# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended January 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 0-17085

# PEREGRINE PHARMACEUTICALS, INC.

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

| | |
|---|---|
| **Delaware**<br>*(State or other jurisdiction of incorporation or organization)* | **95-3698422**<br>*(I.R.S. Employer Identification No.)* |
| **14282 Franklin Avenue, Tustin, California**<br>*(Address of principal executive offices)* | **92780-7017**<br>*(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 S 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 T |
| Non-Accelerated Filer £<br>(Do not check if a smaller reporting company) | Smaller reporting company £ |

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

Yes £ No S

As of February 28, 2011, there were 67,885,811 shares of common stock, $0.001 par value, outstanding.

**PEREGRINE PHARMACEUTICALS, INC.**

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

**PART I - FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | JANUARY 31, 2011 | APRIL 30, 2010 |
|---|---|---|
| | *Unaudited* | |
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 24,068,000 | $ 19,681,000 |
| Trade and other receivables, net | 2,075,000 | 1,481,000 |
| Government contract receivables | 381,000 | 367,000 |
| Inventories, net | 3,916,000 | 3,123,000 |
| Debt issuance costs, current portion | 41,000 | 122,000 |
| Prepaid expenses and other current assets, net | 1,318,000 | 2,004,000 |
| Total current assets | 31,799,000 | 26,778,000 |
| PROPERTY: | | |
| Leasehold improvements | 932,000 | 697,000 |
| Laboratory equipment | 4,320,000 | 4,221,000 |
| Furniture, fixtures, office equipment and software | 1,725,000 | 917,000 |
| | 6,977,000 | 5,835,000 |
| Less accumulated depreciation and amortization | (4,745,000) | (4,366,000) |
| Property, net | 2,232,000 | 1,469,000 |
| OTHER ASSETS: | | |
| Debt issuance costs, less current portion | - | 21,000 |
| Other assets | 1,379,000 | 1,067,000 |
| Total other assets | 1,379,000 | 1,088,000 |
| **TOTAL ASSETS** | $ 35,410,000 | $ 29,335,000 |

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS (continued)**

| | JANUARY 31, 2011 | APRIL 30, 2010 |
|---|---|---|
| | *Unaudited* | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 2,712,000 | $ 2,259,000 |
| Accrued clinical trial and related fees | 2,388,000 | 2,666,000 |
| Accrued payroll and related costs | 1,514,000 | 1,623,000 |
| Notes payable, current portion and net of discount | 1,810,000 | 1,893,000 |
| Deferred revenue | 4,300,000 | 2,406,000 |
| Deferred government contract revenue | 40,000 | 78,000 |
| Customer deposits | 2,651,000 | 2,618,000 |
| Other current liabilities | 1,246,000 | 860,000 |
| Total current liabilities | 16,661,000 | 14,403,000 |
| Notes payable, less current portion and net of discount | - | 1,315,000 |
| Deferred revenue | 710,000 | - |
| Other long-term liabilities | 281,000 | 210,000 |
| Commitments and contingencies | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock-$0.001 par value; authorized 5,000,000 shares; non-voting; none issued | - | - |
| Common stock-$0.001 par value; authorized 325,000,000 shares; outstanding – 66,813,419 and 53,094,896, respectively | 67,000 | 53,000 |
| Additional paid-in capital | 303,682,000 | 275,208,000 |
| Accumulated deficit | (285,991,000) | (261,854,000) |
| Total stockholders' equity | 17,758,000 | 13,407,000 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 35,410,000 | $ 29,335,000 |

See accompanying notes to condensed consolidated financial statements

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | THREE MONTHS ENDED JANUARY 31, | | NINE MONTHS ENDED JANUARY 31, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | *Unaudited* | *Unaudited* | *Unaudited* | *Unaudited* |
| **REVENUES:** | | | | |
| Contract manufacturing revenue | $ 1,922,000 | $ 2,945,000 | $ 6,532,000 | $ 10,323,000 |
| Government contract revenue | 882,000 | 6,854,000 | 3,959,000 | 13,035,000 |
| License revenue | 79,000 | 78,000 | 272,000 | 165,000 |
| Total revenues | 2,883,000 | 9,877,000 | 10,763,000 | 23,523,000 |
| **COSTS AND EXPENSES:** | | | | |
| Cost of contract manufacturing | 1,726,000 | 1,874,000 | 5,885,000 | 6,487,000 |
| Research and development | 7,053,000 | 7,322,000 | 21,464,000 | 17,528,000 |
| Selling, general and administrative | 2,947,000 | 1,998,000 | 8,147,000 | 5,552,000 |
| Total costs and expenses | 11,726,000 | 11,194,000 | 35,496,000 | 29,567,000 |
| **LOSS FROM OPERATIONS** | (8,843,000) | (1,317,000) | (24,733,000) | (6,044,000) |
| **OTHER INCOME (EXPENSE):** | | | | |
| Interest and other income | 20,000 | 22,000 | 1,034,000 | 96,000 |
| Interest and other expense | (106,000) | (243,000) | (438,000) | (805,000) |
| **NET LOSS** | $ (8,929,000) | $ (1,538,000) | $ (24,137,000) | $ (6,753,000) |
| **WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:** | | | | |
| Basic and Diluted | 64,374,282 | 49,532,869 | 58,497,756 | 48,163,121 |
| **BASIC AND DILUTED LOSS PER COMMON SHARE** | $ (0.14) | $ (0.03) | $ (0.41) | $ (0.14) |

See accompanying notes to condensed consolidated financial statements

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | NINE MONTHS ENDED JANUARY 31, | |
|---|---|---|
| | **2011** | **2010** |
| | *Unaudited* | *Unaudited* |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (24,137,000) | $ (6,753,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 469,000 | 337,000 |
| Share-based compensation | 1,998,000 | 491,000 |
| Amortization of discount on notes payable and debt issuance costs | 204,000 | 343,000 |
| Amortization of expenses paid in shares of common stock | 956,000 | - |
| Common stock issued for services | 40,000 | - |
| Loss on disposal of property | - | 49,000 |
| Changes in operating assets and liabilities: | | |
| Trade and other receivables, net | (594,000) | 371,000 |
| Government contract receivables | (14,000) | 565,000 |
| Inventories, net | (793,000) | 846,000 |
| Prepaid expenses and other current assets, net | (270,000) | 343,000 |
| Other non-current assets | 59,000 | (40,000) |
| Accounts payable | 224,000 | (994,000) |
| Accrued clinical trial site and related fees | (278,000) | (373,000) |
| Accrued payroll and related costs | (109,000) | 131,000 |
| Deferred revenue | 2,604,000 | (724,000) |
| Deferred government contract revenue | (38,000) | (3,795,000) |
| Customer deposits | 33,000 | (51,000) |
| Other accrued expenses and current liabilities | 182,000 | (623,000) |
| Net cash used in operating activities | (19,464,000) | (9,877,000) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Property acquisitions | (665,000) | (94,000) |
| Proceeds from sale of property | - | 20,000 |
| Increase in other assets | (371,000) | (55,000) |
| Net cash used in investing activities | (1,036,000) | (129,000) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from issuance of common stock, net of issuance costs of $630,000 and $660,000, respectively | 26,430,000 | 18,008,000 |
| Principal payments on notes payable and capital leases | (1,543,000) | (1,183,000) |
| Net cash provided by financing activities | 24,887,000 | 16,825,000 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 4,387,000 | 6,819,000 |
| **CASH AND CASH EQUIVALENTS**, beginning of period | 19,681,000 | 10,018,000 |
| **CASH AND CASH EQUIVALENTS**, end of period | $ 24,068,000 | $ 16,837,000 |
| **SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:** | | |
| Property acquired under capital lease | $ 180,000 | $ 78,000 |
| Accounts payable and other liabilities for purchase of property | $ 387,000 | $ 22,000 |

See accompanying notes to condensed consolidated financial statements

1. ORGANIZATION AND BUSINESS

Peregrine Pharmaceuticals, Inc. ("Peregrine" or "Company") is a clinical-stage biopharmaceutical company developing first-in-class monoclonal antibodies for the treatment of cancer and viral infections. The Company is advancing two Phase II oncology programs with its lead product candidates bavituximab and Cotara® as well as a Phase II hepatitis C virus ("HCV") program for bavituximab. Peregrine also has in-house manufacturing capabilities through its wholly owned subsidiary Avid Bioservices, Inc. ("Avid"), which provides integrated biomanufacturing services for both Peregrine and outside customers on a fee-for-service basis.

2. BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to quarterly reports on Form 10-Q. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for a complete set of financial statements. These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2010. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this quarterly report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year.

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

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

**Reclassification**

Certain comparative amounts in the interim unaudited condensed consolidated financial statements for the nine months ended January 31, 2010 have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported operating expenses or net loss.

**Going Concern**

Our interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of liabilities that may be necessary should it be determined that we are unable to continue as a going concern.

At January 31, 2011, we had $24,068,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to $14,494,000, $16,524,000, and $23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

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

With respect to financing our operations through the issuance of equity, during the nine months ended January 31, 2011, we raised $27,028,000 in gross proceeds. During February 2011, we raised an additional $2,358,000 in gross proceeds. As of February 28, 2011, we could issue additional shares of our common stock for aggregate gross proceeds of up to $76,182,000 under two effective shelf registration statements.

In addition, we may also raise additional capital through additional equity offerings, licensing our products in development, procuring government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid.

With respect to financing our operations through procuring government contracts and grants, on October 29, 2010 we were awarded an aggregate cash grant of approximately $978,000 under Section 48D of the Internal Revenue Code as reimbursement for four separate qualifying therapeutic discovery projects, which we applied for under the Patient Protection and Affordable Care Act of 2010. Of the total amount, we received $972,000 in November 2010 and the balance is expected to be received no later than May 2011.

While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring additional government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the second quarter of our fiscal year 2012 ending October 31, 2011based on current assumptions and assuming we do not generate any additional revenues or raise any additional capital from potential sources. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, of which, could reduce or delay our future projected cash flows. In addition, in the event our projected cash-inflows are reduced or delayed we might not have sufficient capital to operate our business through the second quarter of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Revenue Recognition**

We currently derive revenue from the following three sources: (i) contract manufacturing services provided by Avid, (ii) licensing revenues related to agreements associated with Peregrine's technologies under development, and (iii) government contract revenues for services provided under a government contract awarded to Peregrine through the Transformational Medical Technologies ("TMT") of the U.S. Department of Defense's Defense Threat Reduction Agency.

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

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

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

Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue 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.

*License Revenue* - Revenue associated with licensing agreements primarily consist of non-refundable upfront license fees, non-refundable annual license fees and milestone payments. Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology.

If a license agreement has multiple element arrangements, we analyze and determine whether the deliverables, which often include performance obligations, can be separated or whether they must be accounted for as a single unit of accounting in accordance with the authoritative guidance. Under multiple element arrangements, we recognize revenue for delivered elements only when the delivered element has stand-alone value and we have objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, the arrangement would then be accounted for as a single unit of accounting, and revenue is recognized over the estimated period of when the performance obligation(s) are performed.

In addition, under certain circumstances, when there is objective and reliable evidence of the fair value of the undelivered items in an arrangement, but no such evidence for the delivered items, we utilize the residual method to allocate the consideration received under the arrangement. Under the residual method, the amount of consideration allocated to delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items, and revenue is recognized upon delivery of the undelivered items based on the relative fair value of the undelivered items.

Revenue recognized under licensing agreements is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned as of the period ending date. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying unaudited condensed consolidated financial statements.

Non-refundable annual license fees are recognized as revenue on the anniversary date of the agreement in accordance with the authoritative guidance for revenue recognition. Milestone payments are recognized as revenue upon the achievement of the specified milestone, provided that (i) the milestone event is substantive in nature and the achievement of the milestone is not reasonably assured at the inception of the agreement, (ii) the fees are non-refundable, and (iii) there is no continuing performance obligations associated with the milestone payment. Any milestone payments received prior to satisfying these revenue recognition criteria are recorded as deferred revenue in the accompanying unaudited condensed consolidated financial statements.

*Government Contract Revenue* - On June 30, 2008, we were awarded a government contract (the "Government Contract") to test and develop bavituximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever ("VHF") infections. The contract was awarded through the Transformational Medical Technologies ("TMT") of the U.S. Department of Defense's Defense Threat Reduction Agency. The contract is expected to provide us with up to $24.7 million in funding over the base period that expires on March 15, 2011. As of January 31, 2011, we have recognized $23,468,000 in total government contract revenue under this contract, of which we recognized $3,959,000 during the nine months ended January 31, 2011. On March 7, 2011, we were notified that the TMT has determined not to exercise its next option to extend the Government Contract and, therefore, the Government Contract will expire on March 15, 2011 per the terms of the contract and no additional funding beyond the $24.7 million allocated to the base period will be provided under the contract.

The Government Contract is classified as a "cost-plus-fixed-fee" contract. We recognize government contract revenue in accordance with the authoritative guidance for revenue recognition including the authoritative guidance specific to federal government contracts. Reimbursable costs under the contract primarily include direct labor, subcontract costs, materials, equipment, travel, and indirect costs. In addition, we receive a fixed fee for our efforts equal to 9.9% of the reimbursable costs incurred under the Government Contract, which is unconditionally earned as allowable costs are billed and is not contingent on success factors. Reimbursable costs under this Government Contract, including the fixed fee, are generally recognized as revenue in the period the reimbursable costs are incurred and become billable. However, when amounts billable, including the fixed fee, are not reasonably related to the proportionate performance of the total work or services to be performed, we recognize revenue on a proportional performance basis. In addition, reimbursable costs, including the fixed fee, associated with manufacturing services are recognized as revenue once delivery (or passage of title) has occurred. Amounts billable (including the fixed fee) prior to satisfying revenue recognition criteria are classified as deferred government contract revenue in the accompanying unaudited condensed consolidated financial statements.

**Fair Value of Financial Instruments**

The carrying amounts of our short-term financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair values due to their short maturities. The fair value of our note payable is estimated based on the quoted prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities.

**Fair Value Measurements**

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as assets or liabilities whose value 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.

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

**Prepaid Research and Development Expenses**

Our prepaid research and development expenses represent deferred and capitalized pre-payments to secure the receipt of future research and development services. These pre-payments are recognized as an expense in the period that the services are performed. We assess our prepaid research and development expenses for impairment when events or changes in circumstances indicate that the carrying amount of the prepaid expense may not be recoverable or provide future economic benefit. During the nine months ended January 31, 2011, we expensed the remaining balance of certain prepaid research and development expenses of $637,000 in accordance with the terms of an amended research agreement we entered into with an unrelated entity during September 2010, which amount is included in research and development expense in the accompanying unaudited condensed consolidated financial statements.

**Share-Based Compensation**

*Stock Options and Restricted Stock Awards*

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

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

*Employee Stock Purchase Plan*

On October 21, 2010, our stockholders approved our 2010 Employee Stock Purchase Plan (the "2010 ESPP") (Note 9). We account for shares expected to be issued under the 2010 ESPP in accordance with the authoritative guidance for share-based compensation. The estimated fair value of the shares expected to be issued under the 2010 ESPP is measured at the grant date (or beginning date of the offering period), using a Black-Scholes option pricing model, and is recognized as expense on a straight-line basis over the requisite service period (or six-month offering period).

*Share-based Compensation Expense*

Total share-based compensation expense related to stock options, restricted stock awards and shares expected to be issued under our employee stock purchase plan for the three and nine-month periods ended January 31, 2011 and 2010 are included in the accompanying interim unaudited condensed consolidated statements of operations as follows:

| | Three Months Ended January 31, | | Nine Months Ended January 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Cost of contract manufacturing | $ 4,000 | $ - | $ 4,000 | $ - |
| Research and development | 288,000 | 101,000 | 802,000 | 281,000 |
| Selling, general and administrative | 419,000 | 63,000 | 1,192,000 | 195,000 |
| Total | $ 711,000 | $ 164,000 | $ 1,998,000 | $ 476,000 |
| | | | | |
| Share-based compensation from: | | | | |
| Stock options | $ 684,000 | $ 164,000 | $ 1,962,000 | $ 476,000 |
| Restricted stock awards | - | - | 9,000 | - |
| Employee stock purchase plan | 27,000 | - | 27,000 | - |
| | $ 711,000 | $ 164,000 | $ 1,998,000 | $ 476,000 |

As of January 31, 2011, the total estimated unrecognized compensation cost related to non-vested stock options was $3,146,000. This cost is expected to be recognized over a weighted average vesting period of 1.60 years based on current assumptions.

As of January 31, 2011, there was no unrecognized compensation cost related to non-vested restricted stock awards as we did not deem it probable at January 31, 2011 that any of the predetermined performance conditions underlying the non-vested performance-based restricted stock awards would be achieved by their respective targeted attainment dates, which range from April 2011 through July 2011.

**Comprehensive Loss**

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

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

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

The calculation of weighted average diluted shares outstanding excludes the dilutive effect of outstanding stock options, stock awards and warrants to purchase up to 108,064 and 123,893 shares of common stock for the three and nine months ended January 31, 2011, respectively, and 419,370 and 568,792 shares of common stock for the three and nine months ended January 31, 2010, respectively, since their impact are anti-dilutive during periods of net loss.

The calculation of weighted average diluted shares outstanding also excludes weighted average outstanding stock options, stock awards and warrants to purchase up to 4,283,733 and 4,376,544 shares of common stock for the three and nine months ended January 31, 2011, respectively, and 1,773,635 and 1,733,643 shares of common stock for the three and nine months ended January 31, 2010, respectively, as their exercise prices were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect.

## 4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED

In October 2009, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update that requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices, eliminates the use of the residual method of allocation, and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue of an arrangement with multiple deliverables. This guidance will be effective for revenue arrangements entered into or materially modified for fiscal years beginning on or after June 15, 2010, which will be our fiscal year 2012, with earlier application permitted. We have not yet evaluated the potential impact of adopting this guidance on our consolidated financial statements.

In April 2010, the FASB issued an accounting standards update that provides guidance on the milestone method of revenue recognition for research and development arrangements. This guidance allows an entity to make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. This guidance will be effective for fiscal years beginning on or after June 15, 2010, which will be our fiscal year 2012, and may be applied prospectively to milestones achieved after the adoption date or retrospectively for all periods presented, with earlier application permitted. We have not yet evaluated the potential impact of adopting this guidance on our consolidated financial statements.

## 5. ACCOUNTS RECEIVABLE

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

We continually monitor our allowance for doubtful accounts for all receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables and we estimate an allowance for doubtful accounts based on these factors at that point in time. With respect to our trade and other receivables, we determined a $20,000 allowance for doubtful accounts was necessary based on our analysis as of January 31, 2011 and April 30, 2010. With respect to our government contract receivables, we determined an allowance for doubtful accounts was not necessary based on our analysis as of January 31, 2011 and April 30, 2010.

6. INVENTORIES

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

Inventories consist of the following at January 31, 2011 and April 30, 2010:

| | January 31, 2011 | April 30, 2010 |
|---|---|---|
| Raw materials | $ 1,664,000 | $ 1,243,000 |
| Work-in-process | 2,252,000 | 1,880,000 |
| Total inventories, net | $ 3,916,000 | $ 3,123,000 |

7. NOTE PAYABLE

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

Under the Loan Agreement, the outstanding principal balance each month will bear interest at the then current thirty (30) day LIBOR rate (set at a floor of 3%) plus 9% (12% from inception to January 31, 2011). The Loan Agreement allowed for interest-only payments during the initial six (6) months through July 2009 followed by thirty (30) equal monthly principal payments plus interest. The Loan Agreement, which is secured by generally all assets of the Company, contains customary covenants that, among other things, generally restrict our ability to incur additional indebtedness. In addition, the Loan Agreement contains a covenant (as amended on March 9, 2011) whereby we are required to maintain a minimum cash and cash equivalents balance equal to at least 80% of the outstanding loan balance (or $1,467,000 as of January 31, 2011). Moreover, the Loan Agreement includes a Material Adverse Change clause whereby if there is a material impairment in the priority of Lenders’ lien in the collateral or in the value of such collateral, or if we encounter a material adverse change in our business, operations, or condition (financial or otherwise), or a material impairment of the prospect of repayment of any portion of the loan, then an event of default can be invoked by the Lenders. As of the filing date of this Quarterly Report, we are in compliance with all Loan Agreement covenants.

In connection with the Loan Agreement, we issued warrants to purchase an aggregate of 338,410 shares of our common stock at an exercise price of $1.48 per share. The fair value of the warrants was $414,000, and this amount was credited to additional paid-in capital and reduced the carrying value of the debt, reflected as a debt discount in the accompanying unaudited condensed consolidated financial statements. The debt discount is being amortized as a non-cash interest expense over the term of the outstanding loan using the effective interest method. The fair value of the warrants was determined using the Black-Scholes model with the following assumptions: estimated volatility of 70.72%; risk free interest rate of 2.00%; an expected life of five years; and no dividend yield.

In connection with the Loan Agreement, we also incurred $469,000 in financing fees and legal costs related to closing the Loan Agreement. These fees and costs are classified as debt issuance costs, and the short-term and long-term portions of these costs are included in current assets and other long-term assets, respectively, in the accompanying unaudited condensed consolidated balance sheets and are being amortized as a non-cash interest expense over the term of the outstanding loan using the effective interest method. Included in debt issuance costs is a final payment fee of $150,000, which is due and payable on the maturity date of the outstanding loan balance, and is equal to 3% of the total amount funded under the Loan Agreement. The final payment fee payable of $150,000 is classified as other current liabilities in the accompanying unaudited condensed consolidated balance sheets.

As of January 31, 2011, we will make the following principal payments under the Loan Agreement in the fiscal years ending April 30,

| | |
|---|---|
| 2011 | $ 500,000 |
| 2012 | 1,333,000 |
| Total | $ 1,833,000 |

8. STOCKHOLDERS' EQUITY

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

With respect to financing our operations through the issuance of equity, we have raised additional capital during the nine months ended January 31, 2011, under two registration statements as defined below.

| Shelf Filing Month | Registration Statement Number | Amount Registered |
|---|---|---|
| July 2009 | 333-160572 | $50,000,000 |
| December 2010 | 333-171252 | $75,000,000 |

*Financing Under Shelf Registration Statement Number 333-160572*

On July 14, 2009, we filed a shelf registration statement on Form S-3, File number 333-160572 ("July 2009 Shelf"), under which we may issue, from time to time, in one or more offerings, shares of our common stock for gross proceeds of up to $50,000,000. As of January 31, 2011, we could issue shares of our common stock for remaining aggregate gross proceeds of up to $10,000,000 under the July 2009 Shelf.

Also on July 14, 2009, we entered into an At Market Issuance Sales Agreement ("July 2009 AMI Agreement") with Wm Smith & Co., pursuant to which we may sell shares of our common stock through Wm Smith & Co., as agent, in registered transactions from our July 2009 Shelf, for aggregate gross proceeds of up to $25,000,000. Shares of common stock sold under this arrangement were sold at market prices. During the nine months ended January 31, 2011, we sold 1,925,565 shares of common stock at market prices under the July 2009 AMI Agreement for aggregate gross proceeds of $5,568,000 before deducting commissions and other issuance costs of $133,000. As of January 31, 2011, we had raised the full $25,000,000 available under the July 2009 AMI Agreement.

On June 22, 2010, we entered into an At Market Issuance Agreement ("June 2010 AMI Agreement") with McNicoll, Lewis & Valk LLC ("MLV"), pursuant to which we may sell shares of our common stock through MLV, as agent, in registered transactions from our July 2009 Shelf, for aggregate gross proceeds of up to $15,000,000. Shares of common stock sold under this arrangement were sold at market prices. During the nine months ended January 31, 2011, we sold 9,214,373 shares of common stock at market prices under the June 2010 AMI Agreement for aggregate gross proceeds of $15,000,000 before deducting commissions and other issuance costs of $345,000. As of January 31, 2011, we had raised the full $15,000,000 available under the June 2010 AMI Agreement.

*Financing Under Shelf Registration Statement Number 333-171252*

On December 17, 2010, we filed a shelf registration statement on Form S-3, File number 333-171252 ("December 2010 Shelf"), under which we may issue, from time to time, in one or more offerings, shares of our common stock for gross proceeds of up to $75,000,000. As of January 31, 2011, we could issue shares of our common stock for remaining aggregate gross proceeds of up to $68,540,000 under the December 2010 Shelf.

On December 29, 2010, we entered into an At Market Issuance Agreement ("December 2010 AMI Agreement") with MLV, pursuant to which we may sell shares of our common stock through MLV, as agent, in registered transactions from our December 2010 Shelf, for aggregate gross proceeds not to exceed the amount that can be sold under our December 2010 Shelf. Shares of common stock sold under this arrangement were (or will be) sold at market prices. During the nine months ended January 31, 2011, we sold 2,385,862 shares of common stock at market prices under the December 2010 AMI Agreement for aggregate gross proceeds of $6,460,000 before deducting commissions and other issuance costs of $152,000.

During February 2011, we raised aggregate gross proceeds of $2,358,000 in connection with the sale of 998,142 shares of common stock at market prices under the December 2010 AMI Agreement. As of February 28, 2011, we could issue additional shares of our common stock for aggregate gross proceeds of up to $66,182,000 under the December 2010 Shelf.

*Shares of Common Stock Authorized And Reserved For Future Issuance*

As of January 31, 2011, we had reserved 14,231,797 additional shares of our common stock which may be issued under our equity compensation plans and outstanding warrant agreements, excluding shares of common stock that could potentially be issued under our current effective shelf registration statements, as further described in the following table:

| | Number of Shares Reserved |
|---|---|
| Common shares reserved for issuance under outstanding option and restricted stock award grants and available for issuance under our stock incentive plans | 9,011,830 |
| Common shares reserved for and available for issuance under our Employee Stock Purchase Plan | 5,000,000 |
| Common shares issuable upon exercise of outstanding warrants | 219,967 |
| Total shares of common stock reserved for issuance | 14,231,797 |

9. EQUITY COMPENSATION PLANS

**Employee Stock Purchase Plan**

On October 21, 2010, our stockholders approved our 2010 Employee Stock Purchase Plan. The 2010 Employee Stock Purchase Plan (the "2010 ESPP") allows eligible employees on a voluntary basis to purchase shares of our common stock directly from the Company. Under the 2010 ESPP, we will initially sell shares to participants at a price equal to the lesser of 85% of the fair market value of stock at the (i) beginning of a six-month offering period or (ii) at the end of the six-month offering period. The 2010 ESPP provides for two six-month offering periods each year; the first offering period will begin on the first trading day on or after each November 1; the second offering period will begin on the first trading day on or after each May 1.

A total of 5,000,000 shares are reserved for issuance under the 2010 ESPP and are subject to adjustment as provided in the 2010 ESPP for stock splits, stock dividends, recapitalizations and other similar events. The first offering period under the 2010 ESPP commenced November 1, 2010 and will end on April 30, 2011. No shares were purchased under the 2010 ESPP as of January 31, 2011.

**Stock Incentive Plans**

In addition, on October 21, 2010, our stockholders approved our 2010 Stock Incentive Plan ("2010 Plan") which allows for the issuance of up to 3,500,000 shares of our common stock for the granting of incentive stock options, nonqualified stock options, restricted stock awards, performance shares and other forms of share-based awards (collectively, "Awards"). As of January 31, 2011, 3,305,278 shares of our common stock were available for Awards under the 2010 Incentive Plan.

As of January 31, 2011, we had an aggregate of 9,011,830 shares of common stock reserved for issuance under all Stock Incentive Plans, of which, 5,165,058 shares were subject to outstanding options and restricted stock awards and 3,846,772 shares were available for future grants of share-based awards.

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

| Stock Options | Shares | Weighted Average Exercisable Price |
|---|---|---|
| Outstanding, May 1, 2010 | 5,013,692 | $ 4.49 |
| Granted | 342,809 | $ 1.92 |
| Exercised | (14,750) | $ 2.20 |
| Canceled or expired | (381,443) | $ 5.32 |
| Outstanding, January 31, 2011 | 4,960,308 | $ 4.25 |

The following summarizes our performance-based restricted stock awards transaction activity for the nine months ended January 31, 2011:

| Restricted Stock | Shares | Weighted Average Exercisable Price |
|---|---|---|
| Unvested, May 1, 2010 | 371,250 | $ 2.97 |
| Granted | - | - |
| Vested | (74,250) | $ 2.97 |
| Canceled or expired | (92,250) | $ 2.96 |
| Unvested, January 31, 2011 | 204,750 | $ 2.98 |

10. WARRANTS

During the nine months ended January 31, 2011, 118,443 warrants were exercised on a cashless basis in exchange for 74,802 shares of our common stock. As of January 31, 2011, we had warrants outstanding to purchase up to 219,967 shares of our common stock at an exercise price of $1.48 per share with an expiration date of December 19, 2013. The aforementioned warrants were issued during fiscal year 2009 in connection with the loan and security agreement we entered into on December 9, 2008, as further discussed in Note 7. There were no warrants granted during the nine months ended January 31, 2011.

11. SEGMENT REPORTING

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

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

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

| | Three Months Ended January 31, | |
|---|---|---|
| | 2011 | 2010 |
| Contract manufacturing services revenue | $ 1,922,000 | $ 2,945,000 |
| Cost of contract manufacturing services | 1,726,000 | 1,874,000 |
| Gross profit | 196,000 | 1,071,000 |
| Revenue from products in research and development | 961,000 | 6,932,000 |
| Research and development expense | (7,053,000) | (7,322,000) |
| Selling, general and administrative expense | (2,947,000) | (1,998,000) |
| Other expense, net | (86,000) | (221,000) |
| Net loss | $ (8,929,000) | $ (1,538,000) |

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

| | Three Months Ended January 31, | |
|---|---|---|
| | 2011 | 2010 |
| United States (customer A) | 93% | 46% |
| United States (customer B) | 0% | 44% |
| Germany (one customer) | 3% | 10% |
| Other customers | 4% | 0% |
| Total customer revenues as a percentage of revenue | 100% | 100% |

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

| | Three Months Ended January 31, | |
|---|---|---|
| | 2011 | 2010 |
| Government contract revenue (Note 3) | $ 882,000 | $ 6,854,000 |
| License revenue | 79,000 | 78,000 |
| | $ 961,000 | $ 6,932,000 |

Segment information for the nine-month periods is summarized as follows:

| | Nine Months Ended January 31, | |
|---|---|---|
| | 2011 | 2010 |
| Contract manufacturing services revenue | $ 6,532,000 | $ 10,323,000 |
| Cost of contract manufacturing services | 5,885,000 | 6,487,000 |
| Gross profit | 647,000 | 3,836,000 |
| Revenue from products in research and development | 4,231,000 | 13,200,000 |
| Research and development expense | (21,464,000) | (17,528,000) |
| Selling, general and administrative expense | (8,147,000) | (5,552,000) |
| Other income (expense), net | 596,000 | (709,000) |
| Net loss | $ (24,137,000) | $ (6,753,000) |

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

| | Nine Months Ended January 31, | |
|---|---|---|
| | **2011** | **2010** |
| United States (customer A) | 71% | 31% |
| United States (customer B) | 0% | 18% |
| Germany (one customer) | 27% | 15% |
| Canada (one customer) | 0% | 36% |
| Other customers | 2% | 0% |
| Total customer revenues as a percentage of revenue | 100% | 100% |

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

| | Nine Months Ended January 31, | |
|---|---|---|
| | **2011** | **20010** |
| Government contract revenue (Note 3) | $ 3,959,000 | $ 13,035,000 |
| License revenue | 272,000 | 165,000 |
| | $ 4,231,000 | $ 13,200,000 |

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

| | **January 31, 2011** | **April 30, 2010** |
|---|---|---|
| **Long-lived assets, net:** | | |
| Contract manufacturing services | $ 1,560,000 | $ 1,311,000 |
| Products in research and development | 672,000 | 158,000 |
| Total long-lived assets, net | $ 2,232,000 | $ 1,469,000 |

12. LICENSING AGREEMENTS

During September 2010, we entered into a binding term sheet to amend certain terms of a patent assignment agreement and sublicense agreement we entered into with Affitech A/S (“Affitech”) during July 2009 whereby we licensed exclusive worldwide rights to develop and commercialize certain products under our anti-VEGF antibody technology platform. Under the binding term sheet, Peregrine and Affitech have agreed to amend certain terms of their worldwide license agreements for Brazil, Russia and other countries of the Commonwealth of Independent States (CIS) to expedite the development of a fully human antibody called AT001/r84 for these territories. Under the amended terms, Peregrine and Affitech will reinvest their respective portions of any future milestone payments to be received under the agreements for the countries of Brazil, Russia and the CIS toward the further development of AT001/r84. In the event Affitech enters into a licensing deal for AT001/r84 in a major pharmaceutical market (defined as U.S., European Union, Switzerland, United Kingdom and/or Japan), Affitech has agreed to reimburse us for our milestone payments that were applied to the AT001/r84 program while Affitech will be eligible to be reimbursed for up to 50% of their development costs in Brazil, Russia and CIS territories. The remaining terms of the original patent assignment agreement and sublicense agreement remain unchanged, including milestone and royalty payments. To date, we have not received any payments under this binding term sheet.

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

## 13. COMMITMENTS AND CONTINGENCIES

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

## 14. SUBSEQUENT EVENTS

On March 7, 2011, we received notification from the TMT of the U.S. Department of Defense's Defense Threat Reduction Agency that they had determined not to exercise its next option to extend the government contract awarded to us by the TMT in June 2008 and, therefore, the government contract will expire on March 15, 2011 per the terms of the contract and no additional funding will be provided under the contract.

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

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

**Overview**

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

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

For bavituximab in oncology indications, we are conducting three randomized Phase II company-sponsored trials and supporting three investigator-sponsored trials ("IST"). Our prior Phase II single-arm trial in lung cancer demonstrated promising results compared to data from separate historical control trials.

Based on these results, in June 2010, we announced that we initiated a randomized Phase IIb trial evaluating bavituximab in combination with standard chemotherapy in patients with second-line NSCLC, which represents a significant unmet medical need. In July 2010, we initiated a second randomized Phase IIb trial evaluating bavituximab in combination with chemotherapy in patients with front-line NSCLC. And in January 2011, we initiated a randomized Phase II trial evaluating bavituximab with in combination with chemotherapy in patients with previously untreated stage IV pancreatic cancer.

In addition to our company-sponsored clinical program, we also launched an IST program during 2010 as a cost-effective way to generate insight into bavituximab's mechanism of action, augment our safety database, and evaluate new combination therapy approaches to treating cancer patients. In December 2010, we announced that the first IST was initiated, a Phase I/II trial evaluating bavituximab combined with sorafenib in patients with advanced hepatocellular carcinoma (HCC), or liver cancer. In addition, we have recently announced the initiation of two additional ISTs; a Phase Ib trial evaluating bavituximab combined with pemetrexed and carboplatin in patients with front-line NSCLC and a Phase I trial evaluating bavituximab combined with paclitaxel in patients with HER2-negative metastatic breast cancer.

Our novel brain cancer therapy Cotara is a targeted monoclonal antibody linked to a radioisotope that is administered as a single infusion directly into the tumor, destroying the tumor from the inside out, with minimal exposure to healthy tissue. In December 2010, we completed treatment of the last patient in a Phase II trial in recurrent glioblastoma multiforme ("GBM"). We expect to report interim data from this trial by mid-year 2011 and to meet with the U.S. Food and Drug Administration ("FDA") in the second half of 2011 to determine the optimal registration pathway for Cotara. In addition, Cotara has been granted orphan drug status and fast track designation for the treatment of GBM and anaplastic astrocytoma by the U.S. Food and Drug Administration.

We are also evaluating bavituximab for viral infection indications. In January 2011, we initiated a randomized Phase II trial in patients with previously untreated genotype-1 hepatitis C virus ("HCV") infection. Also in January 2011, we completed patient enrollment in a Phase Ib safety and efficacy trial of bavituximab as a monotherapy in patients coinfected with HCV and HIV.

In addition to our research and development efforts, we operate a wholly owned cGMP (current Good Manufacturing Practices) contract manufacturing subsidiary, Avid Bioservices ("Avid"). Avid provides integrated biomanufacturing services for biotechnology and biopharmaceutical companies on a fee-for-service basis, from preclinical drug supplies through commercial-scale drug manufacturing. In addition to generating revenue from providing a broad range of biomanufacturing services to third-party clients, Avid is strategically integrated with Peregrine to manufacture all clinical products to support our clinical trials while also preparing its products for potential commercial launch.

**Going Concern**

Our interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of liabilities that may be necessary should it be determined that we are unable to continue as a going concern.

At January 31, 2011, we had $24,068,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to $14,494,000, $16,524,000, and $23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

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

With respect to financing our operations through the issuance of equity, during the nine months ended January 31, 2011, we raised $27,028,000 in gross proceeds. During February 2011, we raised an additional $2,358,000 in gross proceeds. As of February 28, 2011, we could issue additional shares of our common stock for aggregate gross proceeds of up to $76,182,000 under two effective shelf registration statements.

In addition, we may also raise additional capital through equity offerings, licensing our products in development, procuring government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid.

With respect to financing our operations through procuring government contracts and grants, on October 29, 2010 we were awarded an aggregate cash grant of approximately $978,000 under Section 48D of the Internal Revenue Code as reimbursement for four separate qualifying therapeutic discovery projects, which we applied for under the Patient Protection and Affordable Care Act of 2010. Of the total amount, we received $972,000 in November 2010 and the balance is expected to be received no later than May 2011.

While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the second quarter of our fiscal year 2012 ending October 31, 2011 based on current assumptions and assuming we do not generate any additional revenues or raise any additional capital from potential sources. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, of which, could reduce or delay our future projected cash flows. In addition, in the event our projected cash-inflows are reduced or delayed we might not have sufficient capital to operate our business through the second quarter of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

**Results of Operations**

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

| | Three Months Ended January 31, | | | Nine Months Ended January 31, | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | $ Change | 2011 | 2010 | $ Change |
| **REVENUES**: | | | | | | |
| Contract manufacturing revenue | $ 1,922,000 | $ 2,945,000 | $ (1,023,000) | $ 6,532,000 | $ 10,323,000 | $ (3,791,000) |
| Government contract revenue | 882,000 | 6,854,000 | (5,972,000) | 3,959,000 | 13,035,000 | (9,076,000) |
| License revenue | 79,000 | 78,000 | 1,000 | 272,000 | 165,000 | 107,000 |
| Total revenues | 2,883,000 | 9,877,000 | (6,994,000) | 10,763,000 | 23,523,000 | (12,760,000) |
| **COSTS AND EXPENSES**: | | | | | | |
| Cost of contract manufacturing | 1,726,000 | 1,874,000 | (148,000) | 5,885,000 | 6,487,000 | (602,000) |
| Research and development | 7,053,000 | 7,322,000 | (269,000) | 21,464,000 | 17,528,000 | 3,936,000 |
| Selling, general & administrative | 2,947,000 | 1,998,000 | 949,000 | 8,147,000 | 5,552,000 | 2,595,000 |
| Total costs and expenses | 11,726,000 | 11,194,000 | 532,000 | 35,496,000 | 29,567,000 | 5,929,000 |
| **LOSS FROM OPERATIONS** | (8,843,000) | (1,317,000) | (7,526,000) | (24,733,000) | (6,044,000) | (18,689,000) |
| **OTHER INCOME (EXPENSE):** | | | | | | |
| Interest and other income | 20,000 | 22,000 | (2,000) | 1,034,000 | 96,000 | 938,000 |
| Interest and other expense | (106,000) | (243,000) | 137,000 | (438,000) | (805,000) | 367,000 |
| **NET LOSS** | $ (8,929,000) | $ (1,538,000) | $ (7,391,000) | $ (24,137,000) | $ (6,753,000) | $ (17,384,000) |

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

***Contract Manufacturing Revenue.***

Three and Nine Months: The decreases in contract manufacturing revenue of $1,023,000 (or 35%) and $3,791,000 (or 37%) during the three and nine months ended January 31, 2011, compared to the same periods in the prior year was primarily due to a decrease in the level of services provided to third-party customers compared to the same periods of the prior year.

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

***Government Contract Revenue.***

Three and Nine Months: Government contract revenue stems from our contract with the TMT of the U.S. Department of Defense's Defense Threat Reduction Agency. The decreases in government contract revenue of $5,972,000 (or 87%) and $9,076,000 (or 70%) during the three and nine months ended January 31, 2011 compared to the same periods in the prior year was due to a decrease in level of research and development services performed during the current year periods in accordance with the contract’s project plan.

As of January 31, 2011, we have recognized $23,468,000 in total government contract revenue under this contract, of which we recognized $882,000 and $3,959,000 during the three and nine months ended January 31, 2011, respectively. The contract is expected to provide us with up to $24.7 million in funding over the base period that expires on March 15, 2011. On March 7, 2011, we were notified that the TMT has determined not to exercise its next option to extend the contract and, therefore, the contract will expire on March 15, 2011 per the terms of the contract and no additional funding beyond the $24.7 million allocated to the base period will be provided under the contract. As a result, we do not expect to recognize government contract revenue beyond fiscal year 2011 unless we successfully secure additional government contracts.

***License Revenue.***

Nine months: The increase in license revenue of $107,000 during the nine months ended January 31, 2011 compared to the same period in the prior year was directly related to revenue recognized under a license agreement we entered into with an unrelated entity during July 2009 associated with our anti-VEGF antibody program. In addition, since the license agreement was signed during July 2009, there was no corresponding revenue generated during the first two months of the prior year nine-month period ended January 31, 2010.

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

***Cost of Contract Manufacturing.***

Three and Nine Months: The decreases in cost of contract manufacturing of $148,000 (or 8%) and $602,000 (or 9%) during the three and nine months ended January 31, 2011 compared to the same periods in the prior year was primarily related to the current year three and nine-month period decreases in contract manufacturing revenue. In addition, the cost of contract manufacturing as a percentage of contract manufacturing revenue increased during the quarter ended January 31, 2011 primarily due to a write-off of certain materials manufactured for a third-party customer that did not meet certain specifications for product release. We expect to continue to incur contract manufacturing costs during the remainder of the current fiscal year based on the anticipated completion of customer projects under our current contract manufacturing agreements.

***Research and Development Expenses.***

Three and Nine Months: The decrease in research and development ("R&D") expenses of $269,000 (or 4%) for the three months ended January 31, 2011 and the increase in R&D expenses of $3,936,000 (or 22%) for nine months ended January 31, 2011 compared to the same periods in the prior year was due to the following changes associated with each of our following platform technologies under development:

| *Technology Platform* | *R&D Expenses – Three Months Ended January 31,* | | | *R&D Expenses – Nine Months Ended January 31,* | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | $ Change | 2011 | 2010 | $ Change |
| Phosphatidylserine ("PS")-Targeting (bavituximab) | $ 6,290,000 | $ 5,839,000 | $ 451,000 | $ 19,360,000 | $ 14,696,000 | $ 4,664,000 |
| TNT (Cotara) | 785,000 | 1,375,000 | (590,000) | 2,051,000 | 2,401,000 | (350,000) |
| Other | (22,000) | 108,000 | (130,000) | 53,000 | 431,000 | (378,000) |
| Total R&D Expenses | $ 7,053,000 | $ 7,322,000 | $ (269,000) | $ 21,464,000 | $ 17,528,000 | $ 3,936,000 |

- *PS-Targeting Technology Platform (bavituximab)* – The increases in PS-Targeting program expenses of $451,000 and $4,664,000 during the three and nine months ended January 31, 2011 compared to the same periods in the prior year was primarily due to increases in clinical trial and related expenses, payroll and related expenses, share-based compensation expense (non-cash), consulting fees and manufacturing expenses to support the advancement of our later-stage clinical program for bavituximab. During the nine months ended January 31, 2011, we initiated three separate randomized multi-center Phase II clinical trials using bavituximab in combination with chemotherapy for the treatment of patients with i) second-line non-small cell lung cancer ("NSCLC"), ii) front-line NSCLC, and iii) pancreatic cancer. We also initiated a randomized Phase II clinical trial using bavituximab for the treatment of patients with previously untreated genotype-1 hepatitis C virus (HCV) infection. In addition to our company sponsored clinical trials, we also initiated two separate investigator-sponsored trials during the current nine-month period using bavituximab for the treatment of patients with liver cancer and HER-2 negative metastatic breast cancer. Our PS-Targeting program expenses incurred during the current nine-month period were further supplemented by increases in expenses associated with the development of additional PS-targeting antibodies. These increases in PS-targeting program expenses associated with the advancement of our bavituximab clinical program was offset with a decrease in R&D expenses directly associated with our government contract with the TMT as the level of R&D activities performed under the contract have decreased compared to the same periods in the prior year in accordance with the project plan under the contract.

- *Tumor Necrosis Therapy ("TNT")Technology Platform (Cotara)* – The decreases in TNT program expenses of $590,000 for the three months ended January 31, 2011 compared to the same period in the prior year was primarily due to a decrease in clinical trial expenses due to the timing of patient enrollment combined with a decrease in manufacturing related costs. The decreases in TNT program expenses of $350,000 for the nine months ended January 31, 2011 compared to the same period in the prior year was primarily due to a decrease in manufacturing related costs offset by an increase in clinical trial expenses due to the timing of patient enrollment.

- *Other R&D programs* – The decreases in our other R&D program expenses of $130,000 and $378,000 during the three and nine months ended January 31, 2011 compared to the same periods in the prior year was primarily due to receiving a research license credit from a licensor in the amount of $37,000 during the current quarter combined with our efforts to curtail spending on earlier-stage technologies associated with our anti-angiogenesis agents and vascular targeting agents in order to focus our efforts and resources on our current clinical programs. However, we are actively seeking partners to further develop these technologies.

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

- the uncertainty of future clinical trial results;
- the uncertainty of the ultimate number of patients to be treated in any current or future clinical trial;
- the uncertainty of the U.S. Food and Drug Administration allowing our studies to move forward from Phase I clinical studies to Phase II and Phase III clinical studies;
- the uncertainty of the rate at which patients are enrolled into any current or future study. Any delays in clinical trials could significantly increase the cost of the study and would extend the estimated completion dates;
- the uncertainty of terms related to potential future partnering or licensing arrangements;
- the uncertainty of protocol changes and modifications in the design of our clinical trial studies, which may increase or decrease our future costs; and
- the uncertainty of our ability to raise additional capital to support our future research and development efforts beyond the second quarter of our fiscal year 2012 ending October 31, 2011.

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

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

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

Three and Nine Months: The increases in selling, general and administrative ("SG&A") expenses of $949,000 (or 47%) and $2,595,000 (or 47%) during the three and nine months ended January 31, 2011 compared to the same periods in the prior year were primarily due to increases in share-based compensation expense (non-cash) of $356,000 and $997,000, respectively, and payroll and related expenses of $140,000 and $631,000, respectively. The increases in share-based compensation expense were primarily associated with the amortization of the fair value of options granted to employees and directors during the fourth quarter of fiscal year 2010. The increases in payroll and related expenses were primarily the result of increased SG&A employee headcount, compensation, and other employee-related expenses combined with an increase in consulting fees. These increases were further supplemented with current year three and nine-month period increases associated with patent fees, market research, travel and related expenses and other general corporate related expenses.

***Interest and Other Income.***

Nine Months: The increase in interest and other income of $938,000 during the nine months ended January 31, 2011 compared to the same period in the prior year was due to an increase in other income of $981,000 offset by a $43,000 decrease in interest income. The increase in other income was directly related to the government cash grant of approximately $978,000 awarded to us on October 29, 2010 under Section 48D of the Internal Revenue Code as reimbursement for four separate qualifying therapeutic discovery projects, which we applied for under the Patient Protection and Affordable Care Act of 2010.

***Interest and Other Expense.***

Three and Nine Months: The decreases in interest and other expense of $137,000 and $367,000 during the three and nine months ended January 31, 2011 compared to the same periods in the prior year was primarily due to decreases in interest expense and non-cash interest expense associated with the $5,000,000 term loan we secured in December 2008 due to lower outstanding principal balances during the current year periods.

**Critical Accounting Policies**

The preparation and presentation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to establish policies and to make estimates and assumptions that affect the amounts reported in our interim unaudited condensed consolidated financial statements. In our judgment, our critical accounting policies, estimates and assumptions have the greatest potential impact on our consolidated financial statements. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the following critical accounting policy below updates, and should be considered in addition to, the critical accounting policies previously disclosed by us in Part II, Item 7 of our Annual Report for the fiscal year ended April 30, 2010.

***Revenue Recognition.***

We currently derive revenue from the following three sources: (i) contract manufacturing services provided by Avid, (ii) licensing revenues related to agreements associated with Peregrine's technologies under development, and (iii) government contract revenues for services provided under a government contract awarded to Peregrine through the Transformational Medical Technologies ("TMT") of the U.S. Department of Defense's Defense Threat Reduction Agency.

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

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

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

Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue 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.

*License Revenue* - Revenue associated with licensing agreements primarily consist of non-refundable upfront license fees, non-refundable annual license fees and milestone payments. Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology.

If a license agreement has multiple element arrangements, we analyze and determine whether the deliverables, which often include performance obligations, can be separated or whether they must be accounted for as a single unit of accounting in accordance with the authoritative guidance. Under multiple element arrangements, we recognize revenue for delivered elements only when the delivered element has stand-alone value and we have objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, the arrangement would then be accounted for as a single unit of accounting, and revenue is recognized over the estimated period of when the performance obligation(s) are performed.

In addition, under certain circumstances, when there is objective and reliable evidence of the fair value of the undelivered items in an arrangement, but no such evidence for the delivered items, we utilize the residual method to allocate the consideration received under the arrangement. Under the residual method, the amount of consideration allocated to delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items, and revenue is recognized upon delivery of the undelivered items based on the relative fair value of the undelivered items.

Revenue recognized under licensing agreements is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned as of the period ending date. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying unaudited condensed consolidated financial statements.

Non-refundable annual license fees are recognized as revenue on the anniversary date of the agreement in accordance with the authoritative guidance for revenue recognition. Milestone payments are recognized as revenue upon the achievement of the specified milestone, provided that (i) the milestone event is substantive in nature and the achievement of the milestone is not reasonably assured at the inception of the agreement, (ii) the fees are non-refundable, and (iii) there is no continuing performance obligations associated with the milestone payment. Any milestone payments received prior to satisfying these revenue recognition criteria are recorded as deferred revenue in the accompanying unaudited condensed consolidated financial statements.

*Government Contract Revenue* – On June 30, 2008, we were awarded a government contract (the "Government Contract"), which expires on March 15, 2011, to test and develop bavituximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever ("VHF") infections.

The Government Contract is classified as a “cost-plus-fixed-fee” contract. We recognize government contract revenue in accordance with the authoritative guidance for revenue recognition including the authoritative guidance specific to federal government contracts. Reimbursable costs under the contract primarily include direct labor, subcontract costs, materials, equipment, travel, and indirect costs. In addition, we receive a fixed fee for our efforts equal to 9.9% of the reimbursable costs incurred under the Government Contract, which is unconditionally earned as allowable costs are billed and is not contingent on success factors. Reimbursable costs under this Government Contract, including the fixed fee, are generally recognized as revenue in the period the reimbursable costs are incurred and become billable. However, when amounts billable, including the fixed fee, are not reasonably related to the proportionate performance of the total work or services to be performed, we recognize revenue on a proportional performance basis. In addition, reimbursable costs, including the fixed fee, associated with manufacturing services are recognized as revenue once delivery (or passage of title) has occurred. Amounts billable (including the fixed fee) prior to satisfying revenue recognition criteria are classified as deferred government contract revenue in the accompanying unaudited condensed consolidated financial statements.

**Liquidity and Capital Resources**

At January 31, 2011, we had $24,068,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to $14,494,000, $16,524,000, and $23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid’s contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

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

With respect to financing our operations through the issuance of equity, during the nine months ended January 31, 2011, we raised $27,028,000 in gross proceeds. During February 2011, we raised an additional $2,358,000 in gross proceeds. As of February 28, 2011, we could issue additional shares of our common stock for aggregate gross proceeds of up to $76,182,000 under two effective shelf registration statements.

In addition, we may also raise additional capital through additional equity offerings, licensing our products in development, procuring government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid.

With respect to financing our operations through procuring government contracts and grants, on October 29, 2010 we were awarded an aggregate cash grant of approximately $978,000 under Section 48D of the Internal Revenue Code as reimbursement for four separate qualifying therapeutic discovery projects, which we applied for under the Patient Protection and Affordable Care Act of 2010. Of the total amount, we received $972,000 in November 2010 and the balance is expected to be received no later than May 2011.

While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the second quarter of our fiscal year 2012 ending October 31, 2011 based on current assumptions and assuming we do not generate any additional revenues or raise any additional capital from potential sources. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, of which, could reduce or delay our future projected cash flows. In addition, in the event our projected cash-inflows are reduced or delayed, we might not have sufficient capital to operate our business through the second quarter of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

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

*Cash Used In Operating Activities*. Cash used in operating activities is primarily driven by changes in our net loss. However, cash used in operating activities generally differs from our reported net loss as a result of non-cash operating expenses or differences in the timing of cash flows as reflected in the changes in operating assets and liabilities. During the nine months ended January 31, 2011, cash used in operating activities increased $9,587,000 to $19,464,000 compared to $9,877,000 for the nine months ended January 31, 2010. This increase in net cash used in operating activities was primarily due to an increase of $14,937,000 in net loss reported during the current nine-month period after taking into consideration non-cash operating expenses offset by a net change in operating assets and payment or reduction of liabilities in the aggregate amount of $5,350,000 . The decrease in the net change in operating assets and payment or reduction of liabilities was primarily due to net changes associated with receivables, inventories, accounts payable, accrued liabilities, deferred revenue and deferred government contract revenue. The increase in our current nine-month period net loss was primarily due to current period decreases in contract manufacturing revenue and government contract revenue combined with increases in research and development expenses and selling, general and administrative expenses, which were offset by a decrease in cost of contract manufacturing and an increase in interest and other income.

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

| | NINE MONTHS ENDED | |
|---|---|---|
| | **January 31, 2011** | **January 31, 2010** |
| Net loss, as reported | $ (24,137,000) | $ (6,753,000) |
| Less non-cash expenses and adjustments to net loss: | | |
| Depreciation and amortization | 469,000 | 337,000 |
| Share-based compensation | 1,998,000 | 491,000 |
| Amortization of discount on notes payable and debt issuance costs | 204,000 | 343,000 |
| Amortization of expenses paid in shares of common stock | 956,000 | - |
| Common stock issued for services | 40,000 | - |
| Loss on disposal of property | - | 49,000 |
| Net cash used in operating activities before changes in operating assets and liabilities | $ (20,470,000) | $ (5,533,000) |
| Net change in operating assets and liabilities | $ 1,006,000 | $ (4,344,000) |
| Net cash used in operating activities | $ (19,464,000) | $ (9,877,000) |

*Cash Used In Investing Activities.* Net cash used in investing activities increased $907,000 to $1,036,000 for the nine months ended January 31, 2011 compared to net cash used of $129,000 for the nine months ended January 31, 2010. This increase was due to an increase in cash outflows of $571,000 associated with property acquisitions combined with an increase in cash outflows of $316,000 associated with the increase in other assets, which were offset by a $20,000 decrease in cash inflows associated with the sale of property. The current nine-month period increase in property acquisitions is primarily related to purchases of certain computer software and hardware to enhance corporate infrastructure and operational efficiencies combined with the purchase of certain leasehold improvements and furniture and fixtures associated with additional office space we leased in May 2010. The current nine-month period increase in other assets is primarily associated with an increase in deposits and/or progress payments for certain additional computer software to enhance corporate infrastructure and operational efficiencies and additional leasehold improvements associated with office space we leased in May 2010.

*Cash Provided By Financing Activities*. Net cash provided by financing activities increased $8,062,000 to $24,887,000 for the nine months ended January 31, 2011 compared to net cash provided of $16,825,000 for the nine months ended January 31, 2010. During the nine months ended January 31, 2011, we sold 13,525,800 shares of our common stock for net proceeds of $26,398,000. In addition, we received net proceeds of $32,000 from the exercise of stock options. These current year net proceeds from financing activities were offset with aggregate principal payments on notes payable and capital leases of $1,543,000.

During the nine months ended January 31, 2010, we sold 5,313,220 shares of our common stock for net proceeds of $17,913,000. In addition, we received net proceeds of $95,000 from the exercise of stock options. These prior year net proceeds from financing activities were offset with aggregate principal payments on notes payable and capital leases of $1,183,000.

**Commitments**

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

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

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

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

At January 31, 2011, we had an outstanding notes payable balance of $1,833,000 under a loan and security agreement, which bear interest at a monthly variable rate equal to the then current thirty (30) day LIBOR rate (set at a floor of 3%) plus 9%, which may expose us to market risk due to changes in interest rates. However, based on current LIBOR interest rates, which are currently under the minimum floor set at 3% under our loan and security agreement and based on historical movements in LIBOR rates, we believe a near-term change in interest rates would not have a material adverse effect on our financial position or results of operations.

## ITEM 4. CONTROLS AND PROCEDURES.

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

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

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

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

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

### ITEM 1A. RISK FACTORS.

*The following risk factors below update, and should be considered in addition to, the risk factors previously disclosed by us in Part 1, Item 1A of our Annual Report for the fiscal year ended April 30, 2010.*

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

At January 31, 2011, we had $24,068,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to $14,494,000, $16,524,000, and $23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

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

With respect to financing our operations through the issuance of equity, during the nine months ended January 31, 2011, we raised $27,028,000 in gross proceeds. During February 2011, we raised an additional $2,358,000 in gross proceeds. As of February 28, 2011, we could issue additional shares of our common stock for aggregate gross proceeds of up to $76,182,000 under two effective shelf registration statements.

In addition, we may also raise additional capital through additional equity offerings, licensing our products in development, procuring government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid.

With respect to financing our operations through procuring government contracts and grants, on October 29, 2010 we were awarded an aggregate cash grant of approximately $978,000 under Section 48D of the Internal Revenue Code as reimbursement for four separate qualifying therapeutic discovery projects, which we applied for under the Patient Protection and Affordable Care Act of 2010. Of the total amount, we received $972,000 in November 2010 and the balance is expected to be received no later than May 2011.

While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers to meet our obligations as they become due through at least the second quarter of our fiscal year 2012 ending October 31, 2011 based on current assumptions and assuming we do not generate any additional revenues or raise any additional capital from potential sources. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party contracts, technical challenges, the rate at which patients are enrolled into any current or future clinical trials, of which, could reduce or delay our future projected cash flows. In addition, in the event our projected cash-inflows are reduced or delayed we might not have sufficient capital to operate our business through the second quarter of our fiscal year 2012 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

**OUR OUTSTANDING INDEBTEDNESS TO MIDCAP FINANCIAL LLC AND BLUECREST CAPITAL FINANCE, L.P. IMPOSES CERTAIN RESTRICTIONS ON HOW WE CONDUCT OUR BUSINESS. IN ADDITION, ALL OF OUR ASSETS, INCLUDING OUR INTELLECTUAL PROPERTY, ARE PLEDGED TO SECURE THIS INDEBTEDNESS. IF WE FAIL TO MEET OUR OBLIGATIONS TO THE LENDERS, OUR PAYMENT OBLIGATIONS MAY BE ACCELERATED AND THE COLLATERAL SECURING THE DEBT MAY BE SOLD TO SATISFY THESE OBLIGATIONS.**

Pursuant to a Loan and Security Agreement dated December 9, 2008 (the "Loan Agreement"), MidCap Financial LLC and BlueCrest Capital Finance, L.P. (the "Lenders") have provided us a three-year, $5,000,000 working capital loan, which funded on December 19, 2008. At January 31, 2011, we had an outstanding principal balance of $1,833,000 under the Loan Agreement. As collateral to secure our repayment obligations to the Lenders, we and our wholly-owned subsidiary, Avid Bioservices, Inc., have granted the Lenders a first priority security interest in generally all of our respective assets, including our intellectual property.

The Loan Agreement also contains various covenants that restrict our operating flexibility. Pursuant to the Loan Agreement, without the prior written consent of the Lenders we may not, among other things:

- incur additional indebtedness, except for certain permitted indebtedness. Permitted indebtedness is defined to include accounts payable incurred in the ordinary course of business and leases of equipment or property incurred in the ordinary course of business not to exceed in the aggregate $500,000 outstanding at any one time;
- incur additional liens on any of our assets except for certain permitted liens including but not limited to non-exclusive licenses of our intellectual property in the ordinary course of business and exclusive licenses of intellectual property provided they are approved by our board of directors and do not involve bavituximab or Cotara;
- make any payment of subordinated debt, except as permitted under the applicable subordination or intercreditor agreement;
- merge with or acquire any other entity, or sell all or substantially all of our assets, except as permitted under the Loan Agreement;
- pay dividends (other than stock dividends) to our shareholders;
- redeem any outstanding shares of our common stock or any outstanding options or warrants to purchase shares of our common stock except in connection with the repurchase of stock from former employees and consultants pursuant to share repurchase agreements provided such repurchases do not exceed $50,000 in the aggregate during any twelve-month period;
- enter into transactions with affiliates other than on arms-length terms; and
- make any change in any of our business objectives, purposes and operations which has or could be reasonably expected to have a material adverse effect on our business.

In addition, we must maintain a cash and cash equivalents balance of at least 80% of the outstanding loan balance (or $1,467,000 as of January 31, 2011).

These provisions could have important consequences for us, including (i) making it more difficult for us to obtain additional debt financing from another lender, or obtain new debt financing on terms favorable to us, because a new lender will have to be willing to be subordinate to the lenders, (ii) causing us to use a portion of our available cash for debt repayment and service rather than other perceived needs and/or (iii) impacting our ability to take advantage of significant, perceived business opportunities. Our failure to timely repay our obligations under the Loan Agreement or meet the covenants set forth in the Loan Agreement could give rise to a default under the agreement. In the event of an uncured default, the Loan Agreement provides that all amounts owed to the Lender may be declared immediately due and payable and the Lenders have the right to enforce their security interest in the assets securing the Loan Agreement. In such event, the Lenders could take possession of any or all of our assets in which they hold a security interest, and dispose of those assets to the extent necessary to pay off our debts, which would materially harm our business.

**WE HAVE HAD SIGNIFICANT LOSSES AND WE ANTICIPATE FUTURE LOSSES.**

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

| | Net Loss |
|---|---|
| Nine months ended January 31, 2011 (unaudited) | $ 24,137,000 |
| Fiscal Year 2010 | $ 14,494,000 |
| Fiscal Year 2009 | $ 16,524,000 |
| Fiscal Year 2008 | $ 23,176,000 |

As of January 31, 2011, we had an accumulated deficit of $285,991,000. While we expect to continue to generate revenues from Avid's contract manufacturing services, in order to achieve and sustain profitable operations, we must successfully develop and obtain regulatory approval for our products, either alone or with others, and must also manufacture, introduce, market and sell our products. The costs associated with clinical trials and product manufacturing is very expensive and the time frame necessary to achieve market success for our products is long and uncertain. We do not expect to generate product or royalty revenues for at least the next two years, and we may never generate product and/or royalty revenues sufficient to become profitable or to sustain profitability.

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

As of January 31, 2011, there were 66,813,419 shares of our common stock outstanding. Substantially all of these shares are eligible for trading in the public market, subject in some cases to volume and other limitations. The market price of our common stock may decline if our common stockholders sell a large number of shares of our common stock in the public market, or the market perceives that such sales may occur.

We could also issue up to 14,231,797 additional shares of our common stock that are reserved for future issuance under our stock incentive plans, employee stock purchase plan, and for outstanding warrants, as further described in the following table:

| | **Number of Shares Reserved** |
|---|---|
| Common shares reserved for issuance under outstanding option and restricted stock award grants and available for issuance under our stock incentive plans | 9,011,830 |
| Common shares reserved for and available for issuance under our Employee Stock Purchase Plan | 5,000,000 |
| Common shares issuable upon exercise of outstanding warrants | 219,967 |
| Total shares of common stock reserved for issuance | 14,231,797 |

In addition, the above table does not include shares of common stock that we have available to issue under our current effective shelf registration statements, under which we may issue, from time to time, in one or more offerings, shares of our common stock for remaining aggregate gross proceeds of up to $78,540,000 as of January 31, 2011.

Of the total options, restricted stock awards and warrants outstanding as of January 31, 2011, 981,300 would be considered dilutive to stockholders because we would receive an amount per share which is less than the market price of our common stock at January 31, 2011.

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

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

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

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

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

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

| | Common Stock Sales Price | | Common Stock Daily Trading Volume (000's omitted) | |
|---|---|---|---|---|
| | High | Low | High | Low |
| Quarter Ended January 31, 2011 | $ 3.10 | $ 1.46 | 3,434 | 105 |
| Quarter Ended October 31, 2010 | $ 2.08 | $ 1.25 | 4,997 | 118 |
| Quarter Ended July 31, 2010 | $ 4.14 | $ 1.51 | 9,520 | 140 |
| Quarter Ended April 30, 2010 | $ 4.30 | $ 2.86 | 1,278 | 66 |
| Quarter Ended January 31, 2010 | $ 3.46 | $ 2.51 | 1,384 | 49 |
| Quarter Ended October 31, 2009 | $ 4.74 | $ 2.74 | 2,243 | 64 |
| Quarter Ended July 31, 2009 | $ 5.65 | $ 1.85 | 7,345 | 39 |
| Quarter Ended April 30, 2009 | $ 2.60 | $ 1.52 | 702 | 14 |
| Quarter Ended January 31, 2009 | $ 2.35 | $ 1.10 | 260 | 19 |
| Quarter Ended October 31, 2008 | $ 2.00 | $ 1.15 | 263 | 15 |
| Quarter Ended July 31, 2008 | $ 2.65 | $ 1.54 | 599 | 21 |
| Quarter Ended April 30, 2008 | $ 3.63 | $ 1.75 | 769 | 26 |

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

- announcements of technological innovations or new commercial products by us or our competitors;
- publicity regarding actual or potential company-sponsored clinical trial and investigator-sponsored clinical trial results relating to products under development by us or our competitors;
- our financial results or that of our competitors, including our abilities to continue as a going concern;
- the offering and sale of shares of our common stock at a discount under an equity transaction;
- changes in our capital structure;
- published reports by securities analysts;
- announcements of licensing agreements, joint ventures, strategic alliances, and any other transaction that involves the sale or use of our technologies or competitive technologies;
- developments and/or disputes concerning our patent or proprietary rights;
- regulatory developments and product safety concerns;
- general stock trends in the biotechnology and pharmaceutical industry sectors;
- public concerns as to the safety and effectiveness of our products;
- economic trends and other external factors, including but not limited to, interest rate fluctuations, economic recession, inflation, foreign market trends, national crisis, and disasters; and
- healthcare reimbursement reform and cost-containment measures implemented by government agencies.

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

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

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

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

Although we currently meet all NASDAQ listing requirements, the market price of our common stock has generally been highly volatile and we cannot guarantee that we will continue to maintain compliance with The NASDAQ Capital Market listing requirements.

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

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

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

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

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

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

**We are primarily focusing our activities and resources on the development of bavituximab and depend on its success.**

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

**Our product development efforts may not be successful.**

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

**Clinical trials required for our product candidates are expensive and time consuming, and their outcome is uncertain.**

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

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

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

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

**We rely on third parties to conduct our clinical trials and many of our preclinical studies. If those parties do not successfully carry out their contractual duties or meet expected deadlines, our drug candidates may not advance in a timely manner or at all.**

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

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

**We do not have experience as a company conducting large-scale clinical trials, or in other areas required for the successful commercialization and marketing of our product candidates.**

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

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

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

**Failure to recruit, enroll, and retain patients for clinical trials may cause the development of our product candidates to be delayed or development costs to increase substantially.**

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

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

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

**Our international clinical trials may be delayed or otherwise adversely impacted by social, political and economic factors affecting the particular foreign country.**

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

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

Because some of the trial sites for our recently initiated Phase IIb non-small cell lung cancer trials will be in India and other foreign countries, any disruption to our international clinical trial sites could significantly delay our product development efforts.

**Success in early clinical trials may not be indicative of results obtained in later trials.**

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

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

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

**If we successfully develop products but those products do not achieve and maintain market acceptance, our business will not be profitable.**

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

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

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

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

**Healthcare reform measures and other statutory or regulatory changes could adversely affect our business.**

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

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

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

**If we cannot license or sell Cotara, it may be delayed or never be further developed in the U.S.**

We have completed initial Phase I and Phase I/II studies with Cotara for the treatment of brain cancer. In addition, we previously announced the completion of patient enrollment in both our dose confirmation and dosimetry clinical trial in patients with recurrent GBM and our Phase II safety and efficacy study using a single administration of the drug through an optimized delivery method. Taken together, the dose confirmation and dosimetry clinical trial along with data collected from the Phase II safety and efficacy study may provide the safety, dosimetry and efficacy data that will support the final design of the registrational study. Once we complete data collection and analysis from the two Cotara studies for the treatment of GBM, substantial financial resources will be needed to complete any additional supportive clinical studies necessary for potential product approval. Based on the patient size and design of the registrational study, we may not have the financial resources internally to complete the larger registrational study. We therefore intend to continue to seek a licensing or funding partner for Cotara, and hope that the data from our clinical studies will enhance our opportunities of finding such partner. If a partner is not found for this technology in the U.S., we may not be able to advance the project past its current state of development. Because there are a limited number of companies which have the financial resources, the internal infrastructure, the technical capability and the marketing infrastructure to develop and market a radiopharmaceutical-based oncology drug, we may not find a suitable partnering candidate for Cotara. We also cannot ensure that we will be able to find a suitable licensing partner for this technology in the U.S. Furthermore, we cannot ensure that if we do find a suitable licensing partner, the financial terms that they propose will be acceptable to us.

**Our dependency on our radiolabeling suppliers may negatively impact our ability to complete future clinical trials and market our products.**

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

**Our manufacturing facilities may not continue to meet regulatory requirements and have limited capacity.**

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

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

We may also encounter problems with the following:

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

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

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

We face an inherent business risk of exposure to product liability claims in the event that the administration of one of our drugs during a clinical trial adversely affects or causes the death of a patient. Although we maintain product liability insurance for clinical studies in the amount of $3,000,000 per occurrence or $3,000,000 in the aggregate on a claims-made basis, this coverage may not be adequate. Product liability insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms, if at all. Our inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims in excess of our insurance coverage, if any, or a product recall, could negatively impact our financial position and results of operations.

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

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

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

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

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

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

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

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

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

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

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

Bavituximab is currently in clinical trials for the treatment of non-small cell lung cancer (NSCLC) and other solid tumors. Although we are not aware of any other products in clinical development targeting PS as a potential therapy for advanced solid tumors, there are a number of possible competitors with approved or developmental targeted agents used in combination with standard chemotherapy for the treatment of cancer, including but not limited to, Avastin®, Rituxan® and Herceptin® by Roche/Genentech, Inc., Gleevec® by Novartis, Tarceva® by OSI Pharmaceuticals, Inc. and Roche/Genentech, Inc., Erbitux® by Eli Lilly and Company/ImClone Systems Incorporated and Bristol-Myers Squibb Company, Vectibix® by Amgen. Specifically for NSCLC, there are experimental compounds including but not limited to afatinib by Boehringer Ingelheim, crizotinib by Pfizer, ARQ-197 by ArQule and Daiichi Sankyo, and iniparib by Sanofi-Aventis, Stimuvax® by Merck Serono and Oncothyreon, and astuprotimut-r by GlaxoSmithKline in late stage development that are possible competitors to bavituximab. Other experimental compounds in development that are possible competitors to bavituximab include, but are not limited to therapeutics designated as angiogenesis inhibitors, EGFR inhibitors, c-Met receptor inhibitors, IGFR inhibitors, HSP inhibitors, and apoptosis inducers. A direct comparison of these potential competitors will not be possible until bavituximab advances to later-stage clinical trials.

In addition, we are evaluating bavituximab for the treatment of HCV. We are aware of no other products in development targeting PS as a potential therapy for HCV. There are a number of companies that have products approved and on the market for the treatment of HCV, including but not limited to: Peg-Intron® (pegylated interferon-alpha-2b), Rebetol® (ribavirin), which are marketed by Merck & Co., Inc./Schering-Plough Corporation, Pegasys® (pegylated interferon-alpha-2a) and Copegus® (ribavirin USP) , which are marketed by Roche Pharmaceuticals, and Infergen® (interferon alfacon-1) marketed by Kadmon Pharmaceuticals, LLC. First-line treatment for HCV has changed little since interferon alpha was first introduced in 1991. The current standard of care for HCV includes a combination of pegylated interferon alpha with ribavirin. This combination therapy is generally associated with considerable toxicity including flu-like symptoms, hematologic changes and central nervous system side effects including depression. It is not uncommon for patients to discontinue interferon therapy because they are unable to tolerate the side effects of the treatment.

Future treatments for HCV are likely to include a combination of these existing products with products currently in development. Later-stage developmental treatments include improvements to existing therapies, such as PEG-Interferon Lambda, in development by Bristol-Myers Squibb, and Locteron in development by Biolex Therapeutics. Other developmental approaches include, but are not limited to, compounds that may or may not be administered in combination with other antiviral drugs or current standard of care, including but not limited to protease inhibitors, such as telaprevir from Vertex Pharmaceuticals Incorporated and boceprevir from Merck & Co., Inc./Schering-Plough Corporation, and polymerase inhibitors, entry inhibitors, cyclophilin inhibitors, immunomodulators, TLR agonists, caspace inhibitors, thiazolides, and vaccines.

We are developing our novel brain cancer therapy Cotara, and we recently completed patient treatment in a Phase II clinical trial for the treatment of recurrent GBM, the most aggressive form of brain cancer. Approved treatments for brain cancer include the Gliadel Wafer® (polifeprosan 20 with carmustine implant) from Eisai, Inc., Temodar® (temozolomide) from Merck & Co., Inc./Schering-Plough Corporation and Avastin® (bevacizumab) from Roche/Genentech, Inc. Gliadel is inserted in the tumor cavity following surgery and releases a chemotherapeutic agent over time. Temodar is administered orally to patients with brain cancer. Avastin is a monoclonal antibody that targets VEGF to prevent the formation of new tumor blood vessels.

Since Cotara targets destroying brain tumors from the inside out, it is a novel treatment dissimilar from other drugs in development for this disease. Some products in development may compete with Cotara should they become approved for marketing. These products include, but are not limited to: 131I-TM601, a radiolabeled chlorotoxin peptide being developed by TransMolecular, Inc., CDX-110, a peptide vaccine under development by Celldex, cilengitide, an integrin-targeting peptide being evaluated by Merck KGaA, and cediranib, a VEGFR tyrosine kinase inhibitor being developed by AstraZeneca. In addition, approved oncology products marketed for other indications are being evaluated for the treatment of brain cancer, and include Gleevec® (Novartis), Tarceva (Roche/Genentech/OSI Pharmaceuticals Inc.), and Nexavar® (Bayer/Onyx Pharmaceuticals).

**Avid Bioservices, Inc., our subsidiary, is exposed to risks resulting from its small customer base.**

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

**If we lose qualified management and scientific personnel or are unable to attract and retain such personnel, we may be unable to successfully develop our products or we may be significantly delayed in developing our products.**

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

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

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

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

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

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

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

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

None

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

None

**ITEM 4. [REMOVED AND RESERVED]**

**ITEM 5. OTHER INFORMATION.**

On March 7, 2011, we received notification from the Transformational Medical Technologies ("TMT") of the U.S. Department of Defense's Defense Threat Reduction Agency that they had determined not to exercise its next option to extend the government contract awarded to us by the TMT in June 2008 and, therefore, the government contract will expire on March 15, 2011 per the terms of the contract and no additional funding will be provided under the contract.

**ITEM 6. EXHIBITS.**

(a) Exhibits:

| | |
|---|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |

* 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: March 11, 2011

By: /s/ STEVEN W. KING

Steven W. King
President, Chief Executive Officer, and Director

PEREGRINE PHARMACEUTICALS, INC.

Date: March 11, 2011

By: /s/ PAUL J. LYTLE

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

**Exhibit 31.1**

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

I, Steven W. King, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 11, 2011

Signed: /s/ STEVEN W. KING

Steven W. King
President, Chief Executive Officer, and Director

**Exhibit 31.2**

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

I, Paul J. Lytle, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 11, 2011

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

**Exhibit 32**

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

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

By: /s/ STEVEN W. KING
Name: Steven W. King
Title: President, Chief Executive Officer, and Director
Date: March 11, 2011

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

By: /s/ PAUL J. LYTLE
Name: Paul J. Lytle
Title: Chief Financial Officer
Date: March 11, 2011

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

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