# PEREGRINE PHARMACEUTICALS INC

## FORM 10-Q
(Quarterly Report)

Filed 12/12/16 for the Period Ending 10/31/16

| | |
|---|---|
| Address | 14282 FRANKLIN AVE<br>TUSTIN, CA 92780 |
| Telephone | 7145086000 |
| CIK | 0000704562 |
| Symbol | PPHM |
| SIC Code | 2834 - Pharmaceutical Preparations |
| Industry | Pharmaceuticals |
| Sector | Healthcare |
| Fiscal Year | 04/30 |

# 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, 2016

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: 001-32839

# PEREGRINE PHARMACEUTICALS, INC.

*(Exact name of Registrant as specified in its charter)*

| **Delaware** | **95-3698422** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **14282 Franklin Avenue, Tustin, California** | **92780** |
| *(Address of principal executive offices)* | *(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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of December 8, 2016, there were 257,141,534 shares of common stock, $0.001 par value, outstanding.

**PEREGRINE PHARMACEUTICALS, INC.**

**TABLE OF CONTENTS**



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

## PART I - FINANCIAL INFORMATION

**Item 1. Condensed Consolidated Financial Statements.**

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | OCTOBER 31, 2016 | APRIL 30, 2016 |
|---|---|---|
| | *Unaudited* | *(Note 2)* |
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 49,055,000 | $ 61,412,000 |
| Trade and other receivables | 6,066,000 | 2,859,000 |
| Inventories | 25,924,000 | 16,186,000 |
| Prepaid expenses and other current assets | 1,711,000 | 1,351,000 |
| Total current assets | 82,756,000 | 81,808,000 |
| Property and equipment, net | 23,957,000 | 24,302,000 |
| Restricted cash | 600,000 | 600,000 |
| Other assets | 2,624,000 | 2,333,000 |
| TOTAL ASSETS | $ 109,937,000 | $ 109,043,000 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 11,572,000 | $ 8,429,000 |
| Accrued clinical trial and related fees | 3,639,000 | 7,594,000 |
| Accrued payroll and related costs | 5,280,000 | 5,821,000 |
| Deferred revenue | 17,980,000 | 10,030,000 |
| Customer deposits | 26,928,000 | 24,212,000 |
| Other current liabilities | 1,012,000 | 1,488,000 |
| Total current liabilities | 66,411,000 | 57,574,000 |
| | | |
| Deferred rent, less current portion | 1,347,000 | 1,395,000 |
| | | |
| Commitments and contingencies | | |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock - $0.001 par value; authorized 5,000,000 shares; 1,647,760 and 1,577,440 issued and outstanding at October 31, 2016 and April 30, 2016, respectively | 2,000 | 2,000 |
| Common stock-$0.001 par value; authorized 500,000,000 shares; 251,765,279 and 236,930,485 issued and outstanding at October 31, 2016 and April 30, 2016 , respectively | 252,000 | 237,000 |
| Additional paid-in capital | 566,314,000 | 559,111,000 |
| Accumulated deficit | (524,389,000) | (509,276,000) |
| Total stockholders' equity | 42,179,000 | 50,074,000 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 109,937,000 | $ 109,043,000 |

See accompanying notes to condensed consolidated financial statements.

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)**

| | THREE MONTHS ENDED OCTOBER 31, | | SIX MONTHS ENDED OCTOBER 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **REVENUES:** | | | | |
| Contract manufacturing revenue | $ 23,370,000 | $ 9,523,000 | $ 28,979,000 | $ 18,902,000 |
| License revenue | – | – | – | 292,000 |
| Total revenues | 23,370,000 | 9,523,000 | 28,979,000 | 19,194,000 |
| **COSTS AND EXPENSES:** | | | | |
| Cost of contract manufacturing | 15,441,000 | 4,741,000 | 18,503,000 | 9,349,000 |
| Research and development | 7,022,000 | 14,190,000 | 15,591,000 | 28,108,000 |
| Selling, general and administrative | 4,984,000 | 4,416,000 | 10,044,000 | 9,315,000 |
| Total costs and expenses | 27,447,000 | 23,347,000 | 44,138,000 | 46,772,000 |
| **LOSS FROM OPERATIONS** | (4,077,000) | (13,824,000) | (15,159,000) | (27,578,000) |
| Interest and other income | 21,000 | 626,000 | 46,000 | 657,000 |
| **NET LOSS** | $ (4,056,000) | $ (13,198,000) | $ (15,113,000) | $ (26,921,000) |
| **COMPREHENSIVE LOSS** | $ (4,056,000) | $ (13,198,000) | $ (15,113,000) | $ (26,921,000) |
| Series E preferred stock accumulated dividends | (1,442,000) | (1,380,000) | (2,477,000) | (2,413,000) |
| **NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS** | $ (5,498,000) | $ (14,578,000) | $ (17,590,000) | $ (29,334,000) |
| **WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:** | | | | |
| Basic and Diluted | 244,815,767 | 203,942,411 | 242,205,428 | 200,629,892 |
| **BASIC AND DILUTED LOSS PER COMMON SHARE** | $ (0.02) | $ (0.07) | $ (0.07) | $ (0.15) |

See accompanying notes to condensed consolidated financial statements.

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | SIX MONTHS ENDED OCTOBER 31, | |
|---|---|---|
| | **2016** | **2015** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (15,113,000) | $ (26,921,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Share-based compensation | 1,722,000 | 2,457,000 |
| Depreciation and amortization | 1,219,000 | 457,000 |
| Changes in operating assets and liabilities: | | |
| Trade and other receivables | (3,207,000) | 909,000 |
| Inventories | (9,738,000) | (5,200,000) |
| Prepaid expenses and other current assets | (360,000) | (640,000) |
| Other non-current assets | 156,000 | (177,000) |
| Accounts payable | 2,888,000 | (5,947,000) |
| Accrued clinical trial and related fees | (3,955,000) | 2,228,000 |
| Accrued payroll and related expenses | (541,000) | (476,000) |
| Deferred revenue | 7,950,000 | 3,058,000 |
| Customer deposits | 2,716,000 | 3,572,000 |
| Other accrued expenses and current liabilities | (476,000) | 230,000 |
| Deferred rent, less current portion | (48,000) | (126,000) |
| Net cash used in operating activities | (16,787,000) | (26,576,000) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Property and equipment acquisitions | (828,000) | (4,534,000) |
| (Increase) decrease in other assets | (238,000) | 459,000 |
| Net cash used in investing activities | (1,066,000) | (4,075,000) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from issuance of common stock, net of issuance costs of $185,000 and $444,000, respectively | 5,781,000 | 36,198,000 |
| Proceeds from issuance of Series E preferred stock, net of issuance costs of $57,000 and $1,000, respectively | 1,577,000 | 59,000 |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 254,000 | 334,000 |
| Proceeds from exercise of stock options | – | 132,000 |
| Dividends paid on Series E preferred stock | (2,116,000) | (2,068,000) |
| Net cash provided by financing activities | 5,496,000 | 34,655,000 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (12,357,000) | 4,004,000 |
| **CASH AND CASH EQUIVALENTS, beginning of period** | 61,412,000 | 68,001,000 |
| **CASH AND CASH EQUIVALENTS, end of period** | $ 49,055,000 | $ 72,005,000 |
| **SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:** | | |
| Accounts payable and other liabilities for purchase of property and equipment and other assets | $ 255,000 | $ 2,463,000 |

See accompanying notes to condensed consolidated financial statements.

## 1. ORGANIZATION AND BUSINESS

We are a biopharmaceutical company committed to improving the lives of patients by manufacturing pharmaceutical products through our wholly-owned subsidiary Avid Bioservices, Inc. ("Avid"), a contract development and manufacturing organization ("CDMO") and through advancing and licensing our novel, development-stage immunotherapy products.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The accompanying 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 unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended April 30, 2016. The condensed consolidated balance sheet at April 30, 2016 has been derived from audited financial statements at that date. 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 or any other interim period.

The unaudited condensed consolidated financial statements include the accounts of Peregrine and Avid. All intercompany accounts and transactions among the consolidated entities have been eliminated in the 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 materially from those estimates and assumptions.

**Liquidity and Financial Condition**

At October 31, 2016, we had $49,055,000 in cash and cash equivalents. We have expended substantial funds on the research and development 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 negative cash flows from operations to continue until at least the fiscal year ending April 30, 2018 before we believe we can generate sufficient revenue from Avid's contract manufacturing services to achieve profitability. Therefore, unless and until we are able to generate sufficient revenue from Avid's contract manufacturing services or from the sale or licensing of our product candidates under development, we expect such losses to continue through at least the fiscal year ending April 30, 2018.

Our ability to continue to fund our operations 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, (i) raising additional capital in the equity markets, (ii) generating additional revenue from Avid, or (iii) licensing or partnering our product candidates in development.

Historically, we have funded a significant portion of our operations through the issuance of equity. During the six months ended October 31, 2016, we raised $5,966,000 in aggregate gross proceeds from the sale of shares of our common stock and raised an additional $1,634,000 in aggregate gross proceeds from the sale of shares of our 10.5% Series E Convertible Preferred Stock (the "Series E Preferred Stock") (Note 6). Subsequent to October 31, 2016 and through December 12, 2016, we raised an additional $1,670,000 in aggregate gross proceeds from the sale of shares of our common stock (Note 11). As of December 12, 2016, $105,345,000 remained available to us under our two effective shelf registration statements, which allows us from time to time to offer and sell shares of our common stock or Series E Preferred Stock, in one or more offerings, either individually or in combination.

Our ability to raise additional capital in the equity markets to fund our obligations in future periods is dependent on a number of factors, including, but not limited to, the market demand for our common stock or Series E Preferred Stock. The market demand or liquidity of our common stock and/or Series E Preferred Stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse financial results, and negative research and development results. Furthermore, our ability to raise additional capital in the equity markets has been significantly impacted by the decline in the market price of our common stock following our announcement in February 2016 that we were discontinuing the Phase III SUNRISE trial. As a result, we have experienced a substantial decline in the amount of additional capital that we have been able to raise from the sale of shares of our common stock as compared to recent fiscal years. If the market price of our common stock does not improve significantly, we may not be able to rely on the sale of shares of our common stock to fund our operations to the extent we have in prior years. If we are unable to either (i) raise sufficient capital in the equity markets, (ii) generate additional revenue from Avid, or (iii) license or partner our products in development, or any combination thereof, we may need to delay, scale back, or eliminate some or all our research and development efforts, or restructure our operations, which may include delaying the planned expansion of our contract manufacturing business. 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.

**Cash and Cash Equivalents**

We consider all short-term investments readily convertible to cash with an initial maturity of three months or less to be cash equivalents.

**Restricted Cash**

Under the terms of two separate operating leases related to our facilities, we are required to maintain, as collateral, letters of credit during the terms of such leases. At October 31, 2016 and April 30, 2016, we had restricted cash of $600,000, in aggregate, under these letters of credit.

**Concentrations of Credit Risk and Customer Base**

Financial instruments that potentially subject us to a significant concentration of credit risk consist of cash and cash equivalents, restricted cash and trade receivables. We maintain our cash and restricted cash balances primarily with one major commercial bank and our deposits held with the bank exceed the amount of government insurance limits provided on our deposits. We are exposed to credit risk in the event of default by the major commercial bank holding our cash and restricted cash balances to the extent of the cash and restricted cash amounts recorded on the accompanying interim unaudited condensed consolidated balance sheet.

Our trade receivables from amounts billed for contract manufacturing services provided by Avid have historically been derived from a small customer base. Most contracts require up-front payments and installment payments during the service period. We perform periodic evaluations of the financial condition of our customers and generally do not require collateral, but we can terminate any contract if a material default occurs. At October 31, 2016 and April 30, 2016, over 98% of our trade receivables were due from four customers.

In addition, contract manufacturing revenue generated by Avid has historically been derived from a small customer base (Note 9). 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 future results of operations could be adversely affected if revenue from any one of our primary customers is significantly reduced or eliminated.

**Revenue Recognition**

We currently derive revenue from our contract manufacturing services provided by Avid. We recognize revenue in accordance with the authoritative guidance for revenue recognition 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 elements.

Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer or licensing partner. When deliverables are separable, consideration received is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units, which may require the use of significant judgement. Deliverables are considered separate units of accounting if (1) the delivered item(s) has value to the customer on a stand-alone basis and (2) the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our 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, we use our 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.

*Contract Manufacturing Revenue*

Revenue associated with contract manufacturing services provided by Avid is recognized when all four of the aforementioned revenue recognition criteria have been met. For arrangements that include multiple elements, we follow the authoritative guidance for revenue recognition regarding arrangements with multiple deliverables, as described above.

On occasion, we receive requests from customers to hold product manufactured by Avid on a "bill-and-hold" basis. Revenue is recognized for such "bill-and-hold" arrangements in accordance with the authoritative guidance, which requires, among other things, the existence of a valid business purpose for the arrangement; the "bill-and-hold" arrangement is at the request of the customer; title and risk of ownership must pass to the customer; the product is complete and ready for shipment; a fixed delivery date that is reasonable and consistent with the customer's business practices; the product has been separated from our inventory; and no further performance obligations by us 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 and inventory 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 or customer deposits in the accompanying unaudited condensed consolidated financial statements. We also record a provision for estimated contract losses, if any, in the period in which they are determined.

**Impairment**

Long-lived assets are reviewed for impairment in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Long-lived assets are reported at the lower of carrying amount or fair value less cost to sell. For the six months ended October 31, 2016 and 2015, there was no impairment of the value of our long-lived assets.

**Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance prioritizes the inputs used in measuring fair value into the following hierarchy:

- Level 1 – Observable inputs, such as unadjusted 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 significant to the overall fair value measurement of the assets or liabilities; therefore, requiring the company to develop its own valuation techniques and assumptions.

As of October 31, 2016 and April 30, 2016, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash equivalents, which are primarily invested in money market funds with one major commercial bank, are carried at fair value based on quoted market prices for identical securities (Level 1 input).

**Customer Deposits**

Customer deposits primarily represent advance billings and/or payments received from Avid's third-party customers prior to the initiation of contract manufacturing services.

**Research and Development Expenses**

Research and development expenses primarily include (i) payroll and related costs, including share-based compensation associated with research and development personnel, (ii) costs related to clinical trials 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. Research and development expenses are charged to expense as incurred when these expenditures relate to our research and development efforts and have no alternative future uses.

Clinical trial costs are a significant component of our research and development expenses. We have a history of contracting with third parties that perform various clinical trial activities on our behalf in the ongoing development of our product candidates. The financial terms of these contracts are subject to negotiations and may vary from contract to contract and may result in uneven payment flow. Expenses related to clinical trials are accrued based on our estimates and/or representations from third parties (including clinical research organizations) regarding services performed. If the contracted amounts are modified (for instance, as a result of changes in the clinical trial protocol or scope of work to be performed), we modify our accruals accordingly on a prospective basis. Revisions in the scope of a contract are charged to expense in the period in which the facts that give rise to the revision become reasonably certain. There were no material adjustments for a change in estimate to research and development expenses in the accompanying unaudited condensed consolidated financial statements for the three and six months ended October 31, 2016 and 2015.

Under certain research and development agreements, we are obligated to make certain advance payments, including nonrefundable amounts, for goods or services that will be used or rendered for future research and development activities and are deferred and capitalized as prepaid research and development expenses. These advance payments are recognized as an expense in the period the related goods are delivered or the related 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 future economic benefit.

In addition, under certain in-licensing agreements associated with the research and development of our product candidates, we are obligated to pay certain milestone payments based on potential clinical development and regulatory milestones. These milestone payments have no alternative future uses (in other research and development projects or otherwise) and therefore have no separate economic values and are expensed as research and development costs at the time the costs are incurred. We have no in-licensed product candidates that have alternative future uses in research and development projects or otherwise.

**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, such as a Black-Scholes option valuation model, and is recognized as expense on a straight-line basis over the requisite service periods. The fair value of modifications to share-based awards, if any, is generally estimated using a Black-Scholes option valuation model, unless a lattice model is required. 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. As of October 31, 2016, there were no outstanding share-based awards with market or performance conditions.

Periodically, we 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 cumulative catch-up adjustment to share-based compensation resulting from the re-measurement is recognized in the current period (Note 7).

**Basic and Dilutive Net Loss Per Common Share**

Basic net loss per common share is computed by dividing our net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period excluding the dilutive effects of stock options, shares of common stock expected to be issued under our Employee Stock Purchase Plan (the "ESPP"), warrants, and Series E Preferred Stock outstanding during the period. Diluted net loss per common share is computed by dividing our net loss attributable to common stockholders by the sum of the weighted average number of shares of common stock outstanding during the period plus the potential dilutive effects of stock options, shares of common stock expected to be issued under our ESPP, warrants, and Series E Preferred Stock outstanding during the period. Net loss attributable to common stockholders represents our net loss plus Series E Preferred Stock accumulated dividends. Series E Preferred Stock accumulated dividends include dividends declared for the period (regardless of whether or not the dividends have been paid) and dividends accumulated for the period (regardless of whether or not the dividends have been declared).

The potential dilutive effect of stock options, shares of common stock expected to be issued under our ESPP, and warrants outstanding during the period are calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. The potential dilutive effect of Series E Preferred Stock outstanding during the period was calculated using the if-converted method assuming the conversion of Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. However, because the impact of stock options, shares of common stock expected to be issued under our ESPP, warrants, and Series E Preferred Stock are anti-dilutive during periods of net loss, there was no difference between basic and diluted loss per common share amounts for the three and six months ended October 31, 2016 and 2015.

The calculation of weighted average diluted shares outstanding for the three and six-month periods ended October 31, 2016 and 2015 excludes the dilutive effect of the following weighted average outstanding stock options and shares of common stock expected to be issued under our ESPP as their impact are anti-dilutive during periods of net loss, resulting in an anti-dilutive effect:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Stock Options | – | 1,958,583 | – | 2,340,300 |
| ESPP | 165,672 | 40,581 | 119,972 | 40,519 |
| Total | 165,672 | 1,999,164 | 119,972 | 2,380,819 |

The calculation of weighted average diluted shares outstanding for the three and six-month periods ended October 31, 2016 and 2015 also excludes the following weighted average outstanding stock options, warrants, and Series E Preferred Stock (assuming the if-converted method), as their exercise prices or conversion price were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Stock Options | 29,806,420 | 19,235,713 | 28,834,459 | 15,775,106 |
| Warrants | 273,280 | 273,280 | 273,280 | 273,280 |
| Series E Preferred Stock | 13,798,438 | 13,248,858 | 13,529,397 | 13,243,359 |
| Total | 43,878,138 | 32,757,851 | 42,637,136 | 29,291,745 |

Subsequent to October 31, 2016 and through December 12, 2016, we sold an aggregate of 5,376,255 shares of our common stock (Note 11), which are not included in the calculation of basic and dilutive net loss per common share for the three and six months ended October 31, 2016.

**Pending Adoption of Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606): *Revenue from Contracts with Customers* , which amends the guidance in former ASC 605, *Revenue Recognition* , which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* , which defers the effective date of ASU No. 2014-09 by one year, but permits entities to adopt one year earlier if they choose (i.e., the original effective date). As such, ASU No. 2014-09 will be effective for annual reporting periods ending after December 15, 2017, which will be our fiscal year 2019 beginning May 1, 2018. We are currently in the process of evaluating the impact of adoption of ASU No. 2014-09 on our consolidated financial statements and related disclosures, including what transition method will be elected.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* . ASU No. 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). ASU No. 2014-15 provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. ASU No. 2014-15 is effective for annual reporting periods ending after December 15, 2016, which will be our fiscal year ending April 30, 2017, and to annual and interim periods thereafter. Early adoption is permitted. We have not yet determined the effect that the adoption of this guidance will have on the disclosures included in our consolidated financial statements as our analysis regarding our ability to continue as a going concern will be performed in conjunction with the preparation of our Annual Report on Form 10-K for the fiscal year ending April 30, 2017.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory* . ASU 2015-11 requires that for entities that measure inventory using the first-in, first-out method, inventory should be measured at the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, which will be our fiscal year 2018 beginning May 1, 2017, and interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently in the process of evaluating the impact of adoption of ASU No. 2015-11 on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): *Balance Sheet Classification of Deferred Taxes* . Under existing standards, deferred taxes for each tax-paying jurisdiction are presented as a net current asset or liability and net long-term asset or liability. To simplify presentation, the new guidance will require that all deferred tax assets and liabilities, along with related valuation allowances, be classified as long-term on the balance sheet. As a result, each tax-paying jurisdiction will now only have one net long-term deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. ASU No. 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, which will be our fiscal year 2018 beginning May 1, 2017. We do not expect the adoption of ASU No. 2015-17 to have a material impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU No. 2016-2 requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU No. 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, which will be our fiscal year 2020 beginning May 1, 2019. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption of ASU No. 2016-02 on our consolidated financial statements and related disclosures.

In March 2016, FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). ASU No. 2016-09 changes certain aspects of accounting for share-based payments to employees and involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Specifically, ASU No. 2016-09 requires that all income tax effects of share-based awards be recognized as income tax expense or benefit in the reporting period in which they occur. Additionally, ASU No. 2016-09 amends existing guidance to allow forfeitures of share-based awards to be recognized as they occur. Previous guidance required that share-based compensation expense include an estimate of forfeitures. ASU No. 2016-09 is effective for annual and interim periods beginning after December 15, 2016, which will be our fiscal year 2018 beginning May 1, 2017. Early adoption is permitted. We are currently evaluating the impact the adoption of ASU No. 2016-09 will have on our consolidated financial statements and related disclosures.

In November 2016, FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash* , which addresses diversity in practice related to the classification and presentation of changes in restricted cash on the statement of cash flows. ASU No. 2016-18 will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, which will be our fiscal year 2019 beginning May 1, 2018. Early adoption is permitted. We are currently evaluating the impact the adoption of ASU No. 2016-18 will have on our consolidated financial statements and related disclosures.

## 3. TRADE AND OTHER RECEIVABLES

Trade receivables are recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. Other receivables are reported at amounts expected to be collected net of an allowance for doubtful accounts, if necessary. Trade and other receivables consist of the following:

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| Trade receivables [(1)] | $ 5,551,000 | $ 2,494,000 |
| Other receivables | 515,000 | 365,000 |
| Total trade and other receivables | $ 6,066,000 | $ 2,859,000 |

(1) Represents amounts billed for contract manufacturing services provided by Avid.

We continually monitor our allowance for doubtful accounts for all receivables. We apply judgment in assessing the ultimate realization of our receivables and we estimate an allowance for doubtful accounts based on various factors, such as, the aging of accounts receivable balances, historical experience, and the financial condition of our customers. Based on our analysis of our receivables as of October 31, 2016 and April 30, 2016, we determined that no allowance for doubtful accounts was necessary with respect to our trade and other receivables.

4. PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related asset, generally ranging from three to ten years. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term.

Property and equipment, net, consists of the following:

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| Leasehold improvements | $ 19,990,000 | $ 19,610,000 |
| Laboratory equipment | 10,569,000 | 10,257,000 |
| Furniture, fixtures, office equipment and software | 4,227,000 | 4,045,000 |
| Total property and equipment | 34,786,000 | 33,912,000 |
| Less accumulated depreciation and amortization | (10,829,000) | (9,610,000) |
| Total property and equipment, net | $ 23,957,000 | $ 24,302,000 |

Depreciation and amortization expense for the three and six months ended October 31, 2016 was $606,000 and $1,219,000, respectively. Depreciation and amortization expense for the three and six months ended October 31, 2015 was $223,000 and $457,000, respectively.

5. INVENTORIES

Inventories are recorded at the lower of cost or market (net realizable value) and primarily include raw materials, direct labor and overhead costs (work-in-process) associated with our wholly-owned subsidiary, Avid. Cost is determined by the first-in, first-out method. Inventories consist of the following:

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| Raw materials | $ 11,696,000 | $ 10,911,000 |
| Work-in-process | 14,228,000 | 5,275,000 |
| Total inventories | $ 25,924,000 | $ 16,186,000 |

6. STOCKHOLDERS' EQUITY

**Sales of Common Stock and Preferred Stock**

Our ability to continue to fund our operations 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.

*Sale of Common Stock*

During the six months ended October 31, 2016, we issued shares of our common stock under the following agreements:

*AMI Sales Agreement* - On August 7, 2015, we entered into an At Market Issuance Sales Agreement ("AMI Sales Agreement") with MLV & Co. LLC ("MLV"), pursuant to which we may sell shares of our common stock through MLV, as agent, for aggregate gross proceeds of up to $30,000,000, in registered transactions from our shelf registration statement on Form S-3 (File No. 333-201245), which was declared effective by the SEC on January 15, 2015 ("January 2015 Shelf"). Sales of our common stock through MLV may be made by any method that is deemed an "at the market offering" as defined in Rule 415 of the Securities Act. We pay MLV a commission equal to 2.5% of the gross proceeds from the sale of our common stock pursuant to the AMI Sales Agreement. During the six months ended October 31, 2016, we sold 8,309,357 shares of our common stock at market prices under the AMI Sales Agreement, for aggregate gross proceeds of $3,450,000 before deducting commissions and other issuance costs of $108,000. As of October 31, 2016, aggregate gross proceeds of up to $19,103,000 remained available to us under the AMI Sales Agreement.

*Equity Distribution Agreement* - On August 7, 2015, we entered into an Equity Distribution Agreement, with Noble International Investments, Inc., doing business as Noble Life Science Partners, a division of Noble Financial Capital Markets ("Noble"), pursuant to which we may sell shares of our common stock through Noble, as agent, for aggregate gross proceeds of up to $20,000,000, in registered transactions from our January 2015 Shelf. Sales of our common stock through Noble may be made by any method that is deemed an "at the market offering" as defined in Rule 415 of the Securities Act. We pay Noble a commission equal to 2.5% of the gross proceeds from the sale of our common stock pursuant to the Equity Distribution Agreement. During the six months ended October 31, 2016, we sold 5,637,404 shares of our common stock at market prices under the Equity Distribution Agreement for aggregate gross proceeds of $2,516,000 before deducting commissions and other issuance costs of $77,000. As of October 31, 2016, aggregate gross proceeds of up to $10,515,000 remained available to us under the Equity Distribution Agreement.

*Sale of Series E Preferred Stock*

*Series E AMI Sales Agreement* - On June 13, 2014, we entered into an At Market Issuance Sales Agreement ("Series E AMI Sales Agreement") with MLV, pursuant to which we may issue and sell shares of our Series E Preferred Stock through MLV, as agent, for aggregate gross proceeds of up to $30,000,000, in registered transactions from our shelf registration statement on Form S-3 (File No. 333-193113), which was declared effective by the SEC on January 16, 2014. Sales of our Series E Preferred Stock through MLV may be made by any method that is deemed an "at the market offering" as defined in Rule 415 of the Securities Act. We pay MLV a commission of up to 5% of the gross proceeds from the sale of our Series E Preferred Stock pursuant to the Series E AMI Sales Agreement. During the six months ended October 31, 2016, we sold 70,320 shares of our Series E Preferred Stock at market prices under the Series E AMI Sales Agreement for aggregate gross proceeds of $1,634,000 before deducting commissions and other issuance costs of $57,000. As of October 31, 2016, aggregate gross proceeds of up to $9,101,000 remained available under the Series E AMI Sales Agreement.

**Series E Preferred Stock Dividends**

The following table summarizes the Series E Preferred Stock dividend activity for the six months ended October 31, 2016:

| Declaration Date | Dividend Per Share | Annualized Percentage Rate | Liquidation Preference | Accrual Period | Record Date | Payment Date |
|---|---|---|---|---|---|---|
| 6/2/2016 | $0.65625 | 10.50% | $25.00 | 4/1/2016 – 6/30/2016 | 6/17/2016 | 7/1/2016 |
| 9/6/2016 | $0.65625 | 10.50% | $25.00 | 7/1/2016 – 9/30/2016 | 9/16/2016 | 10/3/2016 |

**Shares of Common Stock Authorized and Reserved for Future Issuance**

We are authorized to issue up to 500,000,000 shares of our common stock. As of October 31, 2016, 251,765,279 shares of our common stock were issued and outstanding. In addition, our common stock outstanding as of October 31, 2016 excluded the following shares of our common stock reserved for future issuance:

- 39,525,245 shares of common stock reserved for issuance under outstanding option grants and available for issuance under our stock incentive plans;
- 10,520,626 shares of common stock reserved for and available for issuance under our Employee Stock Purchase Plan;
- 273,280 shares of common stock issuable upon exercise of outstanding warrants; and
- 47,785,040 shares of common stock issuable upon conversion of our outstanding Series E Preferred Stock [(1)] .

(1) The Series E Preferred Stock is convertible into a number of shares of our common stock determined by dividing the liquidation preference of $25.00 per share by the conversion price, currently $3.00 per share. If all outstanding Series E Preferred Stock were converted at the $3.00 per share conversion price, the holders of Series E Preferred Stock would receive an aggregate of 13,731,333 shares of our common stock. However, we have reserved the maximum number of shares of our common stock that could be issued upon a change of control event assuming our shares of common stock are acquired for consideration of $0.855 per share or less. In this scenario, each outstanding share of Series E Preferred Stock could be converted into 29 shares of our common stock, representing the Share Cap.

7. EQUITY COMPENSATION PLANS

**Stock Incentive Plans**

As of October 31, 2016, we had an aggregate of 39,525,245 shares of our common stock reserved for issuance under our stock incentive plans, of which 29,674,529 shares were subject to outstanding options and 9,850,716 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, 2016:

| Stock Options | Shares | Weighted Average Exercisable Price |
|---|---|---|
| Outstanding, May 1, 2016 | 23,751,261 | $ 1.48 |
| Granted | 6,856,384 | $ 0.49 |
| Exercised | – | – |
| Canceled or expired | (933,116) | $ 1.14 |
| Outstanding, October 31, 2016 | 29,674,529 | $ 1.26 |

**Employee Stock Purchase Plan**

We have reserved a total of 15,000,000 shares of our common stock to be purchased under our ESPP, of which 10,520,626 shares remained available to purchase at October 31, 2016. The ESPP allows eligible employees on a voluntary basis to purchase shares of our common stock directly from us. Under the ESPP, we sell shares to participants at a price equal to the lesser of 85% of the fair market value of our common stock at the (i) beginning of a six-month offering period, or (ii) end of the six-month offering period. The ESPP provides for two six-month offering periods each year; the first offering period begins on the first trading day on or after each November 1; the second offering period begins on the first trading day on or after each May 1. During the six months ended October 31, 2016, 888,033 shares of our common stock were purchased under the ESPP at a purchase price of $0.29 per share.

**Share-Based Compensation**

Total share-based compensation expense related to share-based awards issued under our equity compensation plans is included in the accompanying unaudited condensed consolidated statements of operations as follows:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Cost of contract manufacturing | $ 24,000 | $ 9,000 | $ 66,000 | $ 22,000 |
| Research and development | 446,000 | 569,000 | 816,000 | 1,040,000 |
| Selling, general and administrative | 415,000 | 696,000 | 840,000 | 1,395,000 |
| Total | $ 885,000 | $ 1,274,000 | $ 1,722,000 | $ 2,457,000 |
| | | | | |
| Share-based compensation from: | | | | |
| Stock options | $ 823,000 | $ 1,223,000 | $ 1,554,000 | $ 2,347,000 |
| ESPP | 62,000 | 51,000 | 168,000 | 110,000 |
| | $ 885,000 | $ 1,274,000 | $ 1,722,000 | $ 2,457,000 |

As of October 31, 2016, the total estimated unrecognized compensation cost related to non-vested employee stock options was $3,844,000. This cost is expected to be recognized over a weighted average vesting period of 1.68 years based on current assumptions.

8. WARRANTS

No warrants were issued or exercised during the three and six months ended October 31, 2016. As of October 31, 2016, warrants to purchase 273,280 shares of our common stock at an exercise price of $2.47 were outstanding and are exercisable through August 30, 2018.

9. 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. Avid is engaged in providing contract manufacturing services for third-party customers on a fee-for-service basis while also supporting our internal drug development efforts.

The accounting policies of the operating segments are the same as those described in Note 2. 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 is summarized as follows:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Contract manufacturing services revenue | $ 23,370,000 | $ 9,523,000 | $ 28,979,000 | $ 18,902,000 |
| Cost of contract manufacturing services | 15,441,000 | 4,741,000 | 18,503,000 | 9,349,000 |
| Gross profit | 7,929,000 | 4,782,000 | 10,476,000 | 9,553,000 |
| Revenue from products in research and development | – | – | – | 292,000 |
| Research and development expense | (7,022,000) | (14,190,000) | (15,591,000) | (28,108,000) |
| Selling, general and administrative expense | (4,984,000) | (4,416,000) | (10,044,000) | (9,315,000) |
| Interest and other income | 21,000 | 626,000 | 46,000 | 657,000 |
| Net loss | $ (4,056,000) | $ (13,198,000) | $ (15,113,000) | $ (26,921,000) |

Revenue generated from our contract manufacturing services segment was derived from a limited number of customers. The percentages below represent revenue derived from each customer as a percentage of total contract manufacturing services revenue:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| **Customer** | **2016** | **2015** | **2016** | **2015** |
| Halozyme Therapeutics, Inc. | 77% | 56% | 74% | 70% |
| Customer A | 10 | 41 | 14 | 28 |
| Customer B | 12 | – | 10 | – |
| Other customers | 1 | 3 | 2 | 2 |
| Total | 100% | 100% | 100% | 100% |

In addition, during the three and six months ended October 31, 2016 and 2015, contract manufacturing services revenue was derived solely from U.S. based customers.

Revenue generated from our products in our research and development segment during the six months ended October 31, 2015 was directly related to license revenue recognized under certain agreements with an unrelated entity.

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

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| **Long-lived Assets, net:** | | |
| Contract manufacturing services | $ 22,594,000 | $ 22,783,000 |
| Products in research and development | 1,363,000 | 1,519,000 |
| Total | $ 23,957,000 | $ 24,302,000 |

10. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case.

On October 10, 2013, a derivative and class action complaint, captioned *Michaeli v. Steven W. King, et al.* , C.A. No. 8994-VCL, was filed in the Court of Chancery of the State of Delaware against certain of our executive officers and directors (collectively, the "Defendants"). On December 1, 2015, the plaintiffs filed an amended and supplemental derivative and class action complaint (the "Amended Complaint"). The Amended Complaint alleges that the Defendants breached their respective fiduciary duties in connection with certain purportedly improper compensation decisions made by our Board of Directors during the past four fiscal years ended April 30, 2015, including: (i) the grant of a stock option to Mr. King on May 4, 2012; (ii) the non-routine broad-based stock option grant to our directors, executives, all other employees and certain consultants on December 27, 2012; and (iii) the payment, during the past four fiscal years ended April 30, 2015, of compensation to our non-employee directors. In addition, the complaint alleges that our directors breached their fiduciary duty of candor by filing and seeking stockholder action on the basis of an allegedly materially false and misleading proxy statement for our 2013 annual meeting of stockholders. The plaintiffs are seeking, among other things, rescission of a portion of the stock option grant to Mr. King on May 4, 2012 and the stock options granted to the Defendants on December 27, 2012, as well as disgorgement of any excessive compensation paid to our non-employee directors during the four fiscal years ended April 30, 2015 and other monetary relief for our benefit. The Defendants filed their answer to the Amended Complaint on February 19, 2016. We believe that the Amended Complaint is without merit and intend to vigorously defend the action. In addition, due to the early stage of this matter, we cannot reasonably estimate the possible loss or range of loss, if any, that may result from this matter.

11. SUBSEQUENT EVENTS

*Sale of Common Stock*

*AMI Sales Agreement* - Subsequent to October 31, 2016 and through December 12, 2016, we sold 3,788,346 shares of common stock at market prices under the AMI Sales Agreement (Note 6) for aggregate gross proceeds of $1,174,000. As of December 12, 2016, aggregate gross proceeds of up to $17,929,000 remained available to us under the AMI Sales Agreement.

*Equity Distribution Agreement* - Subsequent to October 31, 2016 and through December 12, 2016, we sold 1,587,909 shares of common stock at market prices under the Equity Distribution Agreement (Note 6) for aggregate gross proceeds of $496,000. As of December 12, 2016, aggregate gross proceeds of up to $10,019,000 remained available to us under the Equity Distribution Agreement.

*Series E Preferred Stock Dividend*

On December 6, 2016, our Board of Directors declared a quarterly cash dividend of $0.65625 per share on our Series E Preferred Stock. The dividend payment is equivalent to an annualized 10.50% per share, based on the $25.00 per share stated liquidation preference, accruing from October 1, 2016 through December 31, 2016. The cash dividend is payable on January 3, 2017 to holders of the Series E Preferred Stock of record on December 16, 2016.

## 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 (the "Exchange Act"), 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 us or any other person that our events or plans 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 Part II, Section 1A of this Quarterly Report on Form 10-Q, Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, and 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 biopharmaceutical company committed to improving the lives of patients by manufacturing high quality pharmaceutical products through our contract manufacturing business and through advancing and licensing our novel, development-stage immunotherapy products.

Avid Bioservices, Inc. ("Avid") is our contract development and manufacturing organization ("CDMO") and a wholly-owned subsidiary of Peregrine Pharmaceuticals, Inc. ("Peregrine"). In June 2016, we announced a new corporate strategy to achieve sustained profitability within two (2) years, and at the same time, refocus our internal clinical development efforts on small, early stage clinical trials designed to drive partnering interest in our investigational products.

**Avid—Our CDMO**

Our contract manufacturing business provides fully-integrated cGMP services from cell line development to commercial biomanufacturing for third-party customers while also supporting our internal drug development business. This integration, we believe, offers considerable time and cost efficiencies for our internal drug development business.

In March 2016, we formally commissioned our Myford biomanufacturing facility which doubled our manufacturing capacity. The 40,000 square foot facility, which is our second manufacturing facility, is designed to utilize single-use equipment up to the 2,000-liter manufacturing scale to accommodate a fully disposable biomanufacturing process for products in late stage clinical development to commercial. This facility is currently being utilized to complete multiple process validation runs for our third-party customers. As we complete these process validation runs, this moves us a step closer to generating revenue from commercial production from this new manufacturing facility, provided our third-party customers' products are approved. The facility is located adjacent to our current headquarters in Tustin, California.

As we look to expand our CDMO capacity and capabilities, we are planning to construct a third manufacturing facility focused on products in clinical development, that we believe will further significantly increase our manufacturing capacity. We have leased a 25,000 square foot building in close proximity to our current campus that could be utilized for construction of this new clinical facility. However, we are currently evaluating an alternative location that would allow us to utilize an existing manufacturing infrastructure that we believe may enhance manufacturing efficiencies and reduce the overall cost to construct our new facility. If we secure the alternative location in the near term, we would intend to utilize the aforementioned 25,000 square foot location as additional warehousing capacity. Due to our ongoing evaluations, we now anticipate that the new clinical manufacturing facility will be complete and ready for clinical manufacturing activities by the end of calendar year 2017.

**Peregrine—Our Drug Development Business**

Our drug development business is focused on developing therapeutics designed to fight cancer by reversing the immunosuppressive environment that many tumors establish in order to proliferate. By doing so, these therapeutics allow the immune system to recognize and destroy tumor cells. Bavituximab is our lead immunotherapy candidate, and we currently have clinical collaborations with AstraZeneca and the National Comprehensive Cancer Network® ("NCCN"), as well as a preclinical collaboration with Memorial Sloan Kettering Cancer Center, all of which are evaluating the potential of bavituximab in combination with immune stimulating therapies.

Bavituximab is a monoclonal antibody that targets and binds to phosphatidylserine ("PS"), a highly immunosuppressive molecule that is usually located inside the membrane of healthy cells, but then "flips" and becomes exposed on the outside of cells in the tumor microenvironment, causing the tumor to evade immune detection. Bavituximab targets and binds to PS to block this immunosuppressive pathway and simultaneously activates adaptive immunity, thereby enabling the immune system to recognize and fight the tumor.

***Clinical Development Strategy***

In June 2016, we announced a clinical development strategy focused on conducting small, early stage studies of bavituximab in combination with immune stimulating therapies. These trials may be conducted independently, in conjunction with our collaborators, or through investigator sponsored trials ("ISTs"). The goal of these trials will be to generate compelling clinical and translational data demonstrating bavituximab's immunotherapeutic mechanism of action in a combination treatment setting. We plan to leverage these data to drive partnering interest in our PS-targeting platform. In keeping with this strategy, we currently have no near-term plans to initiate Company-sponsored Phase II and Phase III trials.

We believe this strategy will allow us to (i) continue our research and development activities while avoiding costly, later stage clinical trials, thereby allowing us to achieve profitability sooner, and (ii) generate additional data that we believe, if positive, could generate future potential value, including attracting potential licensing partners.

***Collaboration with AstraZeneca Combining Bavituximab and Durvalumab (MEDI4736)***

In August 2015, we entered into our first clinical collaboration with AstraZeneca to evaluate the combination of bavituximab and durvalumab (MEDI4736), an anti-PD-L1 monoclonal antibody, with chemotherapy in a planned Phase I/Ib trial in multiple solid tumors. In October 2015, we expanded our clinical collaboration with AstraZeneca to evaluate the combination of bavituximab and durvalumab in a Phase II study in patients with previously-treated squamous or non-squamous non-small cell lung cancer ("NSCLC").

As discussed above, on June 2016, we announced a shift in corporate strategy to focus exclusively on small, early stage clinical trials combining bavituximab with immune stimulating therapies. For this reason, we will not proceed with any previously planned Company-sponsored Phase II clinical trials. We are currently conducting an extensive review and analysis of the available clinical data from the Phase III SUNRISE trial discussed below and testing the numerous collected samples for potential biomarkers in order to determine if certain subgroups or patients with other characteristics benefited more from bavituximab. We believe such information will be important in helping guide the bavituximab clinical program, including our collaboration with AstraZeneca.

***NCCN Collaboration***

In January 2016, we announced that we entered into a research collaboration with NCCN, a not-for-profit alliance of 27 of the world's leading cancer centers, to expand the clinical research and development of bavituximab for the treatment of a range of tumors. Under this research collaboration, we intend to fund ISTs and correlative studies with bavituximab at NCCN member institutions and their affiliate community hospitals through a $2 million research grant to NCCN's Oncology Research Program. NCCN will be responsible for oversight and monitoring of all clinical studies under the research grant. In September 2016, NCCN announced that investigators at the following NCCN-affiliated institutions were recipients of the grant awards:

1. Moffitt Cancer Center - A Phase I Trial of Sorafenib and Bavituximab Plus Stereotactic Body Radiation Therapy for Unresectable Hepatitis C Associated Hepatocellular Carcinoma;

2. Massachusetts General Hospital Cancer Center - Phase I/II Clinical Trial of Bavituximab with Radiation and Temozolomide for Patients with Newly Diagnosed Glioblastoma; and

3. The Sidney Kimmel Comprehensive Cancer Center at Johns Hopkins - Phase II Study of Pembrolizumab and Bavituximab for Progressive Recurrent/Metastatic Squamous Cell Carcinoma of the Head and Neck.

While specific timing has not been established, nor within our control, we expect that the first studies will be initiated over the coming months.

***Bavituximab in Front-Line Rectal Adenocarcinoma IST***

This Phase I IST was designed to assess bavituximab in combination with capecitabine and radiation therapy in up to 18 patients with Stage II or III rectal adenocarcinoma. The primary endpoint is to determine the safety, feasibility and tolerability with a standard platform of capecitabine and radiation therapy. Secondary endpoints include overall response rate and pathological complete response (pCR) rate in patients. Patient enrollment was completed in October 2015 and we believe the investigator plans to prepare and submit a manuscript of results.

***Phase III SUNRISE Trial***

In December 2013, we initiated a randomized, double-blind, placebo-controlled Phase III trial evaluating bavituximab plus docetaxel versus docetaxel plus placebo, for the treatment of previously-treated NSCLC (the "Phase III SUNRISE trial").

In February 2016, we announced that we were discontinuing the Phase III SUNRISE trial based on the recommendation of the study's Independent Data Monitoring Committee following a pre-specified interim analysis performed after 33% of targeted overall events (patient deaths) in the study were reached. Results of the analysis demonstrated that the patients treated in the bavituximab plus docetaxel treatment arm did not show a sufficient improvement in overall survival as compared to the patients treated in the docetaxel plus placebo treatment arm to warrant continuation of the study. Patient enrollment was discontinued and existing patients in the trial were given the choice to continue chemotherapy and/or bavituximab, as appropriate. Clinical trial data from the study will continue to be collected until trial completion.

In October 2016, we announced interim top-line results at the European Society for Medical Oncology ("ESMO") 2016 Congress. The top-line results were based on a data cut-off after 70% (330/473) of the targeted overall survival ("OS") events had been reached and demonstrated the addition of bavituximab to docetaxel did not result in improvement of the study's primary endpoint of OS in the intent-to-treat population. Median OS for the bavituximab plus docetaxel group was 10.7 months as compared to 10.8 months for the placebo plus docetaxel control group (HR = 1.110; p = 0.382). Median progression free survival ("PFS") for the bavituximab-containing group was 4.1 months compared to 3.9 months for the control group (HR = 0.97; p = 0.803). Objective response rates based on independent central review were currently 13% and 11% (p = 0.53) for the bavituximab-containing and control groups, respectively. Additionally, the safety profile of the combination of bavituximab with docetaxel group was similar to placebo plus docetaxel group.

In addition, we are currently conducting an extensive review of the available data and testing the numerous collected samples for potential biomarkers in order to understand what subgroups or other patient characteristics may have impacted the performance of the study. At the ESMO 2016 Congress, we presented data that showed that certain levels of the serum protein beta-2 glycoprotein-1 (β2GP1) may be useful for identifying patients who are more likely to benefit from a bavituximab-containing therapeutic regimen. Numerous other potential biomarkers are currently being analyzed with the goal of developing a multi-marker signature that can potentially identify patients that are likely to receive significant clinical benefit from a bavituximab-containing therapeutic regimen. We believe such information will be important in supporting our clinical strategy as discussed above.

**Results of Operations**

The following table compares the unaudited condensed consolidated statements of operations for the three and six-month periods ended October 31, 2016 and 2015. 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, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ Change | 2016 | 2015 | $ Change |
| **REVENUES:** | | | | | | |
| Contract manufacturing revenue | $ 23,370,000 | $ 9,523,000 | $ 13,847,000 | $ 28,979,000 | $ 18,902,000 | $ 10,077,000 |
| License revenue | – | – | – | – | 292,000 | (292,000) |
| Total revenues | 23,370,000 | 9,523,000 | 13,847,000 | 28,979,000 | 19,194,000 | 9,785,000 |
| **COSTS AND EXPENSES:** | | | | | | |
| Cost of contract manufacturing | 15,441,000 | 4,741,000 | 10,700,000 | 18,503,000 | 9,349,000 | 9,154,000 |
| Research and development | 7,022,000 | 14,190,000 | (7,168,000) | 15,591,000 | 28,108,000 | (12,517,000) |
| Selling, general & administrative | 4,984,000 | 4,416,000 | 568,000 | 10,044,000 | 9,315,000 | 729,000 |
| Total costs and expenses | 27,447,000 | 23,347,000 | 4,100,000 | 44,138,000 | 46,772,000 | (2,634,000) |
| **LOSS FROM OPERATIONS** | (4,077,000) | (13,824,000) | 9,747,000 | (15,159,000) | (27,578,000) | 12,419,000 |
| Interest and other income | 21,000 | 626,000 | (605,000) | 46,000 | 657,000 | (611,000) |
| **NET LOSS** | $ (4,056,000) | $ (13,198,000) | $ 9,142,000 | $ (15,113,000) | $ (26,921,000) | $ 11,808,000 |

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 or for any other period.

***Contract Manufacturing Revenue***

Three Months: The increase in contract manufacturing revenue of $13,847,000 (145%) during the three months ended October 31, 2016 compared to the same period in the prior year was primarily due to an increase in the number of manufacturing runs shipped in the current year period due to an increased demand for contract manufacturing services combined with increased manufacturing capacity associated with our Myford biomanufacturing facility, which became fully operational in March 2016, supplemented with the timing of shipment of several manufacturing runs that were delayed from the prior quarter ended July 31, 2016 to the current quarter due to a previously disclosed unexpected delay in third-party product testing needed for final product release.

Six Months: The increase in contract manufacturing revenue of $10,077,000 (53%) during the six-month period ended October 31, 2016 compared to the same period in the prior year was primarily due to an increase in the number of manufacturing runs shipped in the current year period due to an increased demand for contract manufacturing services combined with increased manufacturing capacity associated with our Myford biomanufacturing facility.

Based on our current commitments for manufacturing services from Avid's third-party customers and the anticipated completion of in-process third-party customer manufacturing runs, we expect contract manufacturing revenue for the full fiscal year ending April 30, 2017 to range from $50 to $55 million.

***License Revenue***

Six Months: The decrease in license revenue of $292,000 during the six months ended October 31, 2016 compared to the same period in the prior year was directly related to revenue recognized in the prior year period in accordance with the terms of our existing license agreements. Based on our existing licensing agreements, we do not expect license revenue to be a significant source of revenue for the current fiscal year.

***Cost of Contract Manufacturing***

Three and Six Months: The increases in cost of contract manufacturing of $10,700,000 (226%) and $9,154,000 (98%) during the three and six-month periods ended October 31, 2016, respectively, compared to the same periods in the prior year was primarily due to the current year three and six-month period increases in contract manufacturing revenue. In addition, we saw a decline in our gross margin for the current year three and six-month periods, which was primarily attributed to the mix of products manufactured for and services provided to our customers and the variability of costs from product to product.

***Research and Development Expenses***

Research and development expenses primarily include (i) payroll and related costs and share-based compensation expense (non-cash), associated with research and development personnel, (ii) costs related to clinical trials and preclinical testing, (iii) costs to develop and manufacture our 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. Research and development expenses are charged to expense as incurred when these expenditures relate to our research and development efforts and have no alternative future uses.

Three Months: The decrease in research and development expenses of $7,168,000 (51%) during the three months ended October 31, 2016 compared to the same prior year period was primarily related to the following decreases associated with our PS-targeting platform:

- Decrease in third-party clinical trial costs of $5,000,000 primarily attributed to a decrease in costs related to our discontinued Phase III SUNRISE trial (as discussed above) and previously planned Phase II trials in breast and lung cancers;
- Decrease in manufacturing costs of $1,049,000 primarily related to internal and external costs and expenses incurred in the prior year associated with preparing bavituximab for commercial production; and
- Decrease in payroll and related expenses of $1,007,000 primarily related to a reduction of research and development personnel combined with the reassignment of certain personnel to our contract manufacturing operations;

Six Months: The decrease in research and development expenses of $12,517,000 (45%) during the six months ended October 31, 2016 compared to the same prior year period was primarily related to the following decreases associated with our PS-targeting platform:

- Decrease in third-party clinical trial costs of $7,274,000 related to the clinical development of bavituximab related to our discontinued Phase III SUNRISE trial (as discussed above) and previously planned Phase II trials in breast and lung cancers;

- Decrease in payroll and related expenses of $1,929,000 related to a reduction of research and development personnel combined with the reassignment of certain personnel to our contract manufacturing operations;

- Decrease in manufacturing costs of $1,869,000 primarily related to internal and external costs and expenses incurred in the prior year associated with preparing bavituximab for commercial production; and

- Decreases in facility-related expenses and share-based compensation expense (non-cash) of $514,000 and $232,000, respectively.

In addition, during June 2016, we announced a clinical development strategy focused on conducting small, early stage studies of bavituximab in combination with immune stimulating therapies. These trials may be conducted independently, in conjunction with our collaborators, or through ISTs. The goal of these trials will be to generate compelling clinical and translational biomarker data that demonstrate the ability of treatment combinations featuring bavituximab to modify immune activity within the tumor microenvironment to support cancer killing. We plan to leverage these data, if positive, to attract partnering interest in our PS-targeting platform. Based on our current strategy, we expect research and development expenses for the current fiscal year to decrease at least 40% or more in comparison to our fiscal year ended April 30, 2016.

***Selling, General and Administrative Expenses***

Selling, general and administrative ("SG&A") expenses consist primarily of payroll and related expenses and share-based compensation expense (non-cash), for personnel in executive, finance, accounting, business development, legal, human resources, information technology, and other internal support functions. In addition, SG&A expenses include corporate and patent legal fees, audit and accounting fees, investor relation expenses, non-employee director fees, insurance expense, and other expenses relating to our general management, administration, and business development activities.

Three and Six Months: The increases in SG&A expenses of $568,000 (13%) and $729,000 (8%) during the three and six-month periods ended October 31, 2016, respectively, compared to the same periods in the prior year was primarily due to current year period increases in payroll and related expenses and facility related expenses, offset by current year period decreases in share-based compensation expense (non-cash) and other general corporate expenses. We expect SG&A expenses for the remainder of the current fiscal year ending April 30, 2017 to remain in-line with our current six month period as we continue to increase our infrastructure to support the expansion of our contract manufacturing business.

***Interest and Other Income***

Three and Six Months: The decreases in interest and other income of $605,000 (97%) and $611,000 (93%) during the three and six-month periods ended October 31, 2016, respectively, compared to the same periods in the prior year was directly related to the receipt in the prior year of a $600,000 settlement payment from a former third-party vendor during the three-month period ended October 31, 2015, in accordance with the terms of the confidential settlement and release agreement we entered into with the former third-party vendor on September 8, 2015.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our consolidated financial position and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We review our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which 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. During the three and six-month periods ended October 31, 2016, there were no significant changes in our critical accounting policies as previously disclosed by us in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2016.

**Liquidity and Capital Resources**

At October 31, 2016, we had $49,055,000 in cash and cash equivalents. We have expended substantial funds on the research and development 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 negative cash flows from operations to continue until at least the fiscal year ending April 30, 2018 before we believe we can generate sufficient revenue from Avid's contract manufacturing services to achieve profitability. Therefore, unless and until we are able to generate sufficient revenue from Avid's contract manufacturing services or from the sale or licensing of our product candidates under development, we expect such losses to continue through at least the fiscal year ending April 30, 2018.

Our ability to continue to fund our operations 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, (i) raising additional capital in the equity markets, (ii) generating additional revenue from Avid, or (iii) licensing or partnering our product candidates in development.

Historically, we have funded a significant portion of our operations through the issuance of equity. During the six months ended October 31, 2016, we raised $5,966,000 in aggregate gross proceeds from the sale of shares of our common stock and raised an additional $1,634,000 in aggregate gross proceeds from the sale of shares of our 10.5% Series E Convertible Preferred Stock (the "Series E Preferred Stock") (as described in Note 6 to the accompanying unaudited condensed consolidated financial statements). Subsequent to October 31, 2016 and through December 12, 2016, we raised an additional $1,670,000 in aggregate gross proceeds from the sale of shares of our common stock (as described in Note 11 to the accompanying unaudited condensed consolidated financial statements). As of December 12, 2016, $105,345,000 remained available to us under our two effective shelf registration statements, which allows us from time to time to offer and sell shares of our common stock or Series E Preferred Stock, in one or more offerings, either individually or in combination.

Our ability to raise additional capital in the equity markets to fund our obligations in future periods is dependent on a number of factors, including but not limited to, the market demand for our common stock or Series E Preferred Stock. The market demand or liquidity of our common stock and/or Series E Preferred Stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse financial results, and negative research and development results. Furthermore, our ability to raise additional capital in the equity markets has been significantly impacted by the decline in the market price of our common stock following our announcement in February 2016 that we were discontinuing the Phase III SUNRISE trial. As a result, we have experienced a substantial decline in the amount of additional capital that we have been able to raise from the sale of shares of our common stock as compared to recent fiscal years. If the market price of our common stock does not improve significantly, we may not be able to rely on the sale of shares of our common stock to fund our operations to the extent we have in prior years.

With respect to our ability to generate additional contract manufacturing revenue, Avid currently has a revenue backlog of $73 million under signed contracts from existing customers covering manufacturing services, most of which, is expected to be completed during the current fiscal year and fiscal year 2018.

Although it is difficult to predict all of our future liquidity requirements, we believe that our cash and cash equivalents as of October 31, 2016 combined with the additional proceeds raised subsequent to October 31, 2016 and through December 12, 2016, and the projected cash receipts from manufacturing services provided by Avid for its third-party customers under will be sufficient to fund our operations through at least September 2017, which estimate assumes we raise no additional capital from the capital markets or other potential sources.

If we are unable to either (i) raise sufficient capital in the equity markets, (ii) generate additional revenue from Avid, or (iii) license or partner our products in development, or any combination thereof, we may need to delay, scale back, or eliminate some or all our research and development efforts, or restructure our operations, which may include delaying the planned expansion of our contract manufacturing business. 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.

Significant components of the changes in cash flows from operating, investing, and financing activities for the six months ended October 31, 2016 compared to the same prior year period are as follows:

*Net Cash Used In Operating Activities* . Net cash used in operating activities represents our (i) net loss, as reported, (ii) less non-cash operating expenses, and (iii) net changes in the timing of cash flows as reflected by the changes in operating assets and liabilities, as described in the below table:

| | Six Months Ended October 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net loss, as reported | $ (15,113,000) | $ (26,921,000) |
| Less non-cash operating expenses: | | |
| Share-based compensation | 1,722,000 | 2,457,000 |
| Depreciation and amortization | 1,219,000 | 457,000 |
| Net cash used in operating activities before changes in operating assets and liabilities | $ (12,172,000) | $ (24,007,000) |
| Net change in operating assets and liabilities | $ (4,615,000) | $ (2,569,000) |
| Net cash used in operating activities | $ (16,787,000) | $ (26,576,000) |

Net cash used in operating activities decreased $9,789,000 to $16,787,000 for the six months ended October 31, 2016 compared to net cash used in operating activities of $26,576,000 for the six months ended October 31, 2015. This decrease in net cash used in operating activities was due to a decrease in net loss reported for the current six-month period after deducting non-cash operating expenses of $11,835,000, as described in the above table, offset by a net change in operating assets and liabilities of $2,046,000 due to the timing of cash receipts and expenditures.

*Net Cash Used In Investing Activities.* Net cash used in investing activities for the six months ended October 31, 2016 and 2015, was $1,066,000 and $4,075,000, respectively.

Net cash used in investing activities during the six months ended October 31, 2016 consisted of property and equipment acquisitions of $828,000 related to our manufacturing operations combined with an increase in other assets of $238,000.

Net cash used in investing activities during the six months ended October 31, 2015 consisted of property and equipment acquisitions of $4,534,000 offset by a decrease in other assets of $459,000. Property and equipment acquisitions during the six months ended October 31, 2015 primarily related to costs associated with the construction of our Myford facility to support Avid's projected revenue growth and to support the manufacturing of our product candidates. The construction of the Myford facility was completed and we placed the facility into service during our fiscal year ended April 30, 2016. The decrease in other assets was primarily due to the transfer of progress payments incurred during our fiscal year ended April 30, 2015 to property and equipment related to our manufacturing operations.

*Net Cash Provided By Financing Activities* . Net cash provided by financing activities for the six months ended October 31, 2016 and 2015, was $5,496,000 and $34,655,000, respectively.

Net cash provided by financing activities during the six months ended October 31, 2016 consisted of (i) $3,342,000 in net proceeds from the sale of shares of our common stock under an At Market Issuance Sales Agreement, (ii) $2,439,000 in net proceeds from the sale of shares of our common stock under an Equity Distribution Agreement, (iii) $1,577,000 in net proceeds from the sale of shares of our Series E Preferred Stock under a separate At Market Issuance Sales Agreement, and (iv) $254,000 in net proceeds from the purchase of shares of our common stock under our Employee Stock Purchase Plan ("ESPP"), which amounts were offset by dividends paid on our issued and outstanding Series E Preferred Stock of $2,116,000.

Net cash provided by financing activities during the six months ended October 31, 2015 consisted of (i) $19,999,000 in net proceeds from the sale of shares of our common stock under a Common Stock Purchase Agreement, (ii) $16,199,000 in net proceeds from the sale of shares of our common stock under two separate At Market Issuance Sales Agreements, (iii) $334,000 in net proceeds from the purchase of shares under our ESPP, (iv) $132,000 in net proceeds from stock option exercises, and (v) $59,000 in net proceeds from the sale of shares of our Series E Preferred Stock under a separate At Market Issuance Sales Agreement, which amounts were offset by dividends paid on our issued and outstanding Series E Preferred Stock of $2,068,000.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our cash and cash equivalents are primarily invested in money market funds with one major commercial bank with the primary objective to preserve our principal balance. Our deposits held with this bank exceed the amount of government insurance limits provided on our deposits and, therefore, we are exposed to credit risk in the event of default by the major commercial bank holding our cash balances. However, these deposits may be redeemed upon demand and, therefore, bear minimal risk. In addition, while changes in U.S. interest rates would affect the interest earned on our cash balances at October 31, 2016, such changes would not have a material adverse effect on our financial position or results of operations based on historical movements in interest rates.

## ITEM 4. CONTROLS AND PROCEDURES.

We maintain 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 our 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 our 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.

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2016, the end of the period covered by this Quarterly Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2016.

There were no significant changes in our internal control over financial reporting, during the quarter ended October 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS.

There have been no material developments in the legal proceedings disclosed in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2016.

## ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors included in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, except for the following risk factors:

**IF WE CANNOT OBTAIN ADDITIONAL FUNDING, OUR PRODUCT DEVELOPMENT EFFORTS MAY BE FURTHER REDUCED OR DISCONTINUED AND WE MAY NOT BE ABLE TO EXPAND OUR CONTRACT MANUFACTURING BUSINESS.**

We have expended substantial funds on the research and development 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 negative cash flows from operations to continue until at least the fiscal year ending April 30, 2018 before we believe we can generate sufficient revenue from Avid's contract manufacturing services to achieve profitability. Therefore, unless and until we are able to generate sufficient revenue from Avid's contract manufacturing services or from the sale or licensing of our product candidates under development, we expect such losses to continue through at least the fiscal year ending April 30, 2018.

Our ability to continue to fund our operations 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, (i) raising additional capital in the equity markets, (ii) generating additional revenue from Avid, or (iii) licensing or partnering our product candidates in development.

Historically, we have funded a significant portion of our operations through the issuance of equity. During the six months ended October 31, 2016, we raised $5,966,000 in aggregate gross proceeds from the sale of shares of our common stock and raised an additional $1,634,000 in aggregate gross proceeds from the sale of shares of our 10.5% Series E Convertible Preferred Stock (the "Series E Preferred Stock") (as described in Note 6 to the accompanying unaudited condensed consolidated financial statements). Subsequent to October 31, 2016 and through December 12, 2016, we raised an additional $1,670,000 in aggregate gross proceeds from the sale of shares of our common stock (as described in Note 11 to the accompanying unaudited condensed consolidated financial statements). As of December 12, 2016, $105,345,000 remained available to us under our two effective shelf registration statements, which allows us from time to time to offer and sell shares of our common stock or Series E Preferred Stock, in one or more offerings, either individually or in combination.

Our ability to raise additional capital in the equity markets to fund our obligations in future periods is dependent on a number of factors, including but not limited to, the market demand for our common stock or Series E Preferred Stock. The market demand or liquidity of our common stock and/or Series E Preferred Stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse financial results, and negative research and development results. Furthermore, our ability to raise additional capital in the equity markets has been significantly impacted by the decline in the market price of our common stock following our announcement in February 2016 that we were discontinuing the Phase III SUNRISE trial. As a result, we have experienced a substantial decline in the amount of additional capital that we have been able to raise from the sale of shares of our common stock as compared to recent fiscal years. If the market price of our common stock does not improve significantly, we may not be able to rely on the sale of shares of our common stock to fund our operations to the extent we have in prior years.

With respect to our ability to generate additional contract manufacturing revenue, Avid currently has a revenue backlog of $73 million under signed contracts from existing customers covering manufacturing services, most of which, is expected to be completed during the current fiscal year and fiscal year 2018.

Although it is difficult to predict all of our future liquidity requirements, we believe that our cash and cash equivalents as of October 31, 2016 combined with the additional proceeds raised subsequent to October 31, 2016 and through December 12, 2016, and the projected cash receipts from manufacturing services provided by Avid for its third-party customers under committed contracts will be sufficient to fund our operations through at least September 2017, which estimate assumes we raise no additional capital from the capital markets or other potential sources.

If we are unable to either (i) raise sufficient capital in the equity markets, (ii) generate additional revenue from Avid, or (iii) license or partner our products in development, or any combination thereof, we may need to delay, scale back, or eliminate some or all our research and development efforts, or restructure our operations, which may include delaying the planned expansion of our contract manufacturing business. 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.

**IF WE FAIL TO MEET THE CONTINUED LISTING STANDARDS OF NASDAQ, OUR COMMON STOCK MAY BE DELISTED, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON THE LIQUIDITY OF OUR COMMON STOCK.**

Our common stock is currently traded on The NASDAQ Capital Market. As previously reported, on April 12, 2016 we received a letter from the staff of the Listing Qualifications Department (the "Staff") of The NASDAQ Stock Market LLC ("NASDAQ") notifying us that, for the previous 30 consecutive business days, the bid price for our common stock had closed below the minimum $1.00 per share requirement for continued listing on The NASDAQ Capital Market under NASDAQ's Listing Rule 5550(a)(2), which requires a minimum bid price of $1.00 per share (the "Minimum Bid Price Requirement"). In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we were automatically afforded an initial "compliance period" of 180 calendar days following the date of the notification, or until October 10, 2016, to regain compliance with the Minimum Bid Price Requirement. Although we did not regain compliance with the Minimum Bid Price Requirement by October 10, 2016, we received a letter from the Staff on October 11, 2016 notifying us that, pursuant to Listing Rule 5810(c)(3)(A)(ii), we were eligible for an additional "compliance period" of 180 calendar days, or until April 10, 2017, to regain compliance with the Minimum Bid Price Requirement. The Staff's determination in the October 11, 2016 notification letter was based on us meeting as of the last day of the initial "compliance period" the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on The NASDAQ Capital Market with the exception of the Minimum Bid Price Requirement, and our written notice to NASDAQ of our intention to regain compliance by effecting a reverse stock split, if necessary. We may achieve compliance during this additional 180-day "compliance period" if the closing bid price of our common stock is at least $1.00 per share for a minimum of 10 consecutive business days, but generally no more than 20 consecutive business days, before April 10, 2017.

If we choose to implement a reverse stock split in order to regain compliance with the Minimum Bid Price Requirement, we must complete the split no later than 10 business days prior to April 10, 2017 in order to timely regain compliance. If we do not regain compliance by April 10, 2017, the Staff indicated that it will provide written notification to us that our common stock will be delisted. At that time, we may appeal the Staff's delisting determination to a NASDAQ Hearings Panel ("Panel"). Our common stock would remain listed pending the Panel's decision. There can be no assurance that, if we do appeal any delisting determination by the Staff to the Panel, that such appeal would be successful. If our common stock were to be delisted, the liquidity of our common stock would be adversely affected and the market price of our common stock could decrease.

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

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable

**ITEM 5. OTHER INFORMATION.**

None

**ITEM 6. EXHIBITS.**

(a) Exhibits:

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. * |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. * |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350. * |
| 101.INS | XBRL Taxonomy Extension Instance Document. * |
| 101.SCH | XBRL Taxonomy Extension Schema Document. * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. * |
| 101.PRE | XBRL Presentation Extension Linkbase Document. * |

* Filed herewith.

**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, 2016 By: /s/ Steven W. King
Steven W. King
President and Chief Executive Officer

Date: December 12, 2016 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**

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, 2016

Signed: /s/ Steven W. King
Steven W. King
President and Chief Executive Officer

**Exhibit 31.2**

**Certification of Chief Financial Officer**

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, 2016

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

**Exhibit 32**

**CERTIFICATION**

I, Steven W. King, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, that the Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q for the quarter ended October 31, 2016 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 and Chief Executive Officer |
| Date: | December 12, 2016 |

I, Paul J. Lytle, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, that the Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q for the quarter ended October 31, 2016 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, 2016 |

*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 of 1933 or the Securities Exchange Act of 1934, except to the extent it is specifically incorporated by reference.*