

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-17085

**PEREGRINE PHARMACEUTICALS, INC.**

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

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**14272 Franklin Avenue, Tustin, California**  
*(Address of principal executive offices)*

**95-3698422**  
*(I.R.S. Employer  
Identification No.)*

**92780-7017**  
*(Zip Code)*

**(714) 508-6000**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer  Accelerated Filer  Non- Accelerated Filer

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

Yes  No

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

---

Class	Shares Outstanding at December 5, 2006
Common Stock, \$0.001 par value per share	195,120,390 shares

---

## TABLE OF CONTENTS

<b>PART I - FINANCIAL INFORMATION</b>		<b>Page No.</b>
Item 1.	Consolidated Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets	1
	Condensed Consolidated Statements of Operations	3
	Condensed Consolidated Statements of Cash Flows	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
	Company Overview	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4.	Controls and Procedures	24
<b>PART II - OTHER INFORMATION</b>		
Item 1.	Legal Proceedings	24
Item 1A.	Risk Factors	24
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults upon Senior Securities	36
Item 4.	Submission of Matters to a Vote of Security Holders	36
Item 5.	Other Information	36
Item 6.	Exhibits	36
<b>SIGNATURES</b>		37

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

**PART I - FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**PEREGRINE PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

---

	<b>OCTOBER 31, 2006</b>	<b>APRIL 30, 2006</b>
	<i>Unaudited</i>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 23,394,000	\$ 17,182,000
Trade and other receivables	801,000	579,000
Inventories	1,899,000	885,000
Prepaid expenses and other current assets	<u>1,323,000</u>	<u>1,466,000</u>
Total current assets	27,417,000	20,112,000
<b>PROPERTY:</b>		
Leasehold improvements	640,000	618,000
Laboratory equipment	3,669,000	3,444,000
Furniture, fixtures and office equipment	<u>666,000</u>	<u>666,000</u>
	4,975,000	4,728,000
Less accumulated depreciation and amortization	<u>(3,055,000)</u>	<u>(2,822,000)</u>
Property, net	1,920,000	1,906,000
Other assets	<u>468,000</u>	<u>658,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 29,805,000</u></b>	<b><u>\$ 22,676,000</u></b>

See accompanying notes to condensed consolidated financial statements

## CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

	<b>OCTOBER 31,</b>		<b>APRIL 30,</b>
	<b>2006</b>		<b>2006</b>
	<i>Unaudited</i>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
CURRENT LIABILITIES:			
Accounts payable	\$ 1,093,000	\$	1,233,000
Accrued clinical trial site fees	315,000		170,000
Accrued legal and accounting fees	76,000		250,000
Accrued royalties and license fees	164,000		138,000
Accrued payroll and related costs	974,000		850,000
Notes payable, current portion	443,000		429,000
Capital lease obligation, current portion	16,000		15,000
Deferred revenue	1,388,000		563,000
Other current liabilities	396,000		836,000
	<u>4,865,000</u>		<u>4,484,000</u>
Total current liabilities			
	4,865,000		4,484,000
Notes payable, less current portion	273,000		498,000
Capital lease obligation, less current portion	39,000		47,000
Deferred license revenue	12,000		21,000
Commitments and contingencies			
STOCKHOLDERS' EQUITY:			
Preferred stock-\$.001 par value; authorized 5,000,000 shares; non-voting; nil shares outstanding	-		-
Common stock-\$.001 par value; authorized 250,000,000 shares; outstanding - 193,920,390 and 179,382,191, respectively	194,000		179,000
Additional paid-in capital	221,813,000		204,546,000
Deferred stock compensation	-		(235,000)
Accumulated deficit	(197,391,000)		(186,864,000)
	<u>24,616,000</u>		<u>17,626,000</u>
Total stockholders' equity			
	24,616,000		17,626,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 29,805,000</u>	<u>\$</u>	<u>22,676,000</u>

See accompanying notes to condensed consolidated financial statements

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	October 31, 2006	October 31, 2005	October 31, 2006	October 31, 2005
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>REVENUES:</b>				
Contract manufacturing revenue	\$ 636,000	\$ 533,000	\$ 1,034,000	\$ 722,000
License revenue	48,000	23,000	71,000	42,000
Total revenues	<u>684,000</u>	<u>556,000</u>	<u>1,105,000</u>	<u>764,000</u>
<b>COSTS AND EXPENSES:</b>				
Cost of contract manufacturing	494,000	428,000	1,024,000	732,000
Research and development	3,920,000	3,244,000	7,961,000	6,036,000
Selling, general and administrative	<u>1,670,000</u>	<u>1,570,000</u>	<u>3,311,000</u>	<u>3,087,000</u>
Total costs and expenses	<u>6,084,000</u>	<u>5,242,000</u>	<u>12,296,000</u>	<u>9,855,000</u>
<b>LOSS FROM OPERATIONS</b>	<u>(5,400,000)</u>	<u>(4,686,000)</u>	<u>(11,191,000)</u>	<u>(9,091,000)</u>
<b>OTHER INCOME (EXPENSE):</b>				
Interest and other income	339,000	128,000	688,000	204,000
Interest and other expense	<u>(9,000)</u>	<u>(13,000)</u>	<u>(24,000)</u>	<u>(23,000)</u>
<b>NET LOSS</b>	<u>\$ (5,070,000)</u>	<u>\$ (4,571,000)</u>	<u>\$ (10,527,000)</u>	<u>\$ (8,910,000)</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>				
Basic and Diluted	<u>193,793,766</u>	<u>165,925,879</u>	<u>188,950,924</u>	<u>162,980,798</u>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>

See accompanying notes to condensed consolidated financial statements

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED OCTOBER 31,	
	2006	2005
	<i>Unaudited</i>	<i>Unaudited</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (10,527,000)	\$ (8,910,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	233,000	200,000
Stock-based compensation and issuance of common stock under stock bonus plan	970,000	161,000
Amortization of expenses paid in shares of common stock	309,000	678,000
Changes in operating assets and liabilities:		
Trade and other receivables	(222,000)	(5,000)
Inventories	(1,014,000)	(860,000)
Prepaid expenses and other current assets	(166,000)	(37,000)
Accounts payable	(140,000)	(164,000)
Accrued clinical trial site fees	145,000	53,000
Deferred revenue	816,000	534,000
Accrued payroll and related costs	12,000	(234,000)
Other accrued expenses and current liabilities	(588,000)	(463,000)
	<u>(10,172,000)</u>	<u>(9,047,000)</u>
Net cash used in operating activities	(10,172,000)	(9,047,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property acquisitions	(57,000)	(217,000)
Increase in other assets	-	(73,000)
	<u>(57,000)</u>	<u>(290,000)</u>
Net cash used in investing activities	(57,000)	(290,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings under notes payable	-	267,000
Principal payments on notes payable and capital lease	(218,000)	(136,000)
Proceeds from issuance of common stock, net of issuance costs of \$46,000 and \$46,000, respectively	16,659,000	11,292,000
	<u>16,441,000</u>	<u>11,423,000</u>
Net cash provided by financing activities	16,441,000	11,423,000
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	6,212,000	2,086,000
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>17,182,000</u>	<u>9,816,000</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>\$ 23,394,000</u>	<u>\$ 11,902,000</u>
<b>NON-CASH FINANCING ACTIVITIES:</b>		
Common stock issued for research fees and prepayments for future research fees	<u>\$ -</u>	<u>\$ 321,000</u>

See accompanying notes to condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited)

---

1. BASIS OF PRESENTATION

The accompanying interim condensed consolidated financial statements include the accounts of Peregrine Pharmaceuticals, Inc. ("Peregrine"), a clinical stage biopharmaceutical company developing targeted therapeutics for the treatment of cancer and hepatitis C virus infection, and its wholly owned subsidiary, Avid Bioservices, Inc. ("Avid"), which performs contract manufacturing of biologics and related services (collectively, the "Company"). All intercompany balances and transactions have been eliminated.

In addition, the accompanying interim condensed consolidated financial statements are unaudited; however they contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the condensed consolidated financial position of the Company at October 31, 2006, and the condensed consolidated results of our operations and our condensed consolidated cash flows for the three and six-month periods ended October 31, 2006 and 2005. We prepared the condensed consolidated financial statements following the requirements of the Securities and Exchange Commission (or SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. generally accepted accounting principles (or GAAP) can be condensed or omitted. Although we believe that the disclosures in the financial statements are adequate to make the information presented herein not misleading, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended April 30, 2006. 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.

We have expended substantial funds on the development of our product candidates and we have incurred negative cash flows from operations for the majority of our years since inception. Since inception, we have financed our operations primarily through the sale of our common stock and issuance of convertible debt, which has been supplemented with payments received from various licensing collaborations and through the revenues generated by Avid. We expect negative cash flows from operations to continue until we are able to generate sufficient revenue from the contract manufacturing services provided by Avid and/or from the sale and/or licensing of our products under development.

Revenues earned by Avid during the six months ended October 31, 2006 and 2005 amounted to \$1,034,000 and \$722,000, respectively. We expect that Avid will continue to generate revenues which should partially offset our consolidated cash flows used in operations, although we expect those near term revenues will be insufficient to fully cover our anticipated consolidated cash flows used in operations. In addition, revenues that may be generated from the sale and/or licensing of our products under development are always uncertain. 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. At October 31, 2006, we had \$23,394,000 in cash and cash equivalents, which we currently believe is sufficient capital to maintain our operations through at least July 2007 based on our current projections.

We plan to raise additional capital primarily through the registered offer and sale of shares of our common stock. At October 31, 2006, we had approximately 5,893,000 shares available for possible future registered transactions. Our ability to sell these shares or any additional shares of our common stock is subject to certain limitations which we agreed to in connection with our financing completed on June 16, 2006. Pursuant to the June 16, 2006 financing, we agreed not to (i) file another shelf registration statement pursuant to Rule 415 of the Securities Act of 1933, as amended, for a period of one hundred eighty days following June 16, 2006, nor (ii) without the prior written consent of the purchaser in such financing, prior to January 2, 2007, enter into any subsequent or further offer to sell securities at a price or possible price below \$2.50 per share. Notwithstanding the availability of our Form S-3, given uncertain market conditions and the volatility of our stock price and trading volume, we may not be able to sell our securities at prices or on terms that are favorable to us, if at all.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)**

There can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that sufficient additional revenues will be generated from Avid or under potential licensing agreements to complete the research, development, and clinical testing of our product candidates beyond July 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Prepaid Expenses* - Our prepaid expenses primarily represent pre-payments made to secure the receipt of services at a future date. We have prepaid various research and development related services through the issuance of shares of our common stock to unrelated entities, which are expensed once the services have been provided under the terms of the arrangement. As of October 31, 2006 and April 30, 2006, prepaid expenses and other current assets in the accompanying condensed consolidated financial statements include \$557,000 and \$866,000, respectively, in research and development services prepaid in shares of our common stock.

*Inventories* - Inventories are stated at the lower of cost or market and primarily include raw materials, direct labor and overhead costs associated with our wholly owned subsidiary, Avid. Inventories consist of the following at October 31, 2006 and April 30, 2006:

	<u>October 31, 2006</u>	<u>April 30, 2006</u>
Raw materials	\$ 601,000	\$ 565,000
Work-in-process	<u>1,298,000</u>	<u>320,000</u>
Total inventories	<u>\$ 1,899,000</u>	<u>\$ 885,000</u>

*Comprehensive Loss* - Comprehensive loss is equal to net loss for all periods presented.

*Basic and Dilutive Net Loss Per Common Share* - Basic and dilutive net loss per common share are calculated in accordance with Statement of Financial Accounting Standards No. 128, *Earnings per 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 and warrants. 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 options 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 and warrants are anti-dilutive during periods of net loss, there was no difference between basic and diluted loss per share amounts for the three and six months ended October 31, 2006 and 2005.

The calculation of weighted average diluted shares outstanding excludes the dilutive effect of options and warrants to purchase up to 1,801,130 and 3,204,557 shares of common stock for the three and six months ended October 31, 2006, respectively, and 3,140,081 and 3,205,261 shares of common stock for the three and six months ended October 31, 2005, respectively, since the impact of such options and warrants are anti-dilutive during periods of net loss.



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)**

---

The calculation of weighted average diluted shares outstanding also excludes outstanding options and warrants to purchase up to 7,364,621 and 6,770,174 shares of common stock for the three and six months ended October 31, 2006, respectively, and 14,516,913 and 14,621,138 shares of common stock for the three and six months ended October 31, 2005, respectively, as the exercise prices of those options were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect.

*Recent Accounting Pronouncements* - In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will be effective for fiscal years beginning after December 15, 2006, which we would be required to implement no later than May 1, 2007. We have not yet evaluated the potential impact of adopting FIN 48 on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, which we would be required to implement no later than May 1, 2008. We have not yet evaluated the potential impact of adopting SFAS No. 157 on our consolidated financial statements.

### 3. STOCK-BASED COMPENSATION

We currently maintain four equity compensation plans referred to as the 1996 Plan, the 2002 Plan, the 2003 Plan, and the 2005 Plan (collectively referred to as the "Option Plans"). The Option Plans provide for the granting of options to purchase shares of our common stock at exercise prices not less than the fair market value of our common stock at the date of grant. The options generally vest over four years and generally expire ten years after the date of grant.

Prior to fiscal year 2007, we accounted for options granted under the Option Plans in accordance with Accounting Principles Board No. 25 ("APB No. 25"), *Accounting for Stock Issued to Employees and Related Interpretations*, as permitted by Financial Accounting Standards Board Statement of Financial Accounting Standard No. 123 ("SFAS No. 123"), *Accounting for Stock-Based Compensation*. Accordingly, no compensation expense was recognized in the accompanying condensed statements of operations for the three and six months ended October 31, 2005 related to stock option grants, as all options granted under the Option Plans had an exercise price at least equal to the fair market value of the underlying common stock on the grant date.

Effective May 1, 2006, we adopted Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), *Share-Based Payment (Revised 2004)*, which supersedes our previous accounting under APB No. 25. SFAS No. 123R requires the recognition of compensation expense, using a fair-value based method, for costs related to all share-based payments including grants of employee stock options. In addition, SFAS No. 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service periods (vesting period). We adopted SFAS 123R using the modified-prospective method and, accordingly, stock-based compensation cost recognized beginning May 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted on or subsequent to May 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods have not been restated.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)**

Our net loss for the three and six months ended October 31, 2006 increased by \$310,000 and \$609,000, respectively, as a result of the application of SFAS No. 123R, which costs are included in the accompanying condensed consolidated statements of operations as follows:

	<b>Three Months Ended October 31, 2006</b>	<b>Six Months Ended October 31, 2006</b>
Research and development	\$ 177,000	\$ 343,000
Selling, general and administrative	133,000	266,000
Total	<u>\$ 310,000</u>	<u>\$ 609,000</u>

The fair value of each option grant is estimated using the Black-Scholes option valuation model and is amortized as compensation expense on a straight-line basis over the requisite service period of the award, which is generally the vesting period (typically 4 years). The use of a valuation model requires us to make certain estimates and assumptions with respect to selected model inputs. The expected volatility is based on daily historical volatility of our stock covering the estimated expected term. The expected term of options granted is based on the expected time to exercise. The risk-free interest rate is based on U.S. Treasury notes with terms within the contractual life of the option at the time of grant. In addition, SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The fair value of stock options on the date of grant and the weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model during the periods presented, were as follows:

	<b>Three Months Ended October 31,</b>		<b>Six Months Ended October 31,</b>	
	2006	2005	2006	2005
Risk-free interest rate	4.88%	3.88%	4.94%	3.88%
Expected life (in years)	6.25	5.49	6.25	5.49
Expected volatility	99%	103%	100%	103%
Expected dividend yield	-	-	-	-

As of October 31, 2006, options to purchase up to 11,513,279 shares of our common stock were issued and outstanding under the Option Plans with a weighted average exercise price of \$1.55 per share and expire at various dates through October 31, 2016. Options to purchase up to 4,845,444 shares of common stock were available for future grant under the Option Plans as of October 31, 2006. The total options available for grant of 4,845,444 excludes shares of our common stock reserved for under our February 2006 Stock Bonus Plan, which plan will remain in effect through fiscal year ending April 30, 2007, due to the uncertainty of achieving the performance milestones that are required to be achieved before shares of common stock are issued under the Stock Bonus Plan. We carefully assess the likelihood of achieving each predetermined performance milestone on a quarterly basis and record compensation expense when it becomes probable that a predetermined performance milestone under the Stock Bonus Plan will be achieved. In the event that all remaining milestones are achieved under the Stock Bonus Plan, we would issue up to 1,135,816 additional shares of common stock under our 2005 Stock Incentive Plan during fiscal year 2007 for the achievement of performance milestones.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)

The following summarizes all stock option transaction activity for the six months ended October 31, 2006:

<u>Stock Options</u>	<u>Shares</u>	<u>Weighted Average Exercisable Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, May 1, 2006	11,307,279	\$ 1.56		
Granted	571,400	\$ 1.40		
Exercised	(47,183)	\$ 1.12		
Canceled or expired	(318,217)	\$ 1.69		
Outstanding, October 31, 2006	<u>11,513,279</u>	\$ 1.55	6.29	\$ 2,152,000
Exercisable and expected to vest	11,335,688	\$ 1.55	0.39	\$ 2,133,000
Exercisable, October 31, 2006	9,049,410	\$ 1.61	5.65	\$ 1,881,000

The weighted-average grant-date fair value of options granted during the six-month periods ended October 31, 2006 and 2005 were \$1.15 per share and \$0.84 per share, respectively. Cash proceeds from stock options exercised during the six-month periods ended October 31, 2006 and 2005 totaled \$53,000 and \$36,000, respectively. The aggregate intrinsic value of options exercised during the six month periods ended October 31, 2006 and 2005 was \$23,000 and \$14,000, respectively.

We issue shares of common stock that are reserved for under the Option Plans upon the exercise of stock options, and we do not expect to repurchase shares of common stock from any source to satisfy our obligations under our compensation plans.

As of October 31, 2006, the total estimated unrecognized compensation cost related to non-vested stock options was \$1,790,000. This cost is expected to be recognized over a weighted average period of 2.08 years.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)**

As discussed above, results for prior periods have not been restated to reflect the effects of implementing SFAS No. 123R. The following table illustrates the effect on net loss and loss per share for the three and six-month periods ended October 31, 2006 as compared to the pro forma financial results for the three and six-month periods ended October 31, 2005, adjusted for stock-based compensation:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	October 31, 2006	October 31, 2005	October 31, 2006	October 31, 2005
Net loss, excluding the effect of employee stock-based compensation	\$ (4,760,000)	\$ (4,571,000)	\$ (9,918,000)	\$ (8,910,000)
Deduct: Total stock-based employee compensation determined under the fair value based method for all awards	(310,000)	(570,000)	(609,000)	(1,213,000)
Net loss, including the effect of stock-based compensation	<u>\$ (5,070,000)</u>	<u>\$ (5,141,000)</u>	<u>\$ (10,527,000)</u>	<u>\$ (10,123,000)</u>
Basic and diluted net loss per share:				
Excluding the effect of stock-based compensation	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>
Including the effect of stock-based compensation	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>

Periodically, we grant stock options to non-employee consultants. The fair value of options granted to non-employees are measured utilizing the Black-Scholes option valuation model and are amortized over the estimated period of service or related vesting period in accordance with EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Stock-based compensation expense recorded during the three and six months ended October 31, 2006 associated with non-employees amounted to \$26,000 and \$52,000, respectively. Stock-based compensation expense recorded during the three and six months ended October 31, 2005 associated with non-employees amounted to \$57,000 and \$161,000, respectively.

4. STOCKHOLDERS' EQUITY

On June 16, 2006, we entered into a Common Stock Purchase Agreement with one institutional investor pursuant to which we sold 9,285,714 shares of our common stock in exchange for net proceeds of \$12,970,000 ("June 16, 2006 Financing"). The shares of common stock were issued from our shelf registration statement on Form S-3, File Number 333-132872. No commissions were paid, nor warrants issued, in connection with this transaction. In addition, pursuant to the terms of the June 16, 2006 Financing, we agreed not to (i) file another shelf registration statement pursuant to Rule 415 of the Securities Act of 1933, as amended, for a period of one hundred eighty days following June 16, 2006, nor (ii) without the prior written consent of the purchaser in such financing, prior to January 2, 2007, enter into any subsequent or further offer to sell securities at a price or possible price below \$2.50 per share.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)**

At October 31, 2006, we have reserved 24,150,054 additional shares of our common stock which may be issued under our shelf registration statements, stock option plans and outstanding warrants, as further described in the following table:

	<b>Number of Shares of Common Stock Reserved For Issuance</b>
Shares reserved under two effective shelf registration statements	5,893,466
Options issued and outstanding	11,513,279
Options available for future grant	4,845,444
Warrants issued and outstanding	1,897,865
Total shares reserved	<u>24,150,054</u>

During November 2006, warrants to purchase 1,200,000 shares of our common stock were exercised in exchange for \$1,200,000 in net proceeds (Note 5).

5. **WARRANTS**

During the six months ended October 31, 2006, warrants to purchase 5,066,788 shares of our common stock were exercised for cash under three separate transactions for net proceeds of \$3,652,000.

As of October 31, 2006, warrants to purchase up to 1,897,865 shares of our common stock were issued and outstanding and exercisable at prices ranging between \$0.86 and \$2.50 per share with a weighted average exercise price of \$1.23 per share and expire at various dates through March 31, 2008.

During November 2006, warrants to purchase 1,200,000 shares of our common stock were exercised for cash under one transaction for net proceeds of \$1,200,000. After the exercise of these warrants, we have outstanding warrants to purchase up to 697,865 shares of common stock at prices ranging from \$0.86 to \$2.50 with a weighted average exercise price of \$1.64 per share.

Additional information regarding warrants outstanding as of December 1, 2006, is as follows:

<u>Per Share Exercise Price</u>	<u>Number of Warrants Outstanding</u>	<u>Weighted Average Per Share Exercise Price</u>	<u>Expiration Date</u>
\$0.86	62,865		6/8/07
\$1.47	350,000		3/31/08
\$2.00	275,000		1/31/07
\$2.50	10,000		3/25/08
\$0.86 - \$2.50	<u>697,865</u>	\$1.64	1/31/07 - 3/31/08

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)

## 6. SEGMENT REPORTING

Our business is organized into two reportable operating segments. Peregrine is engaged in the research and development of targeted products for the treatment of viral infections and cancer using monoclonal antibodies. Avid is engaged in providing contract manufacturing of biologics and related services to biopharmaceutical and biotechnology businesses.

The accounting policies of the operating segments are the same as those described in Note 2. We primarily evaluate the performance of our segments based on net revenues, gross profit or loss (exclusive of research and development expenses, selling, general and administrative expenses, and interest and other income/expense) and long-lived assets. Our segment net revenues shown below are derived from transactions with external customers. Our segment gross profit or loss represents net revenues less the cost of sales. Our long-lived assets consist of leasehold improvements, laboratory equipment, and furniture, fixtures and computer equipment and are net of accumulated depreciation.

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

	<b>Three Months Ended October 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Net Revenues:</b>		
Contract manufacturing and development of biologics	\$ 636,000	\$ 533,000
Products in research and development	<u>48,000</u>	<u>23,000</u>
Total net revenues	<u>\$ 684,000</u>	<u>\$ 556,000</u>
<b>Gross Profit:</b>		
Contract manufacturing and development of biologics	\$ 142,000	\$ 105,000
Products in research and development	<u>48,000</u>	<u>23,000</u>
Total gross profit	<u>190,000</u>	<u>128,000</u>
Research and development expense	(3,920,000)	(3,244,000)
Selling, general and administrative expense	(1,670,000)	(1,570,000)
Other income, net	<u>330,000</u>	<u>115,000</u>
Net loss	<u>\$ (5,070,000)</u>	<u>\$ (4,571,000)</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)

Net revenues generated from Avid were from the following customers:

	<b>Three Months Ended October 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Customer revenues as a % of net revenues:</b>		
United States (customer A)	6%	97%
United States (customer B)	17%	0%
Australia (one customer)	19%	0%
China (one customer)	55%	0%
Other customers	3%	3%
	<u>100%</u>	<u>100%</u>
Total customer revenues as a % of net revenues	<u>100%</u>	<u>100%</u>

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

	<b>Six Months Ended October 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Net Revenues:</b>		
Contract manufacturing and development of biologics	\$ 1,034,000	\$ 722,000
Products in research and development	71,000	42,000
	<u>\$ 1,105,000</u>	<u>\$ 764,000</u>
Total net revenues	<u>\$ 1,105,000</u>	<u>\$ 764,000</u>
<b>Gross Profit (Loss):</b>		
Contract manufacturing and development of biologics	\$ 10,000	\$ (10,000)
Products in research and development	71,000	42,000
	<u>81,000</u>	<u>32,000</u>
Total gross profit	<u>81,000</u>	<u>32,000</u>
Research and development expense	(7,961,000)	(6,036,000)
Selling, general and administrative expense	(3,311,000)	(3,087,000)
Other income, net	664,000	181,000
	<u>664,000</u>	<u>181,000</u>
Net loss	<u>\$ (10,527,000)</u>	<u>\$ (8,910,000)</u>

Net revenues generated from Avid were from the following customers:

	<b>Six Months Ended October 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Customer revenues as a % of net revenues:</b>		
United States (customer A)	4%	82%
United States (customer B)	11%	0%
United States (customer C)	0%	10%
Australia (one customer)	48%	0%
China (one customer)	34%	0%
Other customers	3%	8%
	<u>100%</u>	<u>100%</u>
Total customer revenues as a % of net revenues	<u>100%</u>	<u>100%</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 (unaudited) (continued)**

Net revenues generated from products in research and development during the three and six months ended October 31, 2006 and 2005 were primarily from the amortized portion of the up-front license fees under the December 2002 license agreement with Schering A.G.

Long-lived assets by segment consist of the following:

	<u>October 31, 2006</u>	<u>April 30, 2006</u>
<b>Long-lived Assets, net:</b>		
Contract manufacturing and development of biologics	\$ 1,565,000	\$ 1,516,000
Products in research and development	<u>355,000</u>	<u>390,000</u>
Total long-lived assets, net	<u>\$ 1,920,000</u>	<u>\$ 1,906,000</u>



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.

### Company Overview

We are organized into two reportable operating segments: (i) Peregrine Pharmaceuticals, Inc. ("Peregrine"), the parent company, is engaged in the research and development of targeted therapeutics for the treatment of life-threatening diseases and (ii) Avid Bioservices, Inc. ("Avid"), a wholly owned subsidiary, is engaged in providing bio-manufacturing services for Peregrine and outside customers on a fee-for-service basis.

The following represents a summary of our ongoing five clinical trial programs:

Product	Indication	Trial Design	Status
Bavituximab	Solid tumor cancers	Phase Ia repeat dose monotherapy safety study to treat up to 28 patients.	Patients are currently being screened and enrolled at up to 5 centers in the U.S.
Bavituximab plus chemotherapy	Solid tumor cancers	Phase Ib repeat dose combination therapy safety study to treat up to 12 patients with 8 weekly doses of bavituximab in combination with chemotherapy agents.	Patients are currently being screened and enrolled at up to 3 centers in India.
Cotara®	Brain cancer (glioblastoma multiforme)	Dosimetry and dose confirmation study designed to treat up to 12 patients at 1 <sup>st</sup> and 2 <sup>nd</sup> relapse in collaboration with New Approaches to Brain Tumor Therapy.	Patients are currently being screened and enrolled at up to 4 centers in the U.S.
Cotara®	Brain cancer (glioblastoma multiforme)	Phase II safety and efficacy study to treat up to 40 patients at 1 <sup>st</sup> relapse.	Regulatory approval has been received for the protocol in India. Manufacturing development is proceeding in India and approval is anticipated in the near term.
Bavituximab	Chronic Hepatitis C Virus ("HCV") infection	Phase Ib repeat dose safety study in 24 patients.	All patients have been enrolled at U.S. sites and are currently completing the 12-week follow-up period.

**Results of Operations**

The following table compares the unaudited condensed consolidated statements of operations for the three and six-month periods ended October 31, 2006 and 2005. This table provides you with an overview of the changes in the condensed consolidated statements of operations for the comparative periods, which changes are further discussed below.

	<b>Three Months Ended October 31,</b>			<b>Six Months Ended October 31,</b>		
	<b>2006</b>	<b>2005</b> <i>(in thousands)</i>	<b>\$ Change</b>	<b>2006</b>	<b>2005</b> <i>(in thousands)</i>	<b>\$ Change</b>
<b>REVENUES:</b>						
Contract manufacturing revenue	\$ 636	\$ 533	\$ 103	\$ 1,034	\$ 722	\$ 312
License revenue	48	23	25	71	42	29
<b>Total revenues</b>	<b>684</b>	<b>556</b>	<b>128</b>	<b>1,105</b>	<b>764</b>	<b>341</b>
<b>COST AND EXPENSES:</b>						
Cost of contract manufacturing	494	428	66	1,024	732	292
Research and development	3,920	3,244	676	7,961	6,036	1,925
Selling, general and administrative	1,670	1,570	100	3,311	3,087	224
<b>Total cost and expenses</b>	<b>6,084</b>	<b>5,242</b>	<b>842</b>	<b>12,296</b>	<b>9,855</b>	<b>2,441</b>
<b>LOSS FROM OPERATIONS</b>	<b>(5,400)</b>	<b>(4,686)</b>	<b>(714)</b>	<b>(11,191)</b>	<b>(9,091)</b>	<b>(2,100)</b>
<b>OTHER INCOME (EXPENSE):</b>						
Interest and other income	339	128	211	688	204	484
Interest and other expense	(9)	(13)	4	(24)	(23)	(1)
<b>NET LOSS</b>	<b>\$ (5,070)</b>	<b>\$ (4,571)</b>	<b>\$ (499)</b>	<b>\$ (10,527)</b>	<b>\$ (8,910)</b>	<b>\$ (1,617)</b>

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.

**Total Revenues.**

Three and Six Months: The increase in total revenues of \$128,000 and \$341,000 during the three and six months ended October 31, 2006, respectively, compared to the same periods in the prior year was primarily due to an increase in contract manufacturing revenue of \$103,000 and \$312,000, respectively. The increase in contract manufacturing revenue was primarily due to the collection of a disputed receivable in the amount of \$300,000 during the quarter ended October 31, 2006, associated with services performed under a contract during the year ended April 30, 2005. Since collectibility of the receivable was not reasonably assured, in accordance with SAB No. 104, we did not recognize revenue in prior years and the related work-in-process inventory was written off and included in cost of contract manufacturing during the year ended April 30, 2005. This increase in contract manufacturing revenue was supplemented with an increase in services provided to unrelated entities on a fee-for-service basis.

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 outstanding proposals. Although Avid is presently working on several active projects for unrelated entities and has submitted project proposals with various potential customers, we cannot estimate nor can we determine the likelihood that we will be successful in completing these ongoing projects or convert any of these outstanding project proposals into definitive agreements during the remainder of fiscal year 2007.

**Cost of Contract Manufacturing.**

Three and Six Months: The increase in cost of contract manufacturing of \$66,000 and \$292,000 during the three and six months ended October 31, 2006, respectively, compared to the same periods in the prior year was primarily due to the write-off of unusable work-in-process inventory and estimated contract loss provisions associated with two unrelated entities during the current three and six-month periods of \$204,000 and \$412,000, respectively. These increases were further supplemented by the current three and six-month increases in contract manufacturing revenue associated with increased services provided to unrelated entities on a fee-for-service basis. We expect contract manufacturing costs to continue during the remainder of the current fiscal year based on the anticipated completion of customer projects under our current contract manufacturing agreements.

**Research and Development Expenses.**

Three and Six Months: The increase in research and development expenses of \$676,000 and \$1,925,000 during the three and six-month periods ended October 31, 2006, respectively, compared to the same periods in the prior year was due to an increase in expenses associated with each of our following platform technologies under development:

	R&D Expenses - Three Months Ended October 31,			R&D Expenses - Six Months Ended October 31,		
	2006	2005 <i>(in thousands)</i>	\$ Change	2006	2005 <i>(in thousands)</i>	\$ Change
<b>Technology Platform:</b>						
Anti-PS Immunotherapeutics (bavituximab)	\$ 2,549	\$ 2,528	\$ 21	\$ 5,107	\$ 4,116	\$ 991
TNT (Cotara®)	696	301	395	1,528	1,069	459
VTA and Anti-Angiogenesis Agents	512	331	181	1,044	664	380
VEA	163	84	79	282	187	95
Total R&D Expenses	<u>\$ 3,920</u>	<u>\$ 3,244</u>	<u>\$ 676</u>	<u>\$ 7,961</u>	<u>\$ 6,036</u>	<u>\$ 1,925</u>

- o *Anti-Phosphatidylserine (“Anti-PS”) Immunotherapeutics (bavituximab)* - The increase in Anti-PS Immunotherapeutics program expenses during the three and six months ended October 31, 2006 compared to the same periods in the prior year resulted primarily from continuing efforts to support the development and clinical development of our first Anti-PS Immunotherapeutic agent, bavituximab. During the current three and six-month periods, clinical trial expenses increased as we advanced the development of two separate Phase I clinical programs using bavituximab for the treatment of advanced solid cancers and chronic hepatitis C virus infection (“HCV”). These increases in clinical trial expenses were further supplemented with increases in payroll and related expenses including non-cash stock-based compensation expense associated with the amortization of the fair value of options granted to employees in accordance with the adoption of SFAS No. 123R on May 1, 2006 and non-cash expenses associated with shares of common stock earned by employees under the our February 2006 Stock Bonus Plan. These increases in Anti-PS Immunotherapeutics program expenses were offset by a decrease in technology license and access fees expensed in the prior year period in support of the bavituximab clinical program and pre-clinical product candidates.

- o *Tumor Necrosis Therapy ("TNT") (Cotara®)* - The increase in TNT program expenses during the three and six months ended October 31, 2006 compared to the same periods in the prior year resulted primarily from increased clinical trial expenses to support the Cotara® dose confirmation and dosimetry clinical trial for the treatment of glioblastoma multiforme (a deadly form of brain cancer) in collaboration with the New Approaches to Brain Tumor Therapy consortium and an increase in expenses to support the initiation of a Phase II clinical trial in India to treat up to 40 patients with glioblastoma multiforme. These increases in clinical trial expenses were further supplemented with increases in payroll and related expenses, manufacturing expenses, and non-cash stock-based compensation expense associated with the amortization of the fair value of options granted to employees in accordance with the adoption of SFAS No. 123R on May 1, 2006.
- o *Vascular Targeting Agents ("VTAs") and Anti-Angiogenesis Agents* - The increase in VTA and Anti-Angiogenesis Agents program expenses during the current three and six-month periods is primarily due to increases in payroll and related expenses, sponsored research fees, manufacturing expenses, and outside research studies associated with increased efforts to advance the pre-clinical development of our VTA and Anti-Angiogenesis Agents programs. These increases were further supplemented by an increase in non-cash stock-based compensation expense associated with the amortization of the fair value of options granted to employees in accordance with the adoption of SFAS No. 123R on May 1, 2006.
- o *VEA* - The increase in VEA program expenses during the current three and six-month periods is primarily due to increases in payroll and related expenses and in-house research material procurement associated with increased efforts to advance the pre-clinical development of our VEA program. These increases were further supplemented by an increase in non-cash stock-based compensation expense associated with the amortization of the fair value of options granted to employees in accordance with the adoption of SFAS No. 123R on May 1, 2006.

Looking beyond the current fiscal year, 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 pre-clinical and clinical trial development. These unknown variables and uncertainties include, but are not limited to:

- § the uncertainty of our capital resources to fund research, development and clinical studies beyond July 2007;
- § the uncertainty of future costs associated with our pre-clinical candidates, including Vascular Targeting Agents, Anti-Angiogenesis Agents, and Vasopermeation Enhancement Agents, which costs are dependent on the success of pre-clinical development. We are uncertain whether or not these product candidates will be successful and we are uncertain whether or not we will incur any additional costs beyond pre-clinical development;
- § 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 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; and
- § the uncertainty of protocol changes and modifications in the design of our clinical trial studies, which may increase or decrease our future costs.

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, pre-clinical 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, and we or our potential partners may not be able to obtain all 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, legal and accounting fees, stock-based compensation expense, investor and public relation fees, insurance, and other expenses relating to our general management, administration, and business development activities of the Company.

Three Months: The increase in selling, general and administrative expenses of \$100,000 during the three months ended October 31, 2006 compared to the same period in the prior year is primarily due to an increase in non-cash expenses associated with stock-based compensation and stock bonuses. Non-cash stock-based compensation expense increased \$96,000 from \$41,000 in fiscal year 2006 to \$137,000 in fiscal year 2007 primarily due to the adoption of SFAS No. 123R on May 1, 2006. In addition, we expensed \$148,000 in non-cash stock bonuses during the current quarter, which we did not incur in the prior year, associated with Company shares earned by employees upon the achievement of pre-determined performance milestones as set forth under the Company's February 2006 Stock Bonus Plan. These increases in non-cash expenses were further supplemented with incremental increases associated with insurance and other general corporate expenses. The above increases were offset with decreases in corporate legal fees and investor and public relation fees.

Six Months: The increase in selling, general and administrative expenses of \$224,000 during the six months ended October 31, 2006 compared to the same period in the prior year is primarily due to an increase in (i) payroll and related expenses, (ii) non-cash stock-based compensation expense, and (iii) non-cash stock bonus expense. Payroll and related expenses increased \$119,000 from \$1,309,000 in fiscal year 2006 to \$1,428,000 in fiscal year 2007 primarily due to an increase in headcount across most corporate functions to support our increased operations. Non-cash stock-based compensation expense increased \$148,000 from \$125,000 in fiscal year 2006 to \$273,000 in fiscal year 2007 primarily due to the adoption of SFAS No. 123R on May 1, 2006. In addition, we expensed \$153,000 in non-cash stock bonuses during the current year six-month period, which we did not incur in the prior year, associated with Company shares earned by employees upon the achievement of pre-determined performance milestones as set forth under the Company's February 2006 Stock Bonus Plan. These increases were offset with decreases in corporate legal fees and investor and public relation fees.

***Interest and Other Income.***

Three and Six Months: The increase in interest and other income of \$211,000 and \$484,000 during the three and six months ended October 31, 2006, respectively, compared to the same periods in the prior year is primarily due to an increase in interest income of \$211,000 and \$355,000 during the three and six-month periods, respectively, as a result of a higher average cash balance on hand and higher prevailing interest rates during the current year periods compared to the same prior year periods. In addition, the current year six-month increase in interest and other income was further supplemented with a \$129,000 increase in other income, which is primarily due to the sale of a trademark name during the quarter ended July 31, 2006.

## Critical Accounting Policies

The methods, estimates, and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our condensed 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 accounting policies are the most critical to us, in that they are important to the portrayal of our financial statements and they require our most difficult, subjective or complex judgments in the preparation of our condensed consolidated financial statements:

### Revenue Recognition

We recognize revenues pursuant to the SEC's Staff Accounting Bulletin No. 104 ("SAB No. 104"), *Revenue Recognition*. In accordance with SAB No. 104, revenue is generally realized or realizable and earned when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectibility is reasonably assured.

In addition, we comply with Financial Accounting Standards Board's Emerging Issues Task Force No. 00-21 ("EITF 00-21"), *Revenue Arrangements with Multiple Deliverables*. In accordance with EITF 00-21, 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, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

Revenues associated with licensing agreements primarily consist of nonrefundable up-front license fees and milestones payments. Revenues under licensing agreements are recognized based on the performance requirements of the agreement. Nonrefundable up-front license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant licensed technology, are generally recognized as revenue upon delivery of the technology. Nonrefundable up-front license fees, whereby we have an ongoing involvement or performance obligations, are generally recorded as deferred revenue and generally recognized as revenue over the term of the performance obligation or relevant agreement. Milestone payments are generally recognized as revenue upon completion of the milestone assuming there are no other continuing obligations. Under some license agreements, the obligation period may not be contractually defined. Under these circumstances, we must exercise judgment in estimating the period of time over which certain deliverables will be provided to enable the licensee to practice the license.

Contract manufacturing revenues are generally recognized once the service has been provided and/or upon shipment of the product to the customer. We also record a provision for estimated contract losses, if any, in the period in which they are determined.

In July 2000, the Emerging Issues Task Force ("EITF") released Issue 99-19 ("EITF 99-19"), *Reporting Revenue Gross as a Principal versus Net as an Agent*. EITF 99-19 summarized the EITF's views on when revenue should be recorded at the gross amount billed to a customer because it has earned revenue from the sale of goods or services, or the net amount retained (the amount billed to the customer less the amount paid to a supplier) because it has earned a fee or commission. In addition, the EITF released Issue 00-10 ("EITF 00-10"), *Accounting for Shipping and Handling Fees and Costs, and Issue 01-14 ("EITF 01-14"), Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*. EITF 00-10 summarized the EITF's views on how the seller of goods should classify in the income statement amounts billed to a customer for shipping and handling and the costs associated with shipping and handling. EITF 01-14 summarized the EITF's views on when the reimbursement of out-of-pocket expenses should be characterized as revenue or as a reduction of expenses incurred. Our revenue recognition policies are in compliance with EITF 99-19, EITF 00-10 and EITF 01-14 whereby we record revenue for the gross amount billed to customers (the cost of raw materials, supplies, and shipping, plus the related handling mark-up fee) and we record the cost of the amounts billed as cost of sales as we act as a principal in these transactions.

### **Stock-based Compensation Expense**

Prior to May 1, 2006, we accounted for our equity compensation plans in accordance with Accounting Principles Board No. 25 ("APB No. 25"), *Accounting for Stock Issued to Employees and Related Interpretations*, as permitted by Financial Accounting Standards Board Statement of Financial Accounting Standard No. 123 ("SFAS No. 123"), *Accounting for Stock-Based Compensation*. Accordingly, no compensation expense was recognized in our financial statements related to stock option grants, as all options granted under our equity compensation plans had an exercise price at least equal to the fair market value of the underlying common stock on the grant date. Effective May 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), *Share-Based Payment (Revised 2004)*, using the modified-prospective method. Under the modified-prospective method, stock-based compensation cost recognized beginning May 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted on or subsequent to May 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods have not been restated.

The fair value of each option grant is estimated using the Black-Scholes option valuation model and are amortized as compensation expense on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period (typically 4 years). Use of a valuation model requires us to make certain estimates and assumptions with respect to selected model inputs. Expected volatility is based on daily historical volatility of our stock covering the estimated expected term. The expected term of options granted is based on the expected time to exercise. The risk-free interest rate is based on U.S. Treasury notes with terms within the contractual life of the option at the time of grant. In addition, SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Our loss from operations for the three and six-month periods ended October 31, 2006 included stock-based compensation expense of \$310,000 and \$609,000, respectively. We believe that non-cash stock-based compensation expense for the remaining six months of fiscal year 2007 may be up to approximately \$400,000 based on actual shares granted and unvested as of October 31, 2006. However, the actual expense may differ materially from this estimate as a result of changes in a number of factors that affect the amount of non-cash compensation expense, including the number of options granted by our Board of Directors during the remainder of the fiscal year, the price of our common stock on the date of grant, the volatility of our stock price, the estimate of the expected life of options granted and the risk-free interest rates.

As of October 31, 2006, the total estimated unrecognized compensation cost related to non-vested stock options was \$1,790,000. This cost is expected to be recognized over a weighted average period of 2.08 years.

### **Allowance for Doubtful Accounts**

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 factors that appear reasonable under the circumstances.

### **Liquidity and Capital Resources**

As of October 31, 2006, we had \$23,394,000 in cash and cash equivalents on hand compared to \$17,182,000 at April 30, 2006. Although we have sufficient cash on hand to meet our planned obligations through at least July 2007 based on our current projections, our development efforts are highly dependent on our ability to raise additional capital to support our future operations.

We have expended substantial funds on the development of our product candidates and we have incurred negative cash flows from operations for the majority of our years since inception. Since inception, we have financed our operations primarily through the sale of our common stock and issuance of convertible debt, which has been supplemented with payments received from various licensing collaborations and through the revenues generated by Avid. We expect negative cash flows from operations to continue until we are able to generate sufficient revenue from contract manufacturing services provided by Avid and/or from the sale and/or licensing of our products under development.

Revenues earned by Avid during the six months ended October 31, 2006 and 2005 amounted to \$1,034,000 and \$722,000, respectively. We expect that Avid will continue to generate revenues which should partially offset our consolidated cash flows used in operations, although we expect those near term revenues will be insufficient to cover total anticipated cash flows used in operations. In addition, revenues that may be generated from the sale and/or licensing of our products under development are always uncertain. 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 beyond July 2007.

We plan to raise additional capital primarily through the registered offer and sale of shares of our common stock. At October 31, 2006, we had approximately 5,893,000 shares available for possible future registered transactions. Our ability to sell these shares or any additional shares of our common stock is subject to certain limitations which we agreed to in connection with our financing completed on June 16, 2006. Pursuant to June 16, 2006 financing, we agreed not to (i) file another shelf registration statement pursuant to Rule 415 of the Securities Act of 1933, as amended, for a period of one hundred eighty days following June 16, 2006, nor (ii) without the prior written consent of the purchaser in such financing, prior to January 2, 2007, enter into any subsequent or further offer to sell securities at a price or possible price below \$2.50 per share. Notwithstanding the availability of our Form S-3, given uncertain market conditions and the volatility of our stock price and trading volume, we may not be able to sell our securities at prices or on terms that are favorable to us, if at all.

In addition to equity financing, we actively explore various other sources of funding, including possible debt financing and leveraging our many assets, including our intellectual property portfolio. Our broad intellectual property portfolio allows us to develop products internally while at the same time we are able to out-license certain areas of the technology which would not interfere with our internal product development efforts.

There can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that sufficient additional revenues will be generated from Avid or under potential licensing agreements to complete the research, development, and clinical testing of our product candidates.

Significant components of the changes in cash flows from operating, investing, and financing activities for the six months ended October 31, 2006 compared to the same prior year period are as follows:

*Cash Used In Operating Activities.* Cash used in operating activities is primarily driven by changes in our net loss. However, cash used in operating activities generally differs from our reported net loss as a result of non-cash operating expenses or differences in the timing of cash flows as reflected in the changes in operating assets and liabilities. During the six months ended October 31, 2006, cash used in operating activities increased \$1,125,000 to \$10,172,000 compared to \$9,047,000 for the six months ended October 31, 2005. The increase in cash used in operating activities was primarily related to an increase of \$1,144,000 in net cash used in operating activities before considering changes in operating assets and liabilities. This increase was primarily due to increases in cost of contract manufacturing, research and development expenses and selling, general and administrative expenses. This increase in cash used in operating activities before changes in operating assets and liabilities was offset by a net change in operating assets and payment or reduction of liabilities in the aggregate amount of \$19,000.



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:

	<b>SIX MONTHS ENDED</b>	
	<b>October 31, 2006</b>	<b>October 31, 2005</b>
Net loss, as reported	\$ (10,527,000)	\$ (8,910,000)
Less non-cash expenses and adjustments to net loss:		
Depreciation and amortization	233,000	200,000
Stock-based compensation and common stock issued under stock bonus plan	970,000	161,000
Amortization of expenses paid in shares of common stock	309,000	678,000
Net cash used in operating activities before changes in operating assets and liabilities	<u>\$ (9,015,000)</u>	<u>\$ (7,871,000)</u>
Net change in operating assets and liabilities	<u>\$ (1,157,000)</u>	<u>\$ (1,176,000)</u>
Net cash used in operating activities	<u>\$ (10,172,000)</u>	<u>\$ (9,047,000)</u>

*Cash Used In Investing Activities.* Net cash used in investing activities decreased \$233,000 to \$57,000 for the six months ended October 31, 2006 compared to net cash used of \$290,000 for the six months ended October 31, 2005. This decrease in net cash used in investing activities was primarily due to a decrease in property acquisitions during the current year six-month period.

*Cash Provided By Financing Activities.* Net cash provided by financing activities increased \$5,018,000 to \$16,441,000 for the six months ended October 31, 2006 compared to net cash provided of \$11,423,000 for the six months ended October 31, 2005. Cash provided by financing activities during the six months ended October 31, 2006 was primarily due to proceeds received under a security purchase agreement whereby we sold and issued a total of 9,285,714 shares of our common stock in exchange for aggregate net proceeds of \$12,970,000, which was supplemented with net proceeds of \$3,689,000 from the exercise of stock options and warrants. Cash provided by financing activities during the six months ended October 31, 2005 was primarily due to net proceeds received under three separate security purchase agreements in the amount of \$11,256,000 supplemented with proceeds received from the financing of laboratory equipment with GE Capital Corporation.

#### **Commitments**

At October 31, 2006, 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. Based on our overall interest rate exposure at October 31, 2006, a near-term change in interest rates, based on historical movements, would not materially affect the fair value of interest rate sensitive instruments. Our debt instruments have fixed interest rates and terms and, therefore, a significant 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 October 31, 2006, the end of the period covered by this Quarterly Report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures were effective at the reasonable assurance level as of October 31, 2006.

There were no significant changes in the Company's internal controls over financial reporting, during the quarter ended October 31, 2006, 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 on Form 10-K for the fiscal year ended April 30, 2006.*

***If We Cannot Obtain Additional Funding, Our Product Development And Commercialization Efforts May Be Reduced Or Discontinued And We May Not Be Able To Continue Operations.***

At October 31, 2006, we had approximately \$23.4 million in cash and cash equivalents. We have expended substantial funds on (i) the research, development and clinical trials of our product candidates, and (ii) funding the operations of our wholly owned subsidiary, Avid Bioservices, Inc. 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, 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. While we expect Avid to generate revenues in the foreseeable future, we expect our monthly negative cash flow to continue for the foreseeable future due to our clinical trial activities using Cotara® for the treatment of brain cancer, our ongoing clinical studies of baviximab for the treatment of both solid tumors and hepatitis C virus infection, our anticipated research and development costs associated with the possible expansion of our clinical indications using baviximab for the treatment of other viral indications, including supporting trials outside the U.S., our continued research directed towards our other technologies in pre-clinical development, and our possible expansion of our manufacturing capabilities. We believe we have sufficient cash on hand to meet our obligations on a timely basis through at least July 2007 based on our current projections.

In addition to the operations of Avid, we plan to obtain any necessary financing through one or more methods including either equity or debt financing and/or negotiating additional licensing or collaboration agreements for our technology platforms. While we have an aggregate of approximately 5,893,000 shares available under our existing Form S-3 registration statements for possible future registered transactions, in connection with our financing on June 16, 2006, we agreed not to (i) file another shelf registration statement pursuant to Rule 415 of the Securities Act of 1933, as amended, for a period of one hundred eighty days following June 16, 2006, nor (ii) without the prior written consent of the purchaser in such financing, prior to January 2, 2007, enter into any subsequent or further offer to sell securities at a price or possible price below \$2.50 per share. There can be no assurances that we will be successful in raising such funds on terms acceptable to us, or at all, or that sufficient additional capital will be raised to complete the research, development, and clinical testing of our product candidates.

***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 our licensing partners and we have not begun commercial sales 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 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 during the past three fiscal years and during the six months ended October 31, 2006:

	<u>Net Loss</u>
Six months ended October 31, 2006 (unaudited)	\$ 10,527,000
Fiscal Year 2006	\$ 17,061,000
Fiscal Year 2005	\$ 15,452,000
Fiscal Year 2004	\$ 14,345,000

As of October 31, 2006, we had an accumulated deficit of \$197,391,000. 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 revenues sufficient to become profitable or to sustain profitability.

***Our Product Development Efforts May Not Be Successful.***

Since our inception, we have been engaged in the development of drugs and related therapies for the treatment of patients with cancer. During fiscal year 2005, we began exploring the use of one of our product candidates, bavituximab, for the treatment of viral infections (in particular enveloped viruses). We recently completed a single dose Phase Ia trial for the treatment of patients with the hepatitis C virus ("HCV") infection and we initiated and completed patient enrollment of the Phase Ib HCV repeat dose study. In addition, we are planning additional dosing studies and combination therapy studies using bavituximab with standard anti-viral therapies. Our product candidates have not received regulatory approval and are generally in research, pre-clinical and 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, 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 pre-clinical 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 pre-clinical or clinical trials may cause us to incur additional operating expenses. Moreover, we may continue to be affected by delays associated with the pre-clinical 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:

- slower than expected rates of patient recruitment due to narrow screening requirements;
- the inability of patients to meet FDA imposed protocol requirements;
- 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 pre-clinical 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.

***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 pre-clinical and clinical activities are subject to varying interpretations, which may delay, limit or prevent regulatory approval.

Positive results from pre-clinical studies and our Phase I clinical trial should not be relied upon as evidence that later or larger-scale clinical trials will succeed. The Phase I clinical trial of bavituximab for the treatment of the Hepatitis C virus (“HCV”) infection has been conducted only in small numbers of patients that may not fully represent the diversity present in larger populations infected with HCV. The limited results we have obtained may not predict results from studies in larger numbers of patients drawn from more diverse populations and also may not predict the ability of bavituximab to achieve a sustained anti-viral response or the ability to provide a long-term therapeutic benefit. These initial trials in HCV have not been designed to assess the long-term therapeutic utility of bavituximab. We will be required to demonstrate through larger-scale clinical trials that bavituximab is safe and effective for use in a diverse population before we can seek regulatory approval for its commercial sale. There is typically an extremely high rate of attrition from the failure of drug candidates proceeding through clinical trials.

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

***If We Successfully Develop Products But Those Products Do Not Achieve And Maintain Market Acceptance, Our Business Will Not Be Profitable.***

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

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

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

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

***If We Cannot License Or Sell Cotara®, It May Be Delayed Or Never Be Further Developed.***

We have completed Phase I and Phase I/II studies with Cotara® for the treatment of recurrent glioblastoma multiforme ("GBM"), a deadly form of brain cancer. We are currently collaborating with various universities that are members of the New Approaches to Brain Tumor Therapy ("NABTT") consortium to complete the dose confirmation and dosimetry clinical trial. The next step in the development of Cotara® is to treat a group of approximately 40 patients using a single administration of the drug with an optimized delivery using two catheters which we plan to initiate in India. Taken together, the NABTT study along with data collected from the treatment of the approximately 40 additional patients should provide the safety, dosimetry and efficacy data that will support the final design of the larger Phase III study. Once we complete the initial two parts of the Cotara® study for brain cancer, substantial financial resources will be needed to complete the final part of the trial and any additional supportive clinical studies necessary for potential product approval. We do not presently have the financial resources internally to complete the larger Phase III study. We therefore intend to continue to seek a licensing or funding partner for Cotara®, and hope that the data from this collaboration with members of NABTT together with other data from additional 40 patients, will enhance our opportunities of finding such partner. If a partner is not found for this technology, 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 anti-cancer drug, we may not find a suitable partnering candidate for Cotara®. We also cannot assure you that we will be able to find a suitable licensing partner for this technology. Furthermore, we cannot assure you that if we do find a suitable licensing partner, the financial terms that they propose will be acceptable to the Company.

***Our Dependency On One Radiolabeling Supplier May Negatively Impact Our Ability To Complete Clinical Trials And Market Our Products.***

We have procured our antibody radioactive isotope combination services (“radiolabeling”) with Iso-tex Diagnostics, Inc. for all U.S. clinical trials using Cotara®. If this supplier is unable to continue to qualify its facility or radiolabel and supply our antibody in a timely manner, our current clinical trial or potential licensing partner’s clinical trials using radiolabeling technology could be adversely affected and delayed. While there are other suppliers for radioactive isotope combination services, our clinical trial would 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. 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 pre-clinical and clinical material through Avid Bioservices, 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 regulations, including the demonstration of purity and potency;
- changes in FDA 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. 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.

***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 presently 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.

We cannot guarantee that we will be able to maintain the minimum closing bid price requirement or maintain any of the other requirements in the future. The market price of our common stock has generally been highly volatile. During the six months ended October 31, 2006, the trading price of our common stock on The Nasdaq Capital Market ranged from \$1.12 per share to \$1.99 per share. If we fail to meet any of The Nasdaq Capital Market listing requirements, the market value of our common stock could fall and holders of common stock would likely find it more difficult to dispose of the common stock.

If our common stock is 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.



**The Sale Of Substantial Shares Of Our Common Stock May Depress Our Stock Price.**

As of October 31, 2006, we had approximately 193,920,000 shares of our common stock outstanding, and for that date the last reported sales price of our common stock was \$1.36 per share.

We could also issue up to approximately 24,150,000 additional shares of our common stock that are reserved for future issuance under our shelf registration statements, stock option plans and outstanding warrants, as further described in the following table:

	<b>Number of Shares of Common Stock Reserved For Issuance</b>
Shares reserved for under two effective shelf registration statements	5,893,466
Common shares reserved for issuance under stock option plans	11,513,279
Common shares available for future grant under option plans	4,845,444
Common shares issuable upon exercise of outstanding warrants	1,897,865
	<u>24,150,054</u>

Of the total warrants and options outstanding as of October 31, 2006, approximately 6,267,000 options and warrants would be considered dilutive to stockholders because we would receive an amount per share which is less than the market price of our common stock at October 31, 2006.

**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 three years ended April 30, 2006, and our two fiscal quarters ended October 31, 2006:

	<b>Common Stock Sales Price</b>		<b>Common Stock Daily Trading Volume (000's omitted)</b>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<b>Fiscal Year 2007</b>				
Quarter Ended October 31, 2006	\$ 1.49	\$ 1.12	3,761	277
Quarter Ended July 31, 2006	\$ 1.99	\$ 1.30	23,790	429
<b>Fiscal Year 2006</b>				
Quarter Ended April 30, 2006	\$ 1.76	\$ 1.20	9,922	391
Quarter Ended January 31, 2006	\$ 1.40	\$ 0.88	12,152	251
Quarter Ended October 31, 2005	\$ 1.28	\$ 0.91	4,619	156
Quarter Ended July 31, 2005	\$ 1.31	\$ 0.92	7,715	178
<b>Fiscal Year 2005</b>				
Quarter Ended April 30, 2005	\$ 1.64	\$ 1.11	5,945	223
Quarter Ended January 31, 2005	\$ 1.45	\$ 0.99	6,128	160
Quarter Ended October 31, 2004	\$ 1.96	\$ 0.95	2,141	148
Quarter Ended July 31, 2004	\$ 1.92	\$ 0.88	1,749	131
<b>Fiscal Year 2004</b>				
Quarter Ended April 30, 2004	\$ 2.85	\$ 1.56	3,550	320
Quarter Ended January 31, 2004	\$ 3.14	\$ 2.01	6,062	201
Quarter Ended October 31, 2003	\$ 2.44	\$ 1.25	18,060	314
Quarter Ended July 31, 2003	\$ 2.19	\$ 0.60	12,249	255

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 clinical trial results relating to products under development by us or our competitors;
- our financial results or that of our competitors;
- 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.

***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 United States 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 materially adversely affect our business and financial results.

***We May Not Be Able To Compete With Our Competitors In The Biotechnology Industry Because Many Of Them Have Greater Resources Than We Do And They Are Further Along In Their Development Efforts.***

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

We are conducting the Cotara® dose confirmation and dosimetry clinical trial for the treatment of recurrent brain cancer as a stand-alone study in collaboration with New Approaches to Brain Tumor Therapy ("NABTT") consortium. In addition, we plan to initiate patient enrollment in a Phase II study to treat up to 40 patients in India in the near term. Existing treatments for brain cancer include the Gliadel® Wafer (polifeprosan 20 with carmustine implant) from MGI Pharma, Inc. and Temodar® (temozolomide) from Schering-Plough Corporation. 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.

Because Cotara® targets brain tumors from the inside out, it is a novel treatment dissimilar from other drugs in development for this disease. Some of the products that may compete within the brain cancer category include: IL13-PE38QQR (cintredekin besudotox) from NeoPharm continuing in a Phase III trial in patients with first recurrent GBM; enzastuarin (oral serine-threonine kinase inhibitor) is in a Phase III trial for patients with recurrent GBM sponsored by Eli Lilly and Company; TransMID (diphtheria toxin), developed by Xenova Group plc, began a Phase III trial in May 2004 in patients with progressive or recurrent non-operable GBM. In addition, Gleevec® by Novartis, which is an oncology product marketed for other indications, is being tested in clinical trials for the treatment of brain cancer.

Bavituximab for the treatment of advanced solid cancers is currently in Phase Ia clinical trial in the U.S. and a Phase Ib combination therapy study in India. 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® by Genentech, Inc., Gleevec® by Novartis, Tarceva® by OSI Pharmaceuticals, Inc. and Genentech, Inc., Erbitux® by ImClone Systems Incorporated and Bristol-Myers Squibb Company, Rituxan® and Herceptin® by Biogen Idec Inc. and Genentech, Inc., Herceptin® by Genentech, Inc. and Vectibix™ by Amgen, Inc. There are a significant number of companies developing cancer therapeutics using a variety of targeted and non-targeted approaches. A direct comparison of these potential competitors will not be possible until bavituximab advances to later-stage clinical trials.

In addition, we have completed Phase Ia single-dose and enrollment in Phase Ib multiple dose clinical trials evaluating bavituximab for the treatment of HCV. Bavituximab is a first-in-class approach for the treatment of HCV. We are aware of no other products in development targeting phosphatidylserine 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), and Intron-A (interferon-alpha-2a), which are marketed by Schering-Plough Corporation, and Pegasys® (pegylated interferon-alpha-2a), Copegus® (ribavirin USP) and Roferon-A® (interferon-alpha-2a), which are marketed by Roche Pharmaceuticals, and Infergen® (interferon alfacon-1) now marketed by Valeant Pharmaceuticals International. First line treatment for HCV has changed little since alpha interferon was first introduced in 1991. The current standard of care for HCV includes a combination of an alpha interferon (pegylated or non-pegylated) 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 alpha 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 used as adjuncts with products now in development. Later-stage developmental treatments include improvements to existing therapies, such as Albuferon™ (albumin interferon) from Human Genome Sciences, Inc. and Viramidine™ (taribavirin), a prodrug analog of ribavirin being developed by Valeant Pharmaceuticals International. Other developmental approaches include protease inhibitors such as VX-950 from Vertex Pharmaceuticals Incorporated, and SCH7 from Schering-Plough Corporation, and NM283, a polymerase inhibitor by Idenix Pharmaceuticals, Inc.

#### ***New And Potential New Accounting Pronouncements May Impact Our Future Financial Position And Results Of Operations***

There may be potential new accounting pronouncements or regulatory rulings, which may have an impact on our future financial position and results of operations. For example, in December 2004, the FASB issued an amendment to SFAS No. 123, Accounting For Stock-Based Compensation ("SFAS No. 123R"), which we adopted May 1, 2006, as discussed in Note 3, "Stock-Based Compensation," in the notes to the condensed consolidated financial statements. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25 ("APB No. 25"), and instead requires companies to recognize compensation expense using a fair-value based method for costs related to share-based payments including stock options. Our adoption of SFAS No. 123R is expected to materially impact our financial position and results of operations for future periods. During the three and six months ended October 31, 2006, our loss from operations included non-cash stock-based compensation expense of \$310,000 and \$609,000, respectively, related to the adoption of SFAS No. 123R. In addition, we believe that non-cash stock-based compensation expense for the remainder of fiscal year 2007 may be up to approximately \$400,000 based on actual shares granted and unvested as of October 31, 2006. However, the actual share-based compensation expense recorded during the remaining six months of fiscal year 2007 may differ materially from this estimate as a result of changes in a number of factors that affect the amount of non-cash compensation expense, including the number of options granted by our Board of Directors during the remainder of fiscal year 2007, the price of our common stock on the date of grant, the volatility of our stock price, the estimate of the expected life of options granted and the risk free interest rates. Also, a change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. Other new accounting pronouncements or taxation rules and varying interpretations of accounting pronouncements or taxation practice have occurred and may occur in the future. Changes to existing rules, future changes, if any, or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business, which may also adversely affect our stock price.

***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 and Chief Executive Officer, 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

We held our annual meeting of stockholders' on October 24, 2006. The following represents the matters voted upon and the results of the voting:

	<b>Routine Matters</b>	<b>For</b>	<b>Withheld</b>	
1)	Election of Directors:			
	Carlton M. Johnson	166,418,368	9,677,761	
	Steven W. King	166,431,598	9,664,531	
	David Pohl	166,103,964	9,992,165	
	Eric Swartz	166,207,829	9,888,300	
	Dr. Thomas Waltz	166,446,888	9,649,241	
		<b>For</b>	<b>Against</b>	<b>Abstain</b>
2)	To ratify the appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending April 30, 2007.	174,236,521	791,921	1,067,686
3)	To temporary roll back and freeze all base compensation of the Directors and Executive Officers of the Company to their 2005 levels and eliminate all future incentive or bonus compensation of the Directors and Executive Officers of the Company.	15,393,032	31,793,775	960,776

**ITEM 5. OTHER INFORMATION.** None.

**ITEM 6. EXHIBITS.**

(a) Exhibits:

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

SIGNATURES

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

PEREGRINE PHARMACEUTICALS, INC.

Date: December 7, 2006

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

Date: December 7, 2006

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)

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

I, Steven W. King, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Peregrine Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Dated: December 7, 2006

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



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

I, Paul J. Lytle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Peregrine Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the periods covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 7, 2006

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

