.

11. SEGMENT REPORTING

Our business is organized into two reportable operating segments and both operate in the U.S. Peregrine is engaged in the research and development of monoclonal antibodies for the treatment of cancer and viral infections. Avid is engaged in providing contract manufacturing services for Peregrine and outside customers on a fee-for-service basis.

The accounting policies of the operating segments are the same as those described in Note 3. We evaluate the performance of our contract manufacturing services segment based on gross profit or loss from third-party customers. However, our products in the research and development segment are not evaluated based on gross profit or loss, but rather based on scientific progress of the technologies. As such, gross profit or loss is only provided for our contract manufacturing services segment in the below table. All revenues shown below are derived from

transactions with third-party customers.

Segment information for the three and six-month periods is summarized as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2011	2010	2011	2010
Contract manufacturing services revenue	$ 4,154,000	$ 3,627,000	$ 9,593,000	$ 4,610,000
Cost of contract manufacturing services	3,718,000	3,003,000	6,735,000	4,159,000
Gross profit	436,000	624,000	2,858,000	451,000
Revenue from products in research and development	78,000	1,044,000	294,000	3,270,000
Research and development expense	(9,818,000)	(7,344,000)	(17,578,000)	(14,411,000)
Selling, general and administrative expense	(2,732,000)	(2,702,000)	(5,661,000)	(5,200,000)
Other income (expense), net	(19,000)	865,000	(60,000)	682,000
Net loss	$ (12,055,000)	$ (7,513,000)	$ (20,147,000)	$ (15,208,000)

Revenues generated from our contract manufacturing services segment were from the following customers:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2011	2010	2011	2010
Customer revenue as a percentage of revenue:				
United States (customer A)	15%	52%	29%	62%
United States (customer B)	23%	0%	10%	0%
Germany (one customer)	56%	47%	24%	37%
Denmark (one customer)	5%	0%	36%	0%
Other customers	1%	1%	1%	1%
Total	100%	100%	100%	100%

Revenue generated from our products in our research and development segment was from the following sources:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2011	2010	2011	2010
Government contract revenue [1,2]	$ -	$ 966,000	$ -	$ 3,077,000
License revenue (see Note 12)	78,000	78,000	294,000	193,000
Total	$ 78,000	$ 1,044,000	$ 294,000	$ 3,270,000

(1) Represents revenue earned under a government contract with the Transformational Medical Technologies ("TMT") of the U.S. Department of Defense's Defense Threat Reduction Agency, which expired on April 15, 2011.

(2) Includes revenue associated with services provided by our contract manufacturing segment under our former government contract with the TMT, of which, during the three and six months ended October 31, 2010 amounted to $16,000 and $223,000, respectively.

Our long-lived assets consist of leasehold improvements, laboratory equipment, and furniture, fixtures, office equipment, and software and are net of accumulated depreciation. Long-lived assets by segment consist of the following:

	October 31, 2011	April 30, 2011
Long-lived assets, net:		
Contract manufacturing services	$ 1,604,000	$ 1,511,000
Products in research and development	936,000	698,000
Total long-lived assets, net	$ 2,540,000	$ 2,209,000

12. LICENSING AGREEMENTS

During July 2009, we entered into a patent assignment and sublicense (collectively, the "Affitech Agreements") with Affitech A/S ("Affitech") whereby we licensed exclusive worldwide rights to develop and commercialize certain products under our anti-VEGF intellectual property portfolio, including the fully human antibody AT001/r84. In consideration for the rights granted under our anti-VEGF antibody technology platform, we received non-refundable up-front license fees of $250,000. In addition, we received aggregate milestone payments of $1,000,000 associated with the delivery of two preclinical development packages as defined in the Affitech Agreements. We could also receive up to $16,500,000 in future milestone payments based on the achievement of all clinical and regulatory milestones for initial product approval plus a royalty on net sales, as defined in the Affitech Agreements. However, given the challenges inherent in developing and obtaining approval for pharmaceutical products, there was substantial uncertainty whether any such future development milestones included in the aggregate total of $16,500,000 would be achieved at the time these licensing agreements were entered into. In addition, we evaluated whether these future development milestones met the remaining criteria to be considered substantive. As a result of our analysis, we consider our development milestones to be substantive and, accordingly, we expect to recognize as revenue the future potential milestone payments as each milestone is achieved. In addition, in the event Affitech enters into a sublicense agreement for the anti-VEGF technology platform before the treatment of the first patient in a Phase I study, we shall receive forty-five percent (45%) of all payments received under any such sublicenses after Affitech deducts fifty percent (50%) of its incurred development costs under the program . Under the Affitech Agreements, we also granted Affitech a research license in the ocular field with an option to grant sub-licenses in the ocular field. If Affitech exercises this option to grant sub-licenses in the ocular field, we would receive pre-defined up-front fees, milestone payments, and a royalty on net sales. In accordance with the authoritative guidance for revenue recognition, the license includes multiple elements that are not separable and, accordingly, are being accounted for as a single unit of accounting. In addition, we determined that our obligations would be up to a four year period and therefore, we are recognizing the non-refundable up-front license fees of $250,000 and the additional $1,000,000 associated with other deliverables, as defined in the Affitech Agreements, on a straight-line basis over a four year period. However, we will continue to reassess the length of our obligation period, and accordingly, our estimated obligation period may change based on future events. We recognized revenue under the Affitech Agreements of $78,000 and $194,000 for the three and six months ended October 31, 2011, respectively, and $78,000 and $193,000 for the three and six months ended October 31, 2010, respectively, which amounts are included in license revenue in the accompanying interim unaudited condensed consolidated financial statements. Amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements.

During September 2010, we entered into a binding term sheet with Affitech to amend certain terms of the Affitech Agreements. Under the binding term sheet, Peregrine and Affitech amended certain terms of their worldwide license agreements for Brazil, Russia and other countries of the Commonwealth of Independent States (CIS) to expedite the development of AT001/r84 for these territories. Under the amended terms, Peregrine agreed to forego its aforementioned sublicense fee equal to forty-five percent (45%) of the payments received (after Affitech deducts fifty percent (50%) of its incurred development costs under the program) for the countries of Brazil, Russia, and the CIS, provided Affitech has reinvested such payments toward the further development of AT001/r84. As of October 31, 2011, no amounts were due from Affitech under the September 2010 binding term sheet as the development costs Affitech has incurred as of October 31, 2011 (unaudited) has exceeded the proceeds Affitech has received as of October 31, 2011 under its sublicense agreement for the territory of Russia, which resulted in no impact to the accompanying interim unaudited condensed consolidated financial statements. In the event Affitech enters into a licensing deal for AT001/r84 in a major pharmaceutical market (defined as U.S., European Union, Switzerland, United Kingdom and/or Japan), Affitech has agreed to reimburse us the aforementioned sublicense fees we agreed to forego that were applied to the AT001/r84 program while Affitech will be eligible to be reimbursed for up to 50% of their development costs in Brazil, Russia and CIS territories. The remaining terms of the Affitech

Agreements remain unchanged, including milestone and royalty payments. To date, we have not received any payments under this September 2010 binding term sheet.

During May 2010, we entered into an assignment agreement and a license agreement (collectively, the "Agreements") with an unrelated entity to develop our Tumor Necrosis Therapy ("TNT") technologies in certain Asia-Pacific Economic Cooperation (APEC) countries. Under the terms of the Agreements, we licensed certain non-exclusive and exclusive rights and assigned certain exclusive development and commercialization rights under our TNT program in certain APEC countries. We have retained exclusive rights to our TNT program in the U.S., European Union countries, and other select countries internationally. Under the terms of the Agreements, aggregate fees in the amount of $500,000 are to be paid over a period of two years plus annual maintenance fees ranging from $100,000 to $250,000, as defined in the Agreements beginning May 2011 through 15 years following the date of the first commercial sale. In addition, we could also receive low double digit royalties on net sales, as defined in the Agreements. In accordance with the terms of the Agreements, we are obligated to deliver certain purchased patents, know-how and materials (the "Purchased Assets"), and we are obligated to supply certain quantities of research materials as defined in the Agreements. In addition, we have also agreed to provide certain manufacturing services, provided such manufacturing services are requested by the unrelated entity within a certain period of time and for certain agreed upon fees as defined in the Agreements. We have determined that, pursuant to the authoritative guidance for revenue recognition for multiple element arrangements, there was objective and reliable evidence of fair value of the undelivered elements (manufacturing commitment services) in the arrangement, but no such evidence of fair value for any other element in the arrangement. Therefore, we utilize the residual method to allocate the consideration received under the arrangement. Under the residual method, the amount of consideration allocated to all other elements in the arrangement (delivered and undelivered) equals the total arrangement consideration less the aggregate fair value of the undelivered elements with stand-alone fair value (manufacturing commitment services). To date, we have allocated the total arrangement consideration to the undelivered elements with stand-alone fair value (manufacturing commitment services) since the fair value of these undelivered elements exceeded the total consideration received to date under the arrangement. As such, we will recognize revenue associated with the Purchased Assets and manufacturing commitment services we agreed to under the Agreements upon delivery of these manufacturing services based on the relative fair value of the services. To date, we have not recognized any revenue associated with the Purchased Assets and manufacturing commitment services we agreed to under these Agreements. However, during the quarter ended July 31, 2011, we received a non-refundable annual maintenance fee of $100,000 in accordance with the terms of the Agreements, which amount is included in license revenue in the accompanying interim unaudited condensed consolidated financial statements for the six months ended October 31, 2011. Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements.

13. COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in legal disputes arising in the normal course of our business. We are not presently subject to any material litigation or other dispute nor, to management's knowledge, is any litigation or other proceeding threatened against us that collectively is expected to have a material adverse effect on our consolidated cash flows, financial condition or results of operations.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent our projections, estimates, expectations or beliefs concerning among other things, financial items that relate to management's future plans or objectives or to our future economic and financial performance. In some cases, you can identify these statements by terminology such as "may", "should", "plans", "believe", "will", "anticipate", "estimate", "expect" "project", or "intend", including their opposites or similar phrases or expressions. You should be aware that these statements are projections or estimates as to future events and are subject to a number of factors that may tend to influence the accuracy of the statements. These forward-looking statements should not be regarded as a representation by the Company or any other person that the events or plans of the Company will be achieved. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission ("SEC") after the date of this Quarterly Report. Actual results may differ materially from any forward looking statement.

Overview

We are a clinical-stage biopharmaceutical company driven to develop and manufacture first-in-class monoclonal antibodies for the treatment of cancer and viral infections. We are advancing our two Phase II oncology programs with our lead product candidates bavituximab and Cotara as well as our Phase II hepatitis C virus ("HCV") program for bavituximab.

Our pipeline of novel investigational monoclonal antibodies is based on two first-in-class technology platforms, including phosphatidylserine ("PS")-targeting antibodies and DNA/histone-targeting antibodies.

Bavituximab is our lead PS-targeting antibody that has demonstrated broad therapeutic potential and represents a new approach to treating cancer. PS is a highly immunosuppressive molecule usually located inside the membrane of healthy cells, but "flips" and becomes exposed on the outside of cells that line tumor blood vessels, creating a specific target for anti-cancer treatments. PS-targeting antibodies target and bind to PS and block this immunosuppressive signal, thereby enabling the immune system to recognize and fight the tumor.

Bavituximab's therapeutic potential is being evaluated in three randomized Phase II trials in front-line non-small cell lung cancer (" NSCLC"), second-line NSCLC, and front-line pancreatic cancer, as well as in four investigator-sponsored trials ("IST") in additional oncology indications. During the quarter ended October 31, 2011, we completed patient enrollment in both the front and second-line NSCLC studies. With respect to the front-line study, we recently announced preliminary results showing a 50% improvement in overall response rates ("ORR"), whereby patients treated with bavituximab plus carboplatin and paclitaxel demonstrated an ORR of 39%, versus 26% in patients treated with carboplatin and paclitaxel alone. We plan to report top line results in the first quarter of 2012 and on the trial's secondary endpoints, including median progression-free survival ("PFS") and overall survival ("OS"), once these endpoints are reached. With respect to the second-line NSCLC study evaluating bavituximab with docetaxel versus placebo with docetaxel, we will continue to treat the enrolled patients and plan to unblind data on the primary endpoint, ORR, in the first half of 2012. In addition, we are currently enrolling patients in a Phase II randomized trial with bavituximab in combination with gemcitabine in previously untreated pancreatic cancer patients with interim data expected in calendar year 2012.

With respect to our ISTs, we are evaluating new drug combinations and additional oncology indications in the following trials: (i) a Phase I/II trial evaluating bavituximab combined with sorafenib in patients with advanced hepatocellular carcinoma ("HCC"), or liver cancer, (ii) a Phase I/II trial evaluating bavituximab combined with cabazitaxel in patients with second-line castration resistant prostate cancer ("CRPC"), (iii) a Phase Ib trial evaluating bavituximab combined with pemetrexed and carboplatin in patients with front-line NSCLC, and (iv) a Phase I trial evaluating bavituximab combined with paclitaxel in patients with HER2-negative metastatic breast cancer.

For bavituximab in antiviral indications, we announced in September 2011 that we enrolled all 66 patients in a randomized Phase II trial of bavituximab in combination with ribavirin for naïve, genotype 1 HCV patients. We expect to report 12-week early virologic response ("EVR") data from this trial in early 2012.

Cotara is our lead DNA/histone H1-targeting antibody based on our Tumor Necrosis Therapy ("TNT") technology platform. A novel approach to treating brain cancer, Cotara is a targeted monoclonal antibody linked to a radioisotope that is administered as a single-infusion, one-time therapy directly into the tumor, destroying the tumor from the inside out, with minimal exposure to healthy tissue. With respect to our Cotara brain cancer program that uses a single standalone treatment, we have reported promising median overall survival of 9.3 months from a Phase II trial for recurrent glioblastoma multiforme ("GBM"), the deadliest form of brain cancer. In advance of a planned meeting with the U.S. Food and Drug Administration ("FDA"), we have submitted a proposed protocol for a pivotal trial and we are awaiting written comments to the protocol from the FDA. Cotara has been granted orphan drug status and fast track designation for the treatment of GBM and anaplastic astrocytoma by the FDA.

In addition to our clinical research and development efforts, we operate a wholly-owned cGMP (current Good Manufacturing Practices) contract manufacturing subsidiary, Avid Bioservices, Inc. ("Avid"). Avid is a Contract Manufacturing Organization that provides fully integrated services from cell line development to commercial cGMP biomanufacturing for Peregrine and Avid's third-party clients. In addition to generating revenue from providing a broad range of biomanufacturing services to third-party clients, Avid is strategically integrated with Peregrine to manufacture all clinical products to support our clinical trials while also preparing for potential commercial launch.

Going Concern

Our interim unaudited condensed consolidated 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. The financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of liabilities that may be necessary should it be determined that we are unable to continue as a going concern.

At October 31, 2011, we had $18,055,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2011, 2010 and 2009 amounted to $34,151,000, $14,494,000, and $16,524,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

Therefore, our ability to continue our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, issuing additional equity or debt.

With respect to financing our operations through the issuance of equity, during the six months ended October 31, 2011, we raised $16,235,000 in gross proceeds. Subsequent to October 31, 2011 and through December 9, 2011, we raised an additional $4,609,000 in gross proceeds. As of December 9, 2011, additional shares of our common stock for aggregate gross proceeds of up to $50,868,000 remained available under two effective shelf registration statements.

Although we believe we can raise sufficient capital to meet our obligations through fiscal year 2012, our ability to raise additional capital in the equity markets is dependent on a number of factors, including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse clinical trials results, and significant delays in one or more clinical trials. If our ability to access the capital markets becomes severely restricted, it could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

We may also raise additional capital through licensing or partnering our products in development or increasing revenue from our wholly-owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in generating additional revenue from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates.

Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, and assuming we do not generate any additional revenues or raise any additional capital from the capital markets or other potential sources, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the remainder of our fiscal year 2012. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, any of which could reduce, delay or accelerate our future projected cash inflows and outflows. In addition, in the event our projected cash-inflows are reduced or delayed we might not have sufficient capital to operate our business through the remainder of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

Results of Operations

The following table compares the interim unaudited condensed consolidated statements of operations for the three and six-month periods ended October 31, 2011 and 2010. This table provides you with an overview of the changes in the condensed consolidated statements of operations for the comparative periods, which are further discussed below.

	Three Months Ended October 31,			Six Months Ended October 31,		
	2011	**2010**	**$ Change**	**2011**	**2010**	**$ Change**
REVENUES :						
Contract manufacturing revenue	$ 4,154,000	$ 3,627,000	$ 527,000	$ 9,593,000	$ 4,610,000	$ 4,983,000
Government contract revenue	-	966,000	(966,000)	-	3,077,000	(3,077,000)
License revenue	78,000	78,000	-	294,000	193,000	101,000
Total revenues	4,232,000	4,671,000	(439,000)	9,887,000	7,880,000	2,007,000
COSTS AND EXPENSES :						
Cost of contract manufacturing	3,718,000	3,003,000	715,000	6,735,000	4,159,000	2,576,000
Research and development	9,818,000	7,344,000	2,474,000	17,578,000	14,411,000	3,167,000
Selling, general & administrative	2,732,000	2,702,000	30,000	5,661,000	5,200,000	461,000
Total costs and expenses	16,268,000	13,049,000	3,219,000	29,974,000	23,770,000	6,204,000
LOSS FROM OPERATIONS	(12,036,000)	(8,378,000)	(3,658,000)	(20,087,000)	(15,890,000)	(4,197,000)
OTHER INCOME (EXPENSE):						
Interest and other income	9,000	996,000	(987,000)	22,000	1,014,000	(992,000)
Interest and other expense	(28,000)	(131,000)	103,000	(82,000)	(332,000)	250,000
NET LOSS	$ (12,055,000)	$ (7,513,000)	$ (4,542,000)	$ (20,147,000)	$ (15,208,000)	$ (4,939,000)

Results of operations for interim periods covered by this quarterly report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year.

Contract Manufacturing Revenue

Three and Six Months: The increase in contract manufacturing revenue of $527,000 (or 15%) and $4,983,000 (or 108%) during the three and six months ended October 31, 2011, compared to the same periods in the prior year was primarily due to an increase in revenue generated from manufacturing and product development services provided to third party customers, which can be attributed to the timing of services combined with the increase in the number of manufacturing runs completed in the current year compared to the prior year.

We expect to continue to generate contract manufacturing revenue during the remainder of the current fiscal year based on the anticipated completion of in-process customer related projects and the anticipated demand for Avid's services under signed and outstanding proposals.

Government Contract Revenue

Three and Six Months: The current period decreases in government contract revenue were directly related to the expiration of the government contract on April 15, 2011. The government contract was originally awarded to us on June 30, 2008, through the Transformational Medical Technologies ("TMT") of the U.S. Department of Defense's Defense Threat Reduction Agency.

Due to the expiration of this contract on April 15, 2011, government contract revenue recognized during the remainder of the current fiscal year is expected to be insignificant, if any, unless we secure additional government contracts.

License Revenue

Six Months: The increase in license revenue of $101,000 during the six months ended October 31, 2011 compared to the same period in the prior year was directly related to license revenue recognized in accordance with the terms of an assignment agreement associated with our Tumor Necrosis Therapy technologies.

Although we expect to continue to recognize license revenue under our existing license agreements with unrelated entities during the remainder of fiscal year 2012, we do not expect license revenue to be significant based on current agreements.

Cost of Contract Manufacturing

Three and Six Months: The increases in cost of contract manufacturing of $715,000 (or 24%) and $2,576,000 (or 62%) during the three and six months ended October 31, 2011 compared to the same periods in the prior year was primarily related to the current year three and six-month period increases in contract manufacturing revenue. Cost of contract manufacturing as a percentage of contract manufacturing revenue fluctuates from quarter to quarter based on the mix of services provided and the gross margins associated with these services. We expect to continue to incur contract manufacturing costs during the remainder of the current fiscal year based on the anticipated completion of customer projects under our current contract manufacturing agreements.

Research and Development Expenses

Three and Six Months: The increases in research and development ("R&D") expenses of $2,474,000 (or 34%) and $3,167,000 (or 22%) during the three and six months ended October 31, 2011 compared to the same periods in the prior year was due to the following changes associated with each of our following technologies under development:

Technology Platform	*R&D Expenses – Three Months Ended October 31,*			*R&D Expenses – Six Months Ended October 31,*		
	2011	2010	$ Change	2011	2010	$ Change
Phosphatidylserine ("PS")-Targeting (bavituximab)	$ 9,066,000	$ 6,789,000	$ 2,277,000	$ 15,845,000	$ 13,070,000	$ 2,775,000
TNT (Cotara®)	751,000	520,000	231,000	1,727,000	1,266,000	461,000
Other	1,000	35,000	(34,000)	6,000	75,000	(69,000)
Total R&D Expenses	$ 9,818,000	$ 7,344,000	$ 2,474,000	$ 17,578,000	$ 14,411,000	$ 3,167,000

- *PS-Targeting Technology Platform (bavituximab)* – The increase in PS-targeting program expenses of $2,277,000 and $2,775,000 during the three and six months ended October 31, 2011, respectively, compared to the same prior year periods was primarily due to increases in clinical trial and related expenses and associated payroll and related expenses to support the advancement of our later-stage clinical program for bavituximab. During the current year three and six-month periods, we continued to enroll and treat patients in three separate randomized multi-center Phase II clinical trials using bavituximab in combination with chemotherapy for the treatment of patients with i) front-line non-small cell lung cancer ("NSCLC"), ii) second-line NSCLC, and iii) pancreatic cancer, and announced the completion of patient enrollment of both NSCLC trials during the current year three-month period. We also continued to enroll and treat patients in a randomized Phase II clinical trial using bavituximab for the treatment of patients with previously untreated genotype-1 hepatitis C virus (HCV) infection and recently announced the completion of patient enrollment during September 2011. These increases in PS-targeting program expenses were offset with a decrease in R&D expenses directly related to our government contract with the TMT, which expired on April 15, 2011 and a decrease in expenses associated with the development of additional PS-targeting antibodies under a research agreement with an unrelated entity.

- *Tumor Necrosis Therapy ("TNT") Technology Platform (Cotara)* – The increases in TNT program expenses of $231,000 and $461,000 for the three and six months ended October 31, 2011, respectively, compared to the same prior year periods was primarily related to increased development costs associated with preparing Cotara for potential later-stage clinical trials for the treatment of recurrent glioblastoma multiforme (or brain cancer).

- *Other R&D programs* – The decrease in our other R&D program expenses of $34,000 and $69,000 for the three and six months ended October 31, 2011, respectively, compared to the same prior year periods was directly related to our efforts to curtail spending on earlier-stage technologies in order to focus our efforts and resources on our current later-stage clinical programs.

During the remainder of the current fiscal year, we expect to continue to direct the majority of our research and development expenses towards our PS-targeting technology platform although it is extremely difficult for us to reasonably estimate all future research and development costs associated with each of our technologies due to the number of unknowns and uncertainties associated with preclinical and clinical trial development. These unknown variables and uncertainties include, but are not limited to:

- the uncertainty of future clinical trial results;
- the uncertainty of the ultimate number of patients to be treated in any current or future clinical trial;
- the uncertainty of the U.S. Food and Drug Administration allowing our studies to move forward from Phase II clinical studies to Phase III clinical studies;
- the uncertainty of the rate at which patients are enrolled into any current or future study. Any delays in clinical trials could significantly increase the cost of the study and would extend the estimated completion dates;
- the uncertainty of terms related to potential future partnering or licensing arrangements;
- the uncertainty of protocol changes and modifications in the design of our clinical trial studies, which may increase or decrease our future costs; and
- The uncertainty of our ability to raise additional capital to support our future research and development efforts beyond the remainder of our fiscal year 2012.

We or our potential partners will need to do additional development and clinical testing prior to seeking any regulatory approval for commercialization of our product candidates as all of our products are in discovery, preclinical or clinical development. Testing, manufacturing, commercialization, advertising, promotion, exporting, and marketing, among other things, of our proposed products are subject to extensive regulation by governmental authorities in the United States and other countries. The testing and approval process requires substantial time, effort, and financial resources, and we cannot guarantee that any approval will be granted on a timely basis, if at all. Companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in conducting advanced human clinical trials, even after obtaining promising results in earlier trials. Furthermore, the United States Food and Drug Administration may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Even if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Accordingly, we or our potential partners may experience difficulties and delays in obtaining necessary governmental clearances and approvals to market our products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of payroll and related expenses, director fees, share-based compensation expense, legal and accounting fees, patent fees, investor and public relation fees, insurance, and other expenses relating to the general management, administration, and business development activities of the Company.

Three and Six Months: The increases in selling, general and administrative expenses of $30,000 (or 1%) and $461,000 (or 9%) during the three and six months ended October 31, 2011 compared to the same periods in the prior year was primarily due to increases in payroll and related expenses of $146,000 and $393,000, respectively, and share-based compensation expense (non-cash) of $107,000 and $280,000, respectively. The increases in payroll and related expenses were primarily the result of increased employee headcount, compensation, and other employee-related expenses to support our later-stage clinical development activities. The increases in share-based compensation expense were primarily related to the amortization of the fair value of options granted to employees and board members under a broad based option grant during May 2011. These increases were offset with current year period decreases associated with market research analysis fees, travel and related expenses, and other general corporate related expenses.

Interest and Other Income.

Three and Six Months: The decreases in interest and other income of $987,000 and $992,000 during the three and six months ended October 31, 2011 compared to the same periods in the prior year was primarily due to decreases in other income of $981,000 and $983,000, respectively. These decreases in other income are directly related to the government cash grant of approximately $978,000 awarded to us in October 2010 of the prior year under Section 48D of the Internal Revenue Code as reimbursement for four separate qualifying therapeutic discovery projects, which we applied for under the Patient Protection and Affordable Care Act of 2010.

Interest and Other Expense

Three and Six Months: The decreases in interest and other expense of $103,000 and $250,000 during the three and six months ended October 31, 2011 compared to the same periods in the prior year was primarily due to a lower outstanding principal balance associated with the $5,000,000 term loan we secured in December 2008. On December 1, 2011, the outstanding principal balance associated with this term loan was paid in full.

Critical Accounting Policies

The preparation and presentation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to establish policies and to make estimates and assumptions that affect the amounts reported in our interim unaudited condensed consolidated financial statements. In our judgment, our critical accounting policies, estimates and assumptions have the greatest potential impact on our consolidated financial statements. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the following critical accounting policy below updates, and should be considered in addition to, the critical accounting policies previously disclosed by us in Part II, Item 7 of our Annual Report for the fiscal year ended April 30, 2011.

Revenue Recognition

We currently derive revenue from two sources: (i) contract manufacturing services provided by Avid, and (ii) licensing revenues related to agreements associated with Peregrine's technologies under development.

We recognize revenue in accordance with the authoritative guidance for revenue recognition. We recognize revenue when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery (or passage of title) has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. We also comply with the authoritative guidance for revenue recognition regarding arrangements with multiple deliverables.

Contract Manufacturing Revenue

Revenue associated with contract manufacturing services provided by Avid is recognized once the service has been rendered and/or upon shipment (or passage of title) of the product to the customer. On occasion, we recognize revenue on a "bill-and-hold" basis in accordance with the authoritative guidance. Under "bill-and-hold" arrangements, revenue is recognized once the product is complete and ready for shipment, title and risk of loss has passed to the customer, management receives a written request from the customer for "bill-and-hold" treatment, the product is segregated from other inventory, and no further performance obligations exist.

In addition, we also follow the authoritative guidance when reporting revenue as gross when we act as a principal versus reporting revenue as net when we act as an agent. For transactions in which we act as a principal, have discretion to choose suppliers, bear credit risk and perform a substantive part of the services, revenue is recorded at the gross amount billed to a customer and costs associated with these reimbursements are reflected as a component of cost of sales for contract manufacturing services.

Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements. We also record a provision for estimated contract losses, if any, in the period in which they are determined.

License Revenue

Revenue associated with licensing agreements primarily consists of non-refundable upfront license fees, non-refundable annual license fees and milestone payments. Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology. If a licensing agreement has multiple elements, we analyze each element of our licensing agreements and considers a variety of factors in determining the appropriate method of revenue recognition of each element.

Multiple Element Arrangements. Prior to the adoption of ASU No. 2009-13 on May 1, 2011, if a license agreement has multiple element arrangements, we analyze and determine whether the deliverables, which often include performance obligations, can be separated or whether they must be accounted for as a single unit of accounting in accordance with the authoritative guidance. Under multiple element arrangements, we recognize revenue for delivered elements only when the delivered element has stand-alone value and we have objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, the arrangement would then be accounted for as a single unit of accounting, and revenue is recognized over the estimated period of when the performance obligation(s) are performed.

In addition, under certain circumstances, when there is objective and reliable evidence of the fair value of the undelivered items in an arrangement, but no such evidence for the delivered items, we utilize the residual method to allocate the consideration received under the arrangement. Under the residual method, the amount of consideration allocated to delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items, and revenue is recognized upon delivery of the undelivered items based on the relative fair value of the undelivered items. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements.

For new licensing agreements or material modifications of existing licensing agreements entered into after May 1, 2011, we follow the provisions of ASU No. 2009-13. If a licensing agreement includes multiple elements, we identify which deliverables represent separate units of accounting, and then determines how the arrangement consideration should be allocated among the separate units of accounting, which may require the use of significant judgment.

If a licensing agreement includes multiple elements, a delivered item is considered a separate unit of accounting if both of the following criteria are met:

1. The delivered item has value to the licensing partner on a standalone basis based on the consideration of the relevant facts and circumstances for each agreement;

2. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the Company's control.

Arrangement consideration is allocated at the inception of the agreement to all identified units of accounting based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence ("VSOE"), of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, the Company uses its best estimate of the selling price for the deliverable. The amount of allocable arrangement consideration is limited to amounts that are fixed or determinable. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units. Changes in the allocation of the sales price between delivered and undelivered elements can impact revenue recognition but do not change the total revenue recognized under any agreement.

Milestone Payments. Prior to the adoption of ASU No. 2010-17 on May 1, 2011, milestone payments were recognized as revenue upon the achievement of the specified milestone, provided that (i) the milestone event was substantive in nature and the achievement of the milestone was not reasonably assured at the inception of the agreement, (ii) the fees were non-refundable, and (iii) there was no continuing performance obligations associated with the milestone payment. Any milestone payments received prior to satisfying these revenue recognition criteria were recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements.

Effective May 1, 2011, we adopted on a prospective basis the Milestone Method under ASU No. 2010-17 for new licensing agreements or material modifications of existing licensing agreements entered into after May 1, 2011. Under the Milestone Method, we recognize consideration that is contingent upon the achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone is substantive in its entirety. A milestone is considered substantive when it meets all of the following criteria:

1. The consideration is commensurate with either the entity's performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone;

2. The consideration relates solely to past performance; and

3. The consideration is reasonable relative to all of the deliverables and payment terms within the arrangement.

A milestone is defined as an event (i) that can only be achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (iii) that would result in additional payments being due to the Company.

Liquidity and Capital Resources

At October 31, 2011, we had $18,055,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2011, 2010 and 2009 amounted to $34,151,000, $14,494,000, and $16,524,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

Therefore, our ability to continue our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, issuing additional equity or debt.

With respect to financing our operations through the issuance of equity, during the six months ended October 31, 2011, we raised $16,235,000 in gross proceeds. Subsequent to October 31, 2011 and through December 9, 2011, we raised an additional $4,609,000 in gross proceeds. As of December 9, 2011, additional shares of our common stock for aggregate gross proceeds of up to $50,868,000 remained available under two effective shelf registration statements.

Although we believe we can raise sufficient capital to meet our obligations through fiscal year 2012, our ability to raise additional capital in the equity markets is dependent on a number of factors, including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse clinical trials results, and significant delays in one or more clinical trials. If our ability to access the capital markets becomes severely restricted, it could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

We may also raise additional capital through licensing or partnering our products in development or increasing revenue from our wholly-owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in generating additional revenue from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates.

Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, and assuming we do not generate any additional revenues or raise any additional capital from the capital markets or other potential sources, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the remainder of our fiscal year 2012. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, any of which could reduce, delay or accelerate our future projected cash inflows and outflows. In addition, in the event our projected cash-inflows are reduced or delayed, we might not have sufficient capital to operate our business through the remainder of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

Significant components of the changes in cash flows from operating, investing, and financing activities for the six months ended October 31, 2011 compared to the same prior year period are as follows:

Cash Used In Operating Activities . Cash used in operating activities is primarily driven by changes in our net loss. However, cash used in operating activities generally differs from our reported net loss as a result of non-cash operating expenses or differences in the timing of cash flows as reflected in the changes in operating assets and liabilities. During the six months ended October 31, 2011, cash used in operating activities increased $5,918,000 to $18,652,000 compared to $12,734,000 for the six months ended October 31, 2010. This increase in net cash used in operating activities was primarily due to an increase of $5,531,000 in net loss reported during the current six-month period after taking into consideration non-cash operating expenses combined with a net change in operating assets and payment or reduction of liabilities in the aggregate amount of $387,000. The increase in the net change in operating assets and liabilities was primarily due to a reduction of liabilities associated with deferred revenue and other long-term liabilities, offset by reductions in inventories, receivables, and other non-current assets. The increase in our current six-month period net loss was primarily due to current period increases in cost of contract manufacturing, research and development expenses and general and administrative expenses, offset by a current period increase in total revenues.

The changes in operating activities as a result of non-cash operating expenses or differences in the timing of cash flows as reflected by the changes in operating assets and liabilities are as follows:

	SIX MONTHS ENDED	
	October 31, 2011	**October 31, 2010**
Net loss, as reported	$ (20,147,000)	$ (15,208,000)
Less non-cash expenses and adjustments to net loss:		
Share-based compensation	1,679,000	1,287,000
Depreciation and amortization	426,000	295,000
Amortization of discount on notes payable and debt issuance costs	32,000	161,000
Amortization of expenses paid in shares of common stock	-	956,000
Common stock issued for services	-	30,000
Net cash used in operating activities before changes in operating assets and liabilities	$ (18,010,000)	$ (12,479,000)
Net change in operating assets and liabilities	$ (642,000)	$ (255,000)
Net cash used in operating activities	$ (18,652,000)	$ (12,734,000)

Cash Used In Investing Activities. Net cash used in investing activities increased $128,000 to $877,000 for the six months ended October 31, 2011 compared to net cash used of $749,000 for the six months ended October 31, 2010. This increase was due to an increase in cash outflows of $106,000 associated with property acquisitions combined with an increase in cash outflows of $22,000 associated with an increase in other assets. The current year increase in property acquisitions was primarily due to the purchase of certain leasehold improvements during the current year six-month period.

Cash Provided By Financing Activities . Net cash provided by financing activities increased $3,439,000 to $14,509,000 for the six months ended October 31, 2011 compared to net cash provided of $11,070,000 for the six months ended October 31, 2010. During the six months ended October 31, 2011, we received aggregate net proceeds of $15,450,000 under an At Market Issuance Sales Agreement and a registered direct public offering, whereby we sold an aggregate of 12,692,668 shares of our common stock (as described in Note 8 to the accompanying condensed consolidated financial statements). In addition, we received net proceeds of $96,000 from the purchase of shares under our 2010 Employee Stock Purchase Plan. These current year net proceeds were offset with aggregate principal payments on notes payable and capital leases of $1,037,000.

During the six months ended October 31, 2010, we received net proceeds of $12,094,000 under two separate At Market Issuance Sales Agreements, whereby we sold 5,956,583 shares of our common stock. These prior year proceeds were offset with aggregate principal payments on notes payable and capital leases of $1,024,000.

Commitments

At October 31, 2011, we had no material capital commitments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Changes in United States interest rates would affect the interest earned on our cash and cash equivalents, however, they would not have an effect on our capital leases, which have fixed interest rates and terms.

Based on our overall cash and cash equivalents interest rate exposure at October 31, 2011, a near-term change in interest rates, based on historical movements, would not have a material adverse effect on our financial position or results of operations.

ITEM 4. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed in its reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of October 31, 2011, the end of the period covered by this Quarterly Report. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures were effective at the reasonable assurance level as of October 31, 2011.

There were no significant changes in the Company’s internal controls over financial reporting, during the quarter ended October 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We currently are not aware of any such legal proceedings or claim that we believe will have, individually or in the aggregate, a material adverse effect on our business, operating results or cash flows.

ITEM 1A. RISK FACTORS.

The following risk factors below update, and should be considered in addition to, the risk factors previously disclosed by us in Part 1, Item 1A of our Annual Report for the fiscal year ended April 30, 2011.

IF WE CANNOT OBTAIN ADDITIONAL FUNDING, OUR PRODUCT DEVELOPMENT AND COMMERCIALIZATION EFFORTS MAY BE REDUCED OR DISCONTINUED AND WE MAY NOT BE ABLE TO CONTINUE OPERATIONS.

At October 31, 2011, we had $18,055,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2011, 2010 and 2009 amounted to $34,151,000, $14,494,000, and $16,524,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

Therefore, our ability to continue our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, issuing additional equity or debt.

With respect to financing our operations through the issuance of equity, during the six months ended October 31, 2011, we raised $16,235,000 in gross proceeds. Subsequent to October 31, 2011 and through December 9, 2011, we raised an additional $4,609,000 in gross proceeds. As of December 9, 2011, additional shares of our common stock for aggregate gross proceeds of up to $50,868,000 remained available under two effective shelf registration statements.

Although we believe we can raise sufficient capital to meet our obligations through fiscal year 2012, our ability to raise additional capital in the equity markets is dependent on a number of factors, including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse clinical trials results, and significant delays in one or more clinical trials. If our ability to access the capital markets becomes severely restricted, it could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

We may also raise additional capital through licensing or partnering our products in development or increasing revenue from our wholly-owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in generating additional revenue from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates.

Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, and assuming we do not generate any additional revenues or raise any additional capital from the capital markets or other potential sources, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the remainder of our fiscal year 2012. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, any of which could reduce, delay or accelerate our future projected cash inflows and outflows. In addition, in the event our projected cash-inflows are reduced or delayed we might not have sufficient capital to operate our business through the remainder of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

WE HAVE HAD SIGNIFICANT LOSSES AND WE ANTICIPATE FUTURE LOSSES.

We have incurred net losses in most fiscal years since we began operations in 1981. The following table represents net losses incurred for the six months ended October 31, 2011 and for each of the past three fiscal years:

		Net Loss
Six months ended October 31, 2011 (unaudited)	$	20,147,000
Fiscal Year 2011	$	34,151,000
Fiscal Year 2010	$	14,494,000
Fiscal Year 2009	$	16,524,000

As of October 31, 2011, we had an accumulated deficit of $316,152,000. While we expect to continue to generate revenues from Avid's contract manufacturing services, in order to achieve and sustain profitable operations, we must successfully develop and obtain regulatory approval for our products, either alone or with others, and must also manufacture, introduce, market and sell our products. The costs associated with clinical trials and product manufacturing is very expensive and the time frame necessary to achieve market success for our products is long and uncertain. We do not expect to generate product or royalty revenues for at least the next two years, and we may never generate product and/or royalty revenues sufficient to become profitable or to sustain profitability.

THE SALE OF SUBSTANTIAL SHARES OF OUR COMMON STOCK MAY DEPRESS OUR STOCK PRICE.

As of October 31, 2011, there were 82,638,201 shares of our common stock outstanding. Substantially all of these shares are eligible for trading in the public market, subject in some cases to volume and other limitations. The market price of our common stock may decline if our common stockholders sell a large number of shares of our common stock in the public market, or the market perceives that such sales may occur.

We could also issue up to 17,315,210 additional shares of our common stock that are reserved for future issuance under our stock incentive plans, employee stock purchase plan, and for outstanding warrants, as further described in the following table:

	Number of Shares Reserved
Common shares reserved for issuance under outstanding option grants and available for issuance under our stock incentive plans	12,308,478
Common shares reserved for and available for issuance under our Employee Stock Purchase Plan	4,786,765
Common shares issuable upon exercise of outstanding warrants	219,967
Total shares of common stock reserved for issuance	17,315,210

In addition, the above table does not include shares of common stock that we have available to issue under our current effective shelf registration statements, under which we may issue, from time to time, in one or more offerings, shares of our common stock for remaining aggregate gross proceeds of up to $55,477,000 as of October 31, 2011.

Of the total options and warrants outstanding as of October 31, 2011, 37,700 would be considered dilutive to stockholders because we would receive an amount per share which is less than the market price of our common stock at October 31, 2011.

In addition, we will need to raise substantial additional capital in the future to fund our operations. If we raise additional funds by issuing equity securities, the market price of our securities may decline and our existing stockholders may experience significant dilution.

CURRENT ECONOMIC CONDITIONS AND CAPITAL MARKETS ARE IN A PERIOD OF DISRUPTION AND INSTABILITY WHICH COULD ADVERSELY AFFECT OUR ABILITY TO ACCESS THE CAPITAL MARKETS, AND THUS ADVERSELY AFFECT OUR BUSINESS AND LIQUIDITY.

The current economic conditions and financial crisis have had, and will continue to have, a negative impact on our ability to access the capital markets, and thus have a negative impact on our business and liquidity. The shortage of liquidity and credit combined with the substantial losses in worldwide equity markets could lead to an extended worldwide recession. We may face significant challenges if conditions in the capital markets do not improve. Our ability to access the capital markets has been and continues to be severely restricted at a time when we need to access such markets, which could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. Even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us. We cannot predict the occurrence of future disruptions or how long the current conditions may continue.

OUR HIGHLY VOLATILE STOCK PRICE AND TRADING VOLUME MAY ADVERSELY AFFECT THE LIQUIDITY OF OUR COMMON STOCK.

The market price of our common stock and the market prices of securities of companies in the biotechnology sector have generally been highly volatile and are likely to continue to be highly volatile.

The following table shows the high and low sales price and trading volume of our common stock for each quarter in the last twelve (12) fiscal quarters ended October 31, 2011:

	Common Stock Sales Price		Common Stock Daily Trading Volume (000's omitted)	
	High	Low	High	Low
Quarter Ended October 31, 2011	$ 1.88	$ 0.95	2,450	110
Quarter Ended July 31, 2011	$ 2.48	$ 1.56	1,012	144
Quarter Ended April 30, 2011	$ 2.74	$ 2.05	929	152
Quarter Ended January 31, 2011	$ 3.10	$ 1.46	3,434	105
Quarter Ended October 31, 2010	$ 2.08	$ 1.25	4,997	118
Quarter Ended July 31, 2010	$ 4.14	$ 1.51	9,520	140
Quarter Ended April 30, 2010	$ 4.30	$ 2.86	1,278	66
Quarter Ended January 31, 2010	$ 3.46	$ 2.51	1,384	49
Quarter Ended October 31, 2009	$ 4.74	$ 2.74	2,243	64
Quarter Ended July 31, 2009	$ 5.65	$ 1.85	7,345	39
Quarter Ended April 30, 2009	$ 2.60	$ 1.52	702	14
Quarter Ended January 31, 2009	$ 2.35	$ 1.10	260	19

The market price of our common stock may be significantly impacted by many factors, including, but not limited to:

- announcements of technological innovations or new commercial products by us or our competitors;
- publicity regarding actual or potential company-sponsored clinical trial and investigator-sponsored clinical trial results relating to products under development by us or our competitors;
- significant changes in our financial results or that of our competitors, including our abilities to continue as a going concern;
- the offering and sale of shares of our common stock at a discount under an equity transaction;
- significant changes in our capital structure;
- published reports by securities analysts;
- announcements of licensing agreements, joint ventures, strategic alliances, and any other transaction that involves the sale or use of our technologies or competitive technologies;
- developments and/or disputes concerning our patent or proprietary rights;
- regulatory developments and product safety concerns;
- general stock trends in the biotechnology and pharmaceutical industry sectors;
- public concerns as to the safety and effectiveness of our products;

- economic trends and other external factors, including but not limited to, interest rate fluctuations, economic recession, inflation, foreign market trends, national crisis, and disasters; and
- healthcare reimbursement reform and cost-containment measures implemented by government agencies.

These and other external factors have caused and may continue to cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock, and may otherwise negatively affect the liquidity of our common stock.

THE LIQUIDITY OF OUR COMMON STOCK WILL BE ADVERSELY AFFECTED IF OUR COMMON STOCK IS DELISTED FROM THE NASDAQ CAPITAL MARKET.

Our common stock is traded on The NASDAQ Capital Market. To maintain inclusion on The NASDAQ Capital Market, we must continue to meet the following six listing requirements:

1. Net tangible assets of at least $2,500,000 or market capitalization of at least $35,000,000 or net income of at least $500,000 in either our latest fiscal year or in two of our last three fiscal years;
2. Public float of at least 500,000 shares;
3. Market value of our public float of at least $1,000,000;
4. A minimum closing bid price of $1.00 per share of common stock, without falling below this minimum bid price for a period of thirty consecutive trading days;
5. At least two market makers; and
6. At least 300 stockholders, each holding at least 100 shares of common stock.

Although we currently meet all NASDAQ Capital Market listing requirements, the market price of our common stock has generally been highly volatile and we cannot guarantee that we will continue to maintain compliance with The NASDAQ Capital Market listing requirements. During the six months ending October 31, 2011 of our current fiscal year, the trading price of our common stock on the NASDAQ Capital Market ranged from $0.95 per share to $2.48 per share. Most recently, the closing bid price of our common stock fell below $1.00 on November 14, 2011 for 15 consecutive trading days and the closing bid price closed above $1.00 on December 6, 2011. If the closing bid price of our common stock is below $1.00 per share for a period of 30 consecutive trading days, we will receive a deficiency notice from NASDAQ, and we will automatically be afforded a “compliance period” of 180 calendar days within to regain compliance. To demonstrate compliance with the minimum closing bid price requirement, we must maintain a closing bid price of at least $1.00 per share for 10 consecutive trading days. If we are still not in compliance with all initial listing requirements other than the bid requirement, we will be afforded an additional “compliance period” of 180 calendar days within which to regain compliance. If we fail to regain compliance with the minimum closing bid price requirement or fail to comply with any other NASDAQ Capital Market listing requirements, the market value of our common stock could fall and holders of our common stock would likely find it more difficult to dispose of the common stock.

If our common stock is ever delisted, we would apply to have our common stock quoted on the OTCQX, the world’s largest interdealer quotation system, which is operated by OTC Market Groups, Inc. Upon any such delisting, our common stock would become subject to the regulations of the Securities and Exchange Commission relating to the market for penny stocks. A penny stock, as defined by the Penny Stock Reform Act, is any equity security not traded on a national securities exchange that has a market price of less than $5.00 per share. The penny stock regulations generally require that a disclosure schedule explaining the penny stock market and the risks associated therewith be delivered to purchasers of penny stocks and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. The broker-dealer must make a suitability determination for each purchaser and receive the purchaser’s written agreement prior to the sale. In addition, the broker-dealer must make certain mandated disclosures, including the actual sale or purchase price and actual bid offer quotations, as well as the compensation to be received by the broker-dealer and certain associated persons. The regulations applicable to penny stocks may severely affect the market liquidity for our common stock and could limit your ability to sell your securities in the secondary market.

SUCCESSFUL DEVELOPMENT OF OUR PRODUCTS IS UNCERTAIN. TO DATE, NO REVENUES HAVE BEEN GENERATED FROM THE COMMERCIAL SALE OF OUR PRODUCTS AND OUR PRODUCTS MAY NOT GENERATE REVENUES IN THE FUTURE.

Our development of current and future product candidates is subject to the risks of failure inherent in the development of new pharmaceutical products and products based on new technologies. These risks include:

- delays in product development, clinical testing or manufacturing;
- unplanned expenditures in product development, clinical testing or manufacturing;
- failure in clinical trials or failure to receive regulatory approvals;
- emergence of superior or equivalent products;
- inability to manufacture on our own, or through others, product candidates on a commercial scale;
- inability to market products due to third party proprietary rights; and
- failure to achieve market acceptance.

Because of these risks, our research and development efforts or those of our partners may not result in any commercially viable products. If significant portions of these development efforts are not successfully completed, required regulatory approvals are not obtained, or any approved products are not commercially successful, our business, financial condition and results of operations may be materially harmed.

Because we have not begun the commercial sale of any of our products, our revenue and profit potential is unproven and our limited operating history makes it difficult for an investor to evaluate our business and prospects. Our technology may not result in any meaningful benefits to our current or potential partners. No revenues have been generated from the commercial sale of our products, and our products may not generate revenues in the future. Our business and prospects should be considered in light of the heightened risks and unexpected expenses and problems we may face as a company in an early stage of development in a new and rapidly evolving industry.

WE ARE PRIMARILY FOCUSING OUR ACTIVITIES AND RESOURCES ON THE DEVELOPMENT OF BAVITUXIMAB AND DEPEND ON ITS SUCCESS.

We are focusing most of our near-term research and development activities and resources on bavituximab, and we believe a significant portion of the value of our Company relates to our ability to develop this drug candidate. The development of bavituximab is subject to many risks, including the risks discussed in other risk factors. If the results of clinical trials of bavituximab, the regulatory decisions affecting bavituximab, the anticipated or actual timing and plan for commercializing bavituximab, or, ultimately, the market acceptance of bavituximab do not meet our, your, analysts' or others' expectations, the market price of our common stock could be adversely affected.

OUR PRODUCT DEVELOPMENT EFFORTS MAY NOT BE SUCCESSFUL.

Our product candidates have not received regulatory approval and are generally in research, preclinical and various clinical stages of development. If the results from any of the clinical trials are not positive, those results may adversely affect our ability to raise additional capital or obtain regulatory approval to conduct additional clinical trials, which will affect our ability to continue full-scale research and development for our antibody technologies. In addition, our product candidates may take longer than anticipated to progress through clinical trials, or patient enrollment in the clinical trials may be delayed or prolonged significantly, thus delaying the clinical trials. Patient enrollment is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to the clinical sites, competing studies of other investigational products, and the inclusion and exclusion eligibility criteria for the study. In addition, because our Cotara product candidate represents a departure from more commonly used methods for cancer treatment, potential patients and their doctors may be inclined to use conventional therapies, such as chemotherapy, rather than enroll patients in any future clinical study.

CLINICAL TRIALS REQUIRED FOR OUR PRODUCT CANDIDATES ARE EXPENSIVE AND TIME CONSUMING, AND THEIR OUTCOME IS UNCERTAIN.

In order to obtain FDA approval to market a new drug product, we or our potential partners must demonstrate proof of safety and efficacy in humans. To meet these requirements, we or our potential partners will have to conduct extensive preclinical testing and "adequate and well-controlled" clinical trials. Conducting clinical trials is a lengthy, time-consuming and expensive process. The length of time may vary substantially according to the type, complexity, novelty and intended use of the product candidate, and often can be several years or more per trial. Delays associated with products for which we are directly conducting preclinical or clinical trials may cause us to incur additional operating expenses. Moreover, we may continue to be affected by delays associated with the preclinical testing and clinical trials of certain product candidates conducted by our partners over which we have no control. The commencement and rate of completion of clinical trials may be delayed by many factors, including, for example:

- obtaining regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- slower than expected rates of patient recruitment due to narrow screening requirements;
- the inability of patients to meet FDA or other regulatory authorities imposed protocol requirements;
- the inability to retain patients who have initiated a clinical trial but may be prone to withdraw due to various clinical or personal reasons, or who are lost to further follow-up;
- the inability to manufacture sufficient quantities of qualified materials under current good manufacturing practices, or cGMPs, for use in clinical trials;
- shortages of chemotherapy or other drugs c used in clinical trials in combination with bavituximab;
- the need or desire to modify our manufacturing processes;
- the inability to adequately observe patients after treatment;
- changes in regulatory requirements for clinical trials;
- the lack of effectiveness during the clinical trials;
- unforeseen safety issues;
- delays, suspension, or termination of the clinical trials due to the institutional review board responsible for overseeing the study at a particular study site; and
- government or regulatory delays or "clinical holds" requiring suspension or termination of the trials.

Even if we obtain positive results from preclinical or initial clinical trials, we may not achieve the same success in future trials. Clinical trials may not demonstrate statistically sufficient safety and effectiveness to obtain the requisite regulatory approvals for product candidates employing our technology.

Clinical trials that we conduct or that third-parties conduct on our behalf may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals for any of our product candidates. We expect to commence new clinical trials from time to time in the course of our business as our product development work continues. The failure of clinical trials to demonstrate safety and effectiveness for our desired indications could harm the development of that product candidate as well as other product candidates. Any change in, or termination of, our clinical trials could materially harm our business, financial condition and results of operations.

WE RELY ON THIRD PARTIES TO CONDUCT OUR CLINICAL TRIALS AND MANY OF OUR PRECLINICAL STUDIES. IF THOSE PARTIES DO NOT SUCCESSFULLY CARRY OUT THEIR CONTRACTUAL DUTIES OR MEET EXPECTED DEADLINES, OUR DRUG CANDIDATES MAY NOT ADVANCE IN A TIMELY MANNER OR AT ALL.

In the course of our discovery, preclinical testing and clinical trials, we rely on third parties, including universities, investigators and clinical research organizations, to perform critical services for us. For example, we rely on third parties to conduct our clinical trials and many of our preclinical studies. Clinical research organizations and investigators are responsible for many aspects of the trials, including finding and enrolling patients for testing and administering the trials. Although we rely on these third parties to conduct our clinical trials, we are responsible for ensuring that each of our clinical trials is conducted in accordance with its investigational plan and protocol. Moreover, the FDA and foreign regulatory authorities require us to comply with regulations and standards, commonly referred to as good clinical practices, or GCPs, for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate and that the trial subjects are adequately informed of the potential risks of participating in clinical trials. Our reliance on third parties does not relieve us of these responsibilities and requirements. These third parties may not be available when we need them or, if they are available, may not comply with all regulatory and contractual requirements or may not otherwise perform their services in a timely or acceptable manner, and we may need to enter into new arrangements with alternative third parties and our clinical trials may be extended, delayed or terminated. These independent third parties may also have relationships with other commercial entities, some of which may compete with us. In addition, if such third parties fail to perform their obligations in compliance with our clinical trial protocols, our clinical trials may not meet regulatory requirements or may need to be repeated. As a result of our dependence on third parties, we may face delays or failures outside of our direct control. These risks also apply to the development activities of our collaborators, and we do not control our collaborators' research and development, clinical trials or regulatory activities. We do not expect any drugs resulting from our collaborators' research and development efforts to be commercially available for many years, if ever.

In addition, we have prepaid research and development expenses to third parties that have been deferred and capitalized as pre-payments to secure the receipt of future preclinical and clinical research and development services. These pre-payments are recognized as an expense in the period that the services are performed. We assess our prepaid research and development expenses for impairment when events or changes in circumstances indicate that the carrying amount of the prepaid expense may not be recoverable or provide a future economic benefit, including the risk of third party nonperformance. If there are indicators that the third parties are unable to perform the research and development services, we may be required to take an impairment charge.

WE DO NOT HAVE EXPERIENCE AS A COMPANY CONDUCTING LARGE-SCALE CLINICAL TRIALS, OR IN OTHER AREAS REQUIRED FOR THE SUCCESSFUL COMMERCIALIZATION AND MARKETING OF OUR PRODUCT CANDIDATES.

Results from early stage clinical trials of bavituximab may not be indicative of successful outcomes in later stage trials. Negative or limited results from any current or future clinical trial could delay or prevent further development of our product candidates which would adversely affect our business.

We have no experience as a Company in conducting large-scale, late-stage clinical trials, and our experience with early-stage clinical trials with small numbers of patients is limited. In part because of this limited experience, we cannot be certain that planned clinical trials will begin or be completed on time, if at all. Large-scale trials would require either additional financial and management resources, or reliance on third-party clinical investigators, contract research organizations ("CROs") or consultants. Relying on third-party clinical investigators or CROs may force us to encounter delays that are outside of our control. Any such delays could have a material adverse effect on our business.

We also do not currently have marketing and distribution capabilities for our product candidates. Developing an internal sales and distribution capability would be an expensive and time-consuming process. We may enter into agreements with third parties that would be responsible for marketing and distribution. However, these third parties may not be capable of successfully selling any of our product candidates. The inability to commercialize and market our product candidates could materially affect our business.

FAILURE TO RECRUIT, ENROLL, AND RETAIN PATIENTS FOR CLINICAL TRIALS MAY CAUSE THE DEVELOPMENT OF OUR PRODUCT CANDIDATES TO BE DELAYED OR DEVELOPMENT COSTS TO INCREASE SUBSTANTIALLY.

We have experienced, and expect to experience in the future, delays in patient enrollment in our clinical trials for a variety of reasons. The timely completion of clinical trials in accordance with their protocols depends, among other things, on our ability to enroll a sufficient number of patients who remain in the study until its conclusion. The enrollment of subjects depends on many factors, including:

- the patient eligibility criteria defined in the protocol;
- the size of the patient population required for analysis of the trial's primary endpoints;
- the proximity of patients to study sites;
- the design of the trial;
- our ability to recruit clinical trial investigators with the appropriate competencies and experience;
- our ability to obtain and maintain patient consents;
- the risk that patients enrolled in clinical trials will drop out of the trials before completion; and
- competition for patients by clinical trial programs for other treatments.

Our clinical trials compete with other clinical trials for product candidates that are in the same therapeutic areas as our product candidates, and this competition reduces the number and types of subjects available to us, because some patients who might have opted to enroll in our trials opt to enroll in a trial being conducted by one of our competitors. Since the number of qualified clinical investigators is limited, we conduct some of our clinical trials at the same clinical trial sites that some of our competitors use, which reduces the number of subjects who are available for our clinical trials in such clinical trial site. Delays in patient enrollment in the future as a result of these and other factors may result in increased costs or may affect the timing or outcome of our clinical trials, which could prevent us from completing these trials and adversely affect our ability to advance the development of our product candidates.

ENROLLMENT IN OUR INTERNATIONAL CLINICAL SITES MAY BE DELAYED OR OTHERWISE ADVERSELY IMPACTED BY SOCIAL, POLITICAL AND ECONOMIC FACTORS AFFECTING THE PARTICULAR FOREIGN COUNTRY.

We have in the past conducted, are currently conducting and intend in the future to conduct, clinical trials globally including clinical sites in India and other countries. Our ability to successfully initiate, enroll and complete a clinical trial in any foreign country is subject to numerous risks unique to conducting business in foreign countries, including:

- difficulty in establishing or managing relationships with clinical research organizations and physicians;
- different standards for the conduct of clinical trials and/or health care reimbursement;
- our inability to locate qualified local consultants, physicians, and partners;
- the potential burden of complying with a variety of foreign laws, medical standards and regulatory requirements, including the regulation of pharmaceutical products and treatment; and
- general geopolitical risks, such as political and economic instability, and changes in diplomatic and trade relations.

Because some of the trial sites for our Phase II cancer trials are in India and other foreign countries, any disruption to our international clinical trial sites could significantly delay our product development efforts.

SUCCESS IN EARLY CLINICAL TRIALS MAY NOT BE INDICATIVE OF RESULTS OBTAINED IN LATER TRIALS.

A number of new drugs and biologics have shown promising results in initial clinical trials, but subsequently failed to establish sufficient safety and effectiveness data to obtain necessary regulatory approvals. Data obtained from preclinical and clinical activities are subject to varying interpretations, which may delay, limit or prevent regulatory approval.

Data from our preclinical studies and Phase I and initial Phase II clinical trials should not be relied upon as evidence that later or larger-scale clinical trials will succeed. The Phase I studies we have completed to date have been designed to primarily assess safety in a small number of patients. In addition, the limited results we have obtained in the Phase II trials may not predict results for any future studies and also may not predict future therapeutic benefit of our drug candidates. We will be required to demonstrate through larger-scale clinical trials that bavituximab and Cotara are safe and effective for use in a diverse population before we can seek regulatory approval for their commercial sale. There is typically an extremely high rate of attrition from the failure of drug candidates proceeding through clinical trials.

In addition, regulatory delays or rejections may be encountered as a result of many factors, including changes in regulatory policy during the period of product development.

IF WE SUCCESSFULLY DEVELOP PRODUCTS BUT THOSE PRODUCTS DO NOT ACHIEVE AND MAINTAIN MARKET ACCEPTANCE, OUR BUSINESS WILL NOT BE PROFITABLE.

Even if bavituximab, Cotara, or any future product candidate is approved for commercial sale by the FDA or other regulatory authorities, the degree of market acceptance of any approved product candidate by physicians, healthcare professionals and third-party payors and our profitability and growth will depend on a number of factors, including:

- our ability to provide acceptable evidence of safety and efficacy;
- relative convenience and ease of administration;
- the prevalence and severity of any adverse side effects;
- availability of alternative treatments;
- pricing and cost effectiveness;
- effectiveness of our or our collaborators' sales and marketing strategy; and
- our ability to obtain sufficient third-party insurance coverage or reimbursement.

In addition, if bavituximab, Cotara, or any future product candidate that we discover and develop does not provide a treatment regimen that is more beneficial than the current standard of care or otherwise provide patient benefit, that product likely will not be accepted favorably by the market. If any products we may develop do not achieve market acceptance, then we may not generate sufficient revenue to achieve or maintain profitability.

In addition, even if our products achieve market acceptance, we may not be able to maintain that market acceptance over time if new products or technologies are introduced that are more favorably received than our products, are more cost effective or render our products obsolete.

IF WE DO NOT ESTABLISH ADDITIONAL COLLABORATIONS, WE MAY HAVE TO ALTER OUR DEVELOPMENT PLANS.

Our drug development programs and potential commercialization of our drug candidates will require substantial additional cash to fund expenses. We either own or in-licensed all rights to our two lead drug candidates, bavituximab and Cotara, and are fully responsible for the associated development costs. Our strategy continues to include the potential of selectively collaborating with leading pharmaceutical and biotechnology companies to assist us in furthering development and potential commercialization of some of our drug candidates and research programs. We may enter into one or more of such collaborations in the future, especially for target indications in which the potential collaborator has particular therapeutic expertise or that involve a large, primary care market that must be served by large sales and marketing organizations or for markets outside of North America. We face significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. We may not be able to negotiate collaborations on acceptable terms, or at all. Even if we successfully enter into a collaboration, we cannot provide assurance that our partner will perform its contractual obligations or will not terminate the agreement. If that were to occur, we may have to curtail the development of a particular drug candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring our drug candidates to market and generate product revenue.

HEALTHCARE REFORM MEASURES AND OTHER STATUTORY OR REGULATORY CHANGES COULD ADVERSELY AFFECT OUR BUSINESS.

In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could impact our business. In March 2010, the U.S. Congress enacted and President Obama signed into law the Patient Protection and Affordable Care Act, which includes a number of healthcare reform provisions. The reforms imposed by the new law will significantly impact the pharmaceutical industry, most likely in the area of pharmaceutical product pricing; however, the full effects of new law cannot be known until these provisions are implemented and the relevant federal and state agencies issue applicable regulations or guidance.

The pharmaceutical and biotechnology industries are subject to extensive regulation, and from time to time legislative bodies and governmental agencies consider changes to such regulations that could have significant impact on industry participants. For example, in light of certain highly-publicized safety issues regarding certain drugs that had received marketing approval, the U.S. Congress has considered various proposals regarding drug safety, including some which would require additional safety studies and monitoring and could make drug development more costly. We are unable to predict what additional legislation or regulation, if any, relating to safety or other aspects of drug development may be enacted in the future or what effect such legislation or regulation would have on our business.

The business and financial condition of pharmaceutical and biotechnology companies are also affected by the efforts of governments, third-party payors and others to contain or reduce the costs of healthcare to consumers. In the United States and various foreign jurisdictions there have been, and we expect that there will continue to be, a number of legislative and regulatory proposals aimed at changing the healthcare system, such as proposals relating to the reimportation of drugs into the U.S. from other countries (where they are then sold at a lower price) and government control of prescription drug pricing. The pendency or approval of such proposals could result in a decrease in our share price or limit our ability to raise capital or to obtain strategic collaborations or licenses.

IF WE CANNOT LICENSE OR SELL COTARA, IT MAY BE DELAYED OR NEVER BE FURTHER DEVELOPED IN THE U.S.

We have completed Phase II studies with Cotara for the treatment of brain cancer. In our most recent Phase II open-label, multicenter trial, 41 GBM patients at first relapse were enrolled and received a single-treatment with Cotara. Median overall survival for patients treated with Cotara was 9.3 months. Based on these data, we have initiated a dialog with the FDA regarding a pivotal study design. Based on the patient sample size and design of the registration study, we may not have the financial resources internally to complete the larger registration study. We may therefore seek a licensing or funding partner for Cotara, and hope that the data and trial design will enhance our opportunities of finding such partner. If a partner is not found for this technology in the U.S., we may not be able to advance the project past its current state of development. Because there are a limited number of companies which have the financial resources, the internal infrastructure, the technical capability and the marketing infrastructure to develop and market a radiopharmaceutical-based oncology drug, we may not find a suitable partnering candidate for Cotara. Furthermore, we cannot ensure that if we do find a suitable licensing partner, the financial terms that they propose will be acceptable to us.

OUR DEPENDENCY ON OUR RADIOLABELING SUPPLIERS MAY NEGATIVELY IMPACT OUR ABILITY TO COMPLETE FUTURE CLINICAL TRIALS AND MARKET OUR PRODUCTS.

We have procured and anticipate we will continue to procure our antibody radioactive isotope combination services ("radiolabeling") for our Cotara clinical trials from Iso-tex Diagnostics, Inc. (for potential future patients enrolled in the U.S.) and from the Board of Radiation & Isotope Technology ("BRIT") (for potential future patients enrolled in India). Although we order radiolabeling services on an as needed basis through an agreed upon purchase order, we do not have any arrangements with either Iso-tex Diagnostics, Inc. or BRIT that would require either supplier to radiolabel our product. In the event that either supplier was unable to provide the radiolabeling services for future studies, we would have to temporarily shift patient enrollment to the country (U.S. or India) able to continue providing the radiolabeling services which could significantly delay patient enrollment in that potential future study. If both of these suppliers are unable to continue to qualify its respective facility or radiolabel and supply our antibody in a timely manner, any future potential clinical trial using radiolabeling technology could be adversely affected and could be significantly delayed. While there are other suppliers for radioactive isotope combination services in the U.S. and India, a future clinical trial could be delayed for up to twelve to eighteen months because it may take that amount of time to certify a new facility under current Good Manufacturing Practices and qualify the product, plus we would incur significant costs to transfer our technology to another vendor. In addition, the number of facilities that can perform these radiolabeling services is very limited. Prior to commercial distribution of any of our products, if approved, we will be required to identify and contract with a company for commercial antibody manufacturing and radioactive isotope combination services. An antibody that has been combined with a radioactive isotope, such as Iodine-131, cannot be stored for long periods of time, as it must be used within one week of being radiolabeled to be effective. Accordingly, any change in our existing or future contractual relationships with, or an interruption in supply from, any such third-party service provider or antibody supplier could negatively impact our ability to complete any potential future clinical trial conducted by us or a potential licensing partner.

OUR MANUFACTURING FACILITIES MAY NOT CONTINUE TO MEET REGULATORY REQUIREMENTS AND HAVE LIMITED CAPACITY.

Before approving a new drug or biologic product, the FDA requires that the facilities at which the product will be manufactured be in compliance with current Good Manufacturing Practices, or cGMP, requirements. To be successful, our therapeutic products must be manufactured for development and, following approval, in commercial quantities, in compliance with regulatory requirements and at acceptable costs. Currently, we manufacture all preclinical and clinical material through Avid Bioservices, Inc., our wholly-owned subsidiary. While we believe our current facilities are adequate for the manufacturing of product candidates for clinical trials, our facilities may not be adequate to produce sufficient quantities of any products for commercial sale.

If we are unable to establish and maintain a manufacturing facility or secure third-party manufacturing capacity within our planned time frame and cost parameters, the development and sales of our products, if approved, may be materially harmed.

We may also encounter problems with the following:

- production yields;
- quality control and quality assurance;
- shortages of qualified personnel;
- compliance with FDA or other regulatory authorities regulations, including the demonstration of purity and potency;
- changes in FDA or other regulatory authorities requirements;
- production costs; and/or
- development of advanced manufacturing techniques and process controls.

In addition, we or any third-party manufacturer will be required to register the manufacturing facilities with the FDA and other regulatory authorities, provided it had not already registered. The facilities will be subject to inspections confirming compliance with cGMP or other regulations. If any of our third-party manufacturers or we fail to maintain regulatory compliance, the FDA can impose regulatory sanctions including, among other things, refusal to approve a pending application for a new drug product or biologic product, or revocation of a pre-existing approval. As a result, our business, financial condition and results of operations may be materially harmed.

WE MAY HAVE SIGNIFICANT PRODUCT LIABILITY EXPOSURE BECAUSE WE MAINTAIN ONLY LIMITED PRODUCT LIABILITY INSURANCE.

We face an inherent business risk of exposure to product liability claims in the event that the administration of one of our drugs during a clinical trial adversely affects or causes the death of a patient. Although we maintain product liability insurance for clinical studies in the amount of $5,000,000 per occurrence or $5,000,000 in the aggregate on a claims-made basis, this coverage may not be adequate. Product liability insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms, if at all. Our inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims in excess of our insurance coverage, if any, or a product recall, could negatively impact our financial position and results of operations.

In addition, the contract manufacturing services that we offer through Avid expose us to an inherent risk of liability as the antibodies or other substances manufactured by Avid, at the request and to the specifications of our customers, could possibly cause adverse effects or have product defects. We obtain agreements from our customers indemnifying and defending us from any potential liability arising from such risk. There can be no assurance that such indemnification agreements will adequately protect us against potential claims relating to such contract manufacturing services or protect us from being named in a possible lawsuit. Although Avid has procured insurance coverage, there is no guarantee that we will be able to maintain our existing coverage or obtain additional coverage on commercially reasonable terms, or at all, or that such insurance will provide adequate coverage against all potential claims to which we might be exposed. A partially successful or completely uninsured claim against Avid would have a material adverse effect on our consolidated operations .

IF WE ARE UNABLE TO OBTAIN, PROTECT AND ENFORCE OUR PATENT RIGHTS, WE MAY BE UNABLE TO EFFECTIVELY PROTECT OR EXPLOIT OUR PROPRIETARY TECHNOLOGY, INVENTIONS AND IMPROVEMENTS.

Our success depends in part on our ability to obtain, protect and enforce commercially valuable patents. We try to protect our proprietary positions by filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to developing our business. However, if we fail to obtain and maintain patent protection for our proprietary technology, inventions and improvements, our competitors could develop and commercialize products that would otherwise infringe upon our patents.

Our patent position is generally uncertain and involves complex legal and factual questions. Legal standards relating to the validity and scope of claims in the biotechnology and biopharmaceutical fields are still evolving. Accordingly, the degree of future protection for our patent rights is uncertain. The risks and uncertainties that we face with respect to our patents include the following:

- the pending patent applications we have filed or to which we have exclusive rights may not result in issued patents or may take longer than we expect to result in issued patents;
- the claims of any patents that issue may not provide meaningful protection;
- we may be unable to develop additional proprietary technologies that are patentable;
- the patents licensed or issued to us may not provide a competitive advantage;
- other parties may challenge patents licensed or issued to us;

- disputes may arise regarding the invention and corresponding ownership rights in inventions and know-how resulting from the joint creation or use of intellectual property by us, our licensors, corporate partners and other scientific collaborators; and
- other parties may design around our patented technologies.

WE MAY BECOME INVOLVED IN LAWSUITS TO PROTECT OR ENFORCE OUR PATENTS THAT WOULD BE EXPENSIVE AND TIME CONSUMING.

In order to protect or enforce our patent rights, we may initiate patent litigation against third parties. In addition, we may become subject to interference or opposition proceedings conducted in patent and trademark offices to determine the priority and patentability of inventions. The defense of intellectual property rights, including patent rights through lawsuits, interference or opposition proceedings, and other legal and administrative proceedings, would be costly and divert our technical and management personnel from their normal responsibilities. An adverse determination of any litigation or defense proceedings could put our pending patent applications at risk of not being issued.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. For example, during the course of this kind of litigation, confidential information may be inadvertently disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. This disclosure could have a material adverse effect on our business and our financial results.

WE MAY NOT BE ABLE TO COMPETE WITH OUR COMPETITORS IN THE BIOTECHNOLOGY INDUSTRY BECAUSE MANY OF THEM HAVE GREATER RESOURCES THAN WE DO AND THEY ARE FURTHER ALONG IN THEIR DEVELOPMENT EFFORTS.

The pharmaceutical and biotechnology industry is intensely competitive and subject to rapid and significant technological change. Many of the drugs that we are attempting to discover or develop will be competing with existing therapies. In addition, we are aware of several pharmaceutical and biotechnology companies actively engaged in research and development of antibody-based products that have commenced clinical trials with, or have successfully commercialized, antibody products. Some or all of these companies may have greater financial resources, larger technical staffs, and larger research budgets than we have, as well as greater experience in developing products and running clinical trials. We expect to continue to experience significant and increasing levels of competition in the future. In addition, there may be other companies which are currently developing competitive technologies and products or which may in the future develop technologies and products that are comparable or superior to our technologies and products.

Bavituximab is currently in clinical trials for the treatment of advanced solid tumors, including NSCLC and pancreatic cancer. Although we are not aware of any other monoclonal antibodies in clinical development targeting PS as a potential therapy for advanced solid tumors, there are a number of possible competitors with approved or developmental targeted agents used alone or in combination with standard chemotherapy for the treatment of cancer, including but not limited to, Avastin ® (bevacizumab) by Roche/Genentech, Gleevec ® (imatinib) by Novartis, Tarceva ® (erlotinib) by OSI Pharmaceuticals, Inc. and Roche/Genentech, Erbitux ® (Cetuximab) by Eli Lilly and Company and Bristol-Myers Squibb Company, Rituxan ® (rituximab) and Herceptin ® (trastuzumab) by Roche/Genentech, Vectibix ® (panitumumab) by Amgen, afatinib by Boehringer Ingelheim, Xalkori ® (crizotinib) by Pfizer, iniparib by Sanofi-Aventis and Bipar Sciences, ARQ-197 by ArQule and Daiichi Sankyo, ganetespib by Synta Pharmaceuticals, and Yervoy ® (ipilimumab) by Bristol-Myers Squibb Company. Additional possible competitors also exist with approved or developmental immunotherapies including but not limited to Provenge ® (sipuleucel-T) and other Active Cellular Immunotherapy candidates by Dendreon, Emepepimut-S by Biomira and EMD Serono, and Astuprotimut-r by GlaxoSmithKline. There are a significant number of companies developing cancer therapeutics using a variety of targeted and non-targeted approaches. A direct comparison of these potential competitors will not be possible until bavituximab advances to later-stage clinical trials.

In addition, we are evaluating bavituximab in combination with ribavirin as a potential replacement for the pegylated interferon alpha component for the current standard of care for HCV. We are aware of no other products in clinical development targeting PS as a potential therapy for HCV. There are a number of companies that have products approved and on the market for the treatment of HCV, including but not limited to: Peg-Intron ® (pegylated interferon-alpha-2b), Rebetol ® (ribavirin), which are marketed by Merck, and Pegasys ® (pegylated interferon-alpha-2a) and Copegus ® (ribavirin USP), which are marketed by Roche, INCIVEK ™ (telaprevir) by Vertex, Victrelis® (boceprevir) by Merck, and Infergen ® (interferon alfacon-1) marketed by Three Rivers Pharmaceuticals, LLC. Currently, the cornerstone of HCV therapy remains pegylated interferon alpha with ribavirin and recently approved telaprevir or boceprevir are being added to this regimen. Pegylated interferon alpha is generally associated with considerable toxicity, including flu-like symptoms, hematologic changes and central nervous system side effects including depression, and it is not uncommon for patients to discontinue therapy because they are unable to tolerate the side effects.

Other developmental immunomodulatory treatments with the potential to replace interferon-alpha in HCV therapeutic regimens include but are not limited to monoclonal antibodies such as CT-011 by CureTech and TEVA, novel interferons such as pegylated interferon lambda by Bristol-Myers Squibb Company, Interferon alpha 2b XL by Flamel Technologies, Interferon Alpha 5 by Digna Biotech, Locteron ® by Biolex Therapeutics, and Hanferon by HanAll BioPharma, therapeutic vaccines such as AdCh3NSmut and Ad6NSmut by Okiros, CheonVac-C by Inovio/Tripep, GI-5005 by Globeimmune, IC41 by Intercell AG, and TG4040 by Transgene, toll-like receptor agonists such as ANA-773 by Anadys, GS 9629 by Gilead, and IMO-2125 by Idera Pharmaceuticals, as well as other developmental immunomodulatory compounds including but not limited to CYT-107 by Cytheris, and NOV-205 by Novelos.

Other developmental candidates include, but are not limited to nucleotide analogues, nucleoside anlogues, protease inhibitors, polymerase inhibitors, cyclophilin inhibitors and other direct-acting antiviral candidates such as PSI-7977, PSI-938 and mericitabine (RG7128) by Gilead/Pharmasset, INX-189 by Inhibitex, ANA-508 by Anadys/Roche, Danoprevir by Roche, DEB-205 by Novartis and Debiopharm, Filibuvir by Pfizer, nitazoxanide by Romark and Chugai, and TMC435 by Medivir and Johnson & Johnson. There are a significant number of companies developing HCV therapeutics using a variety of approaches. A direct comparison of these potential competitors will not be possible until bavituximab advances to later-stage clinical trials.

We are developing Cotara for the treatment of recurrent GBM, the most aggressive form of brain cancer. Approved treatments for brain cancer include the Gliadel ® Wafer (polifeprosan 20 with carmustine implant) from Eisai, Inc., Temodar ® (temozolomide) from Merck, Avastin ® (bevacizumab) from Roche/Genentech, and the NovoTTF-100A System by Novocure. Gliadel Wafers are inserted in the tumor cavity following surgical resection and releases a chemotherapeutic agent over time. Temodar is administered orally to patients with brain cancer. Avastin is a monoclonal antibody that targets vascular endothelial growth factor ("VEGF") to prevent the formation of new tumor blood vessels. The NovoTTF-100A system is a portable, wearable device that delivers an anti-mitotic, anti-cancer therapy.

Since Cotara is a single-treatment approach that targets brain tumors from the inside out, it is a novel treatment dissimilar from other drugs in development for this disease. Some products in development may compete with Cotara should they become approved for marketing. These products include, but are not limited to: ^{131}I-TM601, a radiolabeled chlorotoxin peptide being developed by TransMolecular, Inc., CDX-110, a peptide vaccine under development by Celldex, cilengitide, an integrin-targeting peptide being evaluated by Merck KGaA, cediranib, a VEGF receptor tyrosine kinase inhibitor being developed by AstraZeneca, and DCVax ® a dendritic cell-based vaccine being developed by Northwest Biotherapeutics. In addition, oncology products marketed for other indications such as Gleevec ® (Novartis), Tarceva ® (Genentech/OSI), Nexavar ® (Bayer/Onyx), and afatinib by Boehringer Ingelheim are being tested in clinical trials for the treatment of brain cancer.

AVID BIOSERVICES, INC., OUR SUBSIDIARY, IS EXPOSED TO RISKS RESULTING FROM ITS SMALL CUSTOMER BASE.

A significant portion of Avid Bioservices' revenues have historically been derived from a small customer base. These customers typically do not enter into long-term contracts because their need for drug supply depends on a variety of factors, including the drug's stage of development, their financial resources, and, with respect to commercial drugs, demand for the drug in the market. Our results of operations could be adversely affected if revenue from any one of our primary customers is significantly reduced or eliminated.

IF WE LOSE QUALIFIED MANAGEMENT AND SCIENTIFIC PERSONNEL OR ARE UNABLE TO ATTRACT AND RETAIN SUCH PERSONNEL, WE MAY BE UNABLE TO SUCCESSFULLY DEVELOP OUR PRODUCTS OR WE MAY BE SIGNIFICANTLY DELAYED IN DEVELOPING OUR PRODUCTS.

Our success is dependent, in part, upon a limited number of key executive officers, each of whom is an at-will employee, and also upon our scientific researchers. For example, because of his extensive understanding of our technologies and product development programs, the loss of Mr. Steven W. King, our President & Chief Executive Officer and Director, would adversely affect our development efforts and clinical trial programs during the six to twelve month period that we estimate it would take to find and train a qualified replacement.

We also believe that our future success will depend largely upon our ability to attract and retain highly-skilled research and development and technical personnel. We face intense competition in our recruiting activities, including competition from larger companies with greater resources. We do not know if we will be successful in attracting or retaining skilled personnel. The loss of certain key employees or our inability to attract and retain other qualified employees could negatively affect our operations and financial performance.

OUR GOVERNANCE DOCUMENTS AND STATE LAW PROVIDE CERTAIN ANTI-TAKEOVER MEASURES WHICH WILL DISCOURAGE A THIRD PARTY FROM SEEKING TO ACQUIRE US UNLESS APPROVED BY THE BOARD OF DIRECTORS.

We adopted a shareholder rights plan, commonly referred to as a "poison pill," on March 16, 2006. The purpose of the shareholder rights plan is to protect stockholders against unsolicited attempts to acquire control of us that do not offer a fair price to our stockholders as determined by our Board of Directors. Under the plan, the acquisition of 15% or more of our outstanding common stock by any person or group, unless approved by our board of directors, will trigger the right of our stockholders (other than the acquiror of 15% or more of our common stock) to acquire additional shares of our common stock, and, in certain cases, the stock of the potential acquiror, at a 50% discount to market price, thus significantly increasing the acquisition cost to a potential acquiror. In addition, our certificate of incorporation and by-laws contain certain additional anti-takeover protective devices. For example,

- no stockholder action may be taken without a meeting, without prior notice and without a vote; solicitations by consent are thus prohibited;
- special meetings of stockholders may be called only by our Board of Directors; and
- our Board of Directors has the authority, without further action by the stockholders, to fix the rights and preferences, and issue shares, of preferred stock. An issuance of preferred stock with dividend and liquidation rights senior to the common stock and convertible into a large number of shares of common stock could prevent a potential acquiror from gaining effective economic or voting control.

Further, we are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation's outstanding voting stock for a period of three years from the date the stockholder becomes a 15% stockholder.

Although we believe these provisions and our rights plan collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our Board of Directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

(a) Exhibits:

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document. (*) (**)
101.SCH	XBRL Schema Document. (*) (**)
101.CAL	XBRL Calculation Linkbase Document. (*) (**)
101.DEF	XBRL Definition Linkbase Document. (*) (**)
101.LAB	XBRL Label Linkbase Document. (*) (**)
101.PRE	XBRL Presentation Linkbase Document. (*) (**)

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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.

PEREGRINE PHARMACEUTICALS, INC.

Date: December 12, 2011

By: /s/ STEVEN W. KING
Steven W. King
President, Chief Executive Officer, and Director

Date: December 12, 2011

By: /s/ PAUL J. LYTLE
Paul J. Lytle
Chief Financial Officer
(signed both as an officer duly authorized to sign on behalf of the Registrant and principal financial officer and chief accounting officer)

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Steven W. King, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Peregrine Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the periods covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 12, 2011

Signed: /s/ STEVEN W. KING
Steven W. King
President, Chief Executive Officer, and Director

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul J. Lytle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Peregrine Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the periods covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 12, 2011

Signed: /s/ PAUL J. LYTLE
Paul J. Lytle
Chief Financial Officer

Exhibit 32

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

I, Steven W. King, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q for the quarter ended October 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Peregrine Pharmaceuticals, Inc.

By: /s/ STEVEN W. KING
Name: Steven W. King
Title: President, Chief Executive Officer, and Director
Date: December 12, 2011

I, Paul J. Lytle, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q for the quarter ended October 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Peregrine Pharmaceuticals, Inc.

By: /s/ PAUL J. LYTLE
Name: Paul J. Lytle
Title: Chief Financial Officer
Date: December 12, 2011

A signed original of this written statement required by Section 906 has been provided to Peregrine Pharmaceuticals, Inc. and will be retained by Peregrine Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification is being furnished pursuant to Rule 15(d) and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. This Certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.