

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended April 30, 2010

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: \_\_\_\_\_

**PEREGRINE PHARMACEUTICALS, INC.**

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

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

*(I.R.S. Employer Identification No.)*

**14282 Franklin Avenue, Tustin, California**

**92780**

*(Address of principal executive offices)*

*(Zip Code)*

**(714) 508-6000**

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

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (\$0.001 par value)	The Nasdaq Stock Market LLC
Preferred Stock Purchase Rights	

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of Common Stock held by non-affiliates as of October 31, 2009 was 136,137,316.

Number of shares of Common Stock outstanding as of July 9, 2010: 55,069,449

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this report incorporates certain information by reference from the registrant's proxy statement for the annual meeting of stockholders, which proxy statement will be filed no later than 120 days after the close of the registrant's fiscal year ended April 30, 2010.

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# PEREGRINE PHARMACEUTICALS, INC.

## Fiscal Year 2010 10-K Annual Report

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## **PART I**

In this Annual Report, the terms “we”, “us”, “our”, “Company” and “Peregrine” refer to Peregrine Pharmaceuticals, Inc., and our wholly owned subsidiary, Avid Bioservices, Inc. This Annual Report contains forward-looking statements that involve risks and uncertainties. The inclusion of forward-looking statements should not be regarded as a representation by us or any other person that the objectives or plans will be achieved because our actual results may differ materially from any forward-looking statement. The words “may,” “should,” “plans,” “believe,” “anticipate,” “estimate,” “expect,” their opposites and similar expressions are intended to identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. We caution readers that such statements are not guarantees of future performance or events and are subject to a number of factors that may tend to influence the accuracy of the statements, including but not limited to, those risk factors outlined in the section titled “Risk Factors” as well as those discussed elsewhere in this Annual Report. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Annual Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports that we file from time to time with the Securities and Exchange Commission (“SEC”) after the date of this Annual Report.

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed with or furnished to the SEC are available, free of charge, through our website at [www.peregrineinc.com](http://www.peregrineinc.com) as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The information on, or that can be accessed through, our website is not part of this Annual Report.

Certain technical terms used in the following description of our business are defined in the “Glossary of Terms”.

In addition, we own or have rights to the registered trademark Cotara® and Avid Bioservices, Inc. All other company names, registered trademarks, trademarks and service marks included in this Annual Report are trademarks, registered trademarks, service marks or trade names of their respective owners.

### **ITEM 1. BUSINESS**

#### **Overview**

We are a clinical-stage biopharmaceutical company developing first-in-class monoclonal antibodies for the treatment of cancer and viral infections. We are advancing our two Phase II oncology platforms as well as our Phase I HCV program. Our Phase II trials in lung, breast, and brain cancers have demonstrated promising results, leading to two new randomized Phase II trials in non-small cell lung cancer (“NSCLC”).

Recently, we initiated the first of these trials, a randomized, placebo-controlled, double-blinded Phase IIb trial evaluating bavituximab in combination with standard chemotherapy in refractory NSCLC, which represents a significant unmet medical need and potential fastest path to market. We have also initiated recently the second trial, a randomized open-label Phase IIb trial evaluating bavituximab in combination with chemotherapy in front-line NSCLC. By the end of 2010, we plan to initiate another company-sponsored trial. In addition to these company-sponsored trials, we have recently launched an investigator-sponsored trials (“IST”) program as a cost-effective way to generate insight into bavituximab’s mechanism of action, augment our safety database, and evaluate new combination therapy approaches to treating cancer patients.

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

Our novel brain cancer therapy Cotara is a targeted monoclonal antibody linked to a radioisotope that is administered directly into the tumor, destroying the tumor from the inside out, with minimal exposure to healthy tissue. Cotara has been granted orphan drug status and fast track designation for the treatment of glioblastoma multiforme (“GBM”) and anaplastic astrocytoma by the U.S. Food and Drug Administration.

Our two primary sources of revenue include our wholly-owned biomanufacturing subsidiary Avid Bioservices, Inc. ([www.avidbio.com](http://www.avidbio.com)) and government-sponsored programs. Avid Bioservices provides integrated cGMP commercial and clinical manufacturing services for Peregrine and third-party clients. Avid’s total revenue generated from third-party clients for fiscal years 2010, 2009, and 2008 amounted to \$13,204,000, \$12,963,000, and \$5,897,000, respectively.

Our first government contract has been with the Transformational Medical Technologies Initiative (“TMTI”) of the U.S. Department of Defense’s Defense Threat Reduction Agency (“DTRA”) to study PS-targeting antibodies for the treatment of viral hemorrhagic fever (“VHF”) infections. For the fiscal years 2010 and 2009, we recognized government contract revenue of \$14,496,000 and \$5,013,000 respectively, since the contract was awarded on June 30, 2008. In addition to this contract, we are applying for additional government contract and grant funding for our clinical development programs.

We were originally incorporated in California in June 1981 and reincorporated in the State of Delaware on September 25, 1996. Our principal executive offices are located at 14282 Franklin Avenue, Tustin, California, 92780 and our telephone number is (714) 508-6000. Our internet website addresses are [www.peregrineinc.com](http://www.peregrineinc.com) and [www.avidbio.com](http://www.avidbio.com). Information contained on, or can be accessed through, our websites do not constitute any part of this Annual Report.

### **Products in Clinical Stage Development**

Our products in clinical trials are focused on the treatment of cancer and HCV infection. The below table is a summary of our clinical trials and the current status of each clinical trial. Additional information pertaining to each clinical trial is further discussed below.

Product	Indication	Trial Design	Trial Status
Bavituximab plus docetaxel	Refractory NSCLC	Phase IIb randomized, double-blinded, placebo-controlled trial designed to treat up to 120 patients.  Endpoint: Overall response rate (“ORR”) Secondary Endpoints: Median progression-free survival (“PFS”), median overall survival, duration of response, safety	Trial is open to patient enrollment.
Bavituximab plus carboplatin and paclitaxel	Front-line NSCLC	Phase IIb randomized, open-label trial designed to treat up to 86 patients.  Endpoint: ORR Secondary Endpoints: Median PFS, median overall survival, duration of response, safety	Trial is open to patient enrollment.
Bavituximab plus carboplatin and paclitaxel	Front-line NSCLC	Phase II open-label trial designed to treat up to 49 patients. Simon two-stage design.  Endpoint: ORR Secondary Endpoints: Median PFS, median overall survival, duration of response, safety	43% ORR and median PFS of 6.1 months.  These results compare favorably to the 15% ORR and 4.5 month median PFS of carboplatin/paclitaxel alone from a historical third-party trial.
Bavituximab plus docetaxel	Refractory advanced breast cancer	Phase II open-label trial designed to treat up to 46 patients. Simon two-stage design.  Endpoint: ORR Secondary Endpoints: Median PFS, median overall survival, duration of response, safety	61% ORR and median PFS of 7.4 months.  These results compare favorably to the 41% ORR from a separate historical third-party trial of docetaxel alone.
Bavituximab plus carboplatin and paclitaxel	Front-line advanced breast cancer	Phase II open-label trial designed to treat up to 46 patients. Simon two-stage design.  Endpoint: ORR Secondary Endpoints: Median PFS, median overall survival, duration of response, safety	74% ORR and median PFS of 6.9 months.  These results compare favorably to the 62% ORR and 4.8 month median PFS of carboplatin/paclitaxel alone from a separate historical third-party trial.
Bavituximab	Solid tumor cancers	Phase I monotherapy repeat dose safety study designed to treat up to 28 patients.	Results demonstrated that bavituximab as a monotherapy is generally safe and well tolerated in patients with advanced solid tumor malignancies. Pharmacokinetic data determined the 3 mg/kg weekly intravenous dose for use in future trials.
Cotara	Recurrent glioblastoma multiforme (“GBM”)	Dosimetry and dose confirmation study designed to treat up to 12 patients with recurrent GBM.	Final data confirm Cotara’s targeting capabilities, delivering 300-fold higher radiation levels to the tumor than to normal organs and supports further development at or below a dose of 2.5 mCi/cc of clinical target volume.
Cotara	Recurrent GBM	Phase II safety and efficacy study designed to treat up to 40 patients at first relapse.	This study is enrolling patients. Enrollment is over 75% completed.
Bavituximab	Chronic hepatitis C virus (“HCV”) infection co-infected with HIV	Phase Ib repeat dose safety study designed to treat up to 24 patients.	This study is enrolling patients.

## Oncology Franchise

### *Bavituximab for the Treatment of Solid Tumors*

We believe bavituximab may have broad potential for the treatment of multiple cancers when used in combination with commonly prescribed chemotherapeutic drugs. Our novel monoclonal antibody has a unique mechanism of action that specifically targets PS exposed on tumor vasculature. Results from three Phase II clinical trials have demonstrated positive objective response rates (“ORR”) in multiple tumor types, encouraging progression-free survival (“PFS”), and an acceptable safety profile for bavituximab used in combination with standard chemotherapy regimens.

Based on these data, we recently initiated a randomized Phase IIb trial evaluating bavituximab in combination with docetaxel for the treatment of refractory NSCLC patients. We also recently initiated a second randomized Phase IIb trial evaluating bavituximab in combination with paclitaxel/carboplatin for the treatment of front-line NSCLC patients. The primary endpoint of these randomized trials is overall response and secondary endpoints include median PFS, median overall survival, duration of response, and safety.

In addition, we have three ongoing Phase II clinical trials in front-line NSCLC, front-line advanced breast cancer, and refractory advanced breast cancer which are evaluating bavituximab in combination with standard chemotherapy regimens. As reported at the 2010 American Society of Clinical Oncology (“ASCO”) Annual Meeting in June, final ORRs and median PFS data were positive, and we are monitoring median overall survival for patients in these trials. These trials utilized a two-stage design in which an initial cohort of patients is first enrolled, dosed and evaluated and then the study may be expanded if a sufficient number of patients in the initial cohort meet the primary endpoint and the safety profile is positive. The primary endpoint of the Phase II studies was to assess overall response rate to the combination of bavituximab and chemotherapy. Secondary objectives include measuring median PFS, median overall survival, duration of response, and safety.

In all of our Phase II trials, tumor responses are being evaluated using Response Evaluation Criteria in Solid Tumors (“RECIST”) parameters. The trials are being conducted according to International Conference on Harmonization (“ICH”) and Good Clinical Practices (“GCP”) standards.

### Phase IIb Trial - Bavituximab Plus Docetaxel in Refractory NSCLC Patients

We recently initiated a Phase IIb trial to assess bavituximab in combination with docetaxel in refractory NSCLC patients. This randomized, double-blinded, placebo-controlled trial is enrolling patients in up to 30 sites in the U.S. and internationally. We plan to enroll 120 refractory NSCLC patients, which will be randomized to one of three treatment arms. One arm will receive docetaxel (75 mg/m<sup>2</sup>), up to six 21-day cycles, in combination with bavituximab (3 mg/kg) weekly. A second arm will receive docetaxel (75 mg/m<sup>2</sup>), up to six 21-day cycles, in combination with bavituximab (1 mg/kg) weekly. A third arm will receive docetaxel (75 mg/m<sup>2</sup>), up to six 21-day cycles, in combination with weekly placebo.

The primary endpoint of this trial is ORR and secondary objectives included median PFS, median overall survival, duration of response, and safety. Patients will be evaluated regularly for tumor response according to RECIST criteria.

### *Refractory NSCLC Market Opportunity*

Lung cancer is the leading cause of cancer death. According to the American Cancer Society, lung cancer is the second most commonly diagnosed cancer, with approximately 219,440 new cases and 159,000 deaths reported in 2009 in the U.S. alone. NSCLC is the most common type of lung cancer, accounting for approximately 85-90% of lung cancer cases. The five-year survival rate for NSCLC patients is only 1%.

The current market for refractory NSCLC therapeutics is approximately \$1.2 billion and is expected to approach \$2 billion by 2018 according to independent market research estimates. There are approximately 126,000 refractory patients treated annually in the U.S., Europe, and Japan.

Only three drugs are approved in the U.S. for the treatment of refractory NSCLC patients. Administered as monotherapies, these include pemetrexed (Alimta®), docetaxel (Taxotere®), or erlotinib (Tarceva®), which each represent approximately 25% of the market for refractory NSCLC therapeutics. Package insert information for these three products shows overall response rates of 8.5% for pemetrexed, between 5.5% and 5.7% for docetaxel, and of 8.9% for erlotinib in clinical studies in refractory NSCLC patients. Given these low response rates, there is an urgent need for new therapeutic options for refractory NSCLC patients.

#### Phase IIb Trial - Baviximab Plus Paclitaxel/Carboplatin in Front-Line NSCLC Patients

We recently initiated a Phase IIb trial to assess baviximab in combination with paclitaxel and carboplatin in front-line NSCLC patients. This randomized, open-label trial is enrolling patients in up to 20 sites in the U.S. and internationally. We plan to enroll 86 front-line NSCLC patients, which will be randomized to one of two treatment arms. One arm will receive paclitaxel (200 mg/m<sup>2</sup>) and carboplatin (AUC 6), administered on day one of each 21-day cycle, for up to six cycles, in combination with baviximab (3 mg/kg) weekly. A second arm will receive paclitaxel (200 mg/m<sup>2</sup>) and carboplatin (AUC 6), administered on day one of each 21-day cycle for up to six cycles.

The primary endpoint of this trial is ORR and secondary objectives included median PFS, median overall survival, duration of response, and safety. Patients will be evaluated regularly for tumor response according to RECIST criteria.

We reported at the 2010 ASCO Annual Meeting results from our previous Phase II trial assessing baviximab in combination with paclitaxel and carboplatin in front-line NSCLC patients. 43% (21 of 49) of patients achieved an ORR. Median PFS in the trial was 6.1 months and median overall survival will be reported once these data mature. 73% (36 of 49 patients) of the patients enrolled in this study had Stage IV disease. These results compare favorably to data from a separate published study showing an objective response rate of 15% and a median time-to-progression of 4.5 months in a similar patient population receiving paclitaxel and carboplatin alone.

This multi-center, open-label Phase II NSCLC trial was designed to assess ORR of baviximab combined with the front-line standard of care chemotherapy regimen of paclitaxel and carboplatin. Secondary objectives of the study included median PFS, median overall survival, duration of response, and safety. Patients in the study were evaluated regularly for tumor response according to RECIST criteria.

#### *Front-Line NSCLC Market Opportunity*

The current market for front-line NSCLC therapeutics is approximately \$2.3 billion and is expected to approach \$8 billion by 2018 according to independent market research estimates. There are approximately 353,000 front-line patients treated annually in the U.S., Europe, and Japan.

Current treatment for front-line NSCLC patients includes chemotherapy combined with cisplatin or carboplatin. Approved chemotherapy drugs include gemcitabine (Gemzar®), paclitaxel (Taxol®), and docetaxel (Taxotere®). In addition, pemetrexed has been approved for use in combination with cisplatin for front-line NSCLC and bevacizumab (Avastin®) is often added to the standard combination therapy for front-line NSCLC. In a separate trial used as a historical control, ORR was 15% and median PFS was 4.5 months for patients treated with paclitaxel/carboplatin alone. With 219,440 new cases of lung cancer in the U.S. alone each year and given the limitations of current therapies, there is an urgent need for new therapeutic options for front-line NSCLC patients.



#### Phase II Trial - Baviximab Plus Docetaxel in Refractory Advanced Breast Cancer Patients

We reported at the 2010 ASCO Annual Meeting results from our Phase II trial assessing baviximab in combination with docetaxel in refractory advanced breast cancer patients. 61% (28 of 46 patients) of patients achieved an ORR. Median PFS in the trial was 7.4 months and median overall survival will be reported once these data mature. These results compare favorably to data from a separate published study showing an ORR of 41% in a similar patient population receiving docetaxel alone.

This multi-center, open-label Phase II breast cancer trial was primarily intended to assess overall response rate to baviximab combined with a refractory patient standard of care chemotherapeutic agent docetaxel. Secondary objectives of the study included median PFS, median overall survival, duration of response, and safety. Patients were evaluated regularly for tumor response according to RECIST criteria.

#### Phase II Trial - Baviximab Plus Paclitaxel/Carboplatin in Front-Line Advanced Breast Cancer Patients

We reported at the 2010 ASCO Annual Meeting results from our Phase II trial assessing baviximab in combination with paclitaxel and carboplatin in front-line advanced breast cancer patients. 74% (34 of 46) of patients achieved an ORR. Median PFS was 6.9 months and median overall survival will be reported once these data mature. These results compare favorably to data from a separate published study showing an ORR of 62% and median PFS of 4.8 months in a similar patient population receiving paclitaxel and carboplatin alone.

This multi-center, open-label Phase II breast cancer trial was primarily intended to assess ORR of baviximab combined with standard of care chemotherapeutic agents paclitaxel and carboplatin. Secondary objectives of the study included median PFS, median overall survival, duration of response, and safety. Patients were evaluated regularly for tumor response according to RECIST criteria.

#### Phase I Trial - Baviximab as a Monotherapy in Advanced Solid Tumors

We reported at the American Association for Cancer Research ("AACR") 101st Annual Meeting 2010 final results from a Phase I study using baviximab as a monotherapy in patients with advanced solid tumor malignancies. Data demonstrated baviximab is generally safe and well tolerated with one dose-limiting toxicity, a serious adverse event of pulmonary embolism. Based on pharmacokinetic data from this trial, we determined a maximum dose of 3 mg/kg for baviximab in our Phase IIb cancer trials.

The objectives of this multi-center, open-label dose escalation study were to determine the safety and tolerability of baviximab in patients with advanced cancer, to characterize the pharmacokinetic profile of baviximab and to identify dose-limiting toxicities and the maximum tolerated and/or effective dose.

#### ***Cotara for the Treatment of Brain Cancer***

Our novel brain cancer therapy Cotara is our first agent based on our Tumor Necrosis Therapy ("TNT") technology platform. Cotara is a monoclonal antibody targeting agent conjugated to Iodine 131, a therapeutic radioisotope that kills cells near the site of localization. In prior clinical studies, Cotara has demonstrated encouraging survival in patients with brain cancer. We are evaluating Cotara in an ongoing Phase II clinical trial in patients with recurrent glioblastoma multiforme ("GBM"), the deadliest form of brain cancer.

### Cotara Dose Confirmation and Dosimetry Study in GBM Patients

We reported at the 2010 ASCO Annual Meeting results from our dose confirmation and dosimetry study with Cotara in recurrent GBM patients. Final data confirm Cotara's targeting capabilities, delivering 300-fold higher radiation levels to the tumor than to normal organs. Median radiation dose to the tumor was 573 cGy/mCi.

The Phase I, open-label, dose confirmatory and radiation dosimetry trial was conducted in three U.S. centers. The primary objective was to confirm the dose limiting toxicities and maximum tolerated dose of Cotara administered as a single 25-hour interstitial infusion in patients with recurrent GBM. Twelve patients with recurrent GBM were enrolled in this study with the first receiving an imaging dose (3 mCi/cc) of Cotara infused via 2 interstitial catheters. Two to four weeks after imaging, patients were eligible to receive a single therapy dose of Cotara at 1.5, 2.0 or 2.5 mCi/cc using a "3+3" dose escalation scheme. Dose escalation was permitted after a six week observation period. Ten patients received a therapy dose, including 8 of the 10 imaging patients.

Cotara was generally well tolerated in this study, with one dose-limiting toxicity of cerebral edema reported at the high dose of 2.5 mCi/cc. Cotara's excellent localization only in the tumor with minimal systemic radiation was demonstrated by images acquired up to 168 hours after therapy.

### Cotara Phase II Trial in Recurrent GBM Patients

We are conducting an ongoing Phase II open-label trial enrolling up to 40 recurrent GBM patients at several sites in the U.S. and India. Over 75% of the planned patients in this trial have been enrolled. The primary endpoint of this trial is safety and tolerability of the maximum tolerated dose, a single 25-hour interstitial infusion of 2.5 mCi/cc of Cotara. Secondary endpoints include overall survival, PFS, survival, and proportion of patients alive at six months after treatments.

The study is being conducted according to internationally accepted ICH and GCP guidelines.

#### *Brain Cancer Market Opportunity*

There are an estimated 21,810 new cases of brain cancer diagnosed annually and this cancer accounts for approximately 13,070 deaths annually in the U.S. The most common type of brain cancer is GBM, which accounts for 60% of all brain tumors. GBM is the deadliest form of brain cancer, with a five-year survival rate of only 3%.

There are approximately 55,000 patients treated annually in the U.S., Europe, and Japan. Temozolomide (Temodar®) is currently the leading brain cancer treatment with sales reaching \$1 billion in 2009 and bevacizumab (Avastin®) was approved in 2009.

Cotara has been granted FDA/EMA orphan drug status for GBM and anaplastic astrocytoma and fast track designation in the U.S. for the treatment of recurrent GBM.

### **Antiviral Franchise**

#### ***Bavituximab for the Treatment of HCV Infection***

We are conducting an ongoing Phase Ib trial of bavituximab as a monotherapy for patients co-infected with hepatitis C virus ("HCV") and human immunodeficiency virus ("HIV"). This open-label, dose escalation study was designed to assess the safety and pharmacokinetics of bavituximab in up to 24 patients chronically infected with HCV and HIV. Patient cohorts are receiving ascending dose levels of bavituximab weekly for up to eight weeks. HCV and HIV viral titers and other biomarkers are being tracked, although they are not formal study endpoints.

Previously, we completed a Phase Ia single dose escalation study in 30 patients chronically infected with HCV who had failed prior therapies. The primary goal of the Phase I study was to assess the safety and pharmacologic profile of bavituximab in patients with chronic HCV infection. Changes in viral load, measured as serum HCV RNA levels, were also monitored.

In this Phase Ia study, 30 patients were administered one of five doses of bavituximab including 0.1, 0.3, 1, 3 and 6 mg/kg of body weight. After a single dose of bavituximab, among the patients administered 1, 3 and 6 mg/kg doses, 50% achieved a maximum peak reduction in serum HCV levels of greater than 75% (0.6 log), with one patient having a maximum peak 97% (1.5 log) reduction. In this study, approximately 90% of the subjects were infected with the genotype 1 form of HCV, which is the most common and difficult-to-treat strain of the virus. At all five dose levels, bavituximab appeared to be safe and well tolerated with no dose-limiting toxicities or serious adverse events. Reported adverse events were mostly mild, infrequent, transient and likely not drug-related.

These results supported the initiation and completion of a Phase I repeat dose HCV trial. The primary objective of the Phase I study was to determine the safety, distribution and pharmacokinetic properties of multiple doses of single agent bavituximab in patients with chronic HCV infection. Changes in viral load, measured as serum HCV RNA levels, were also monitored.

In this Phase I study, 24 patients (four cohorts of six patients each) were enrolled in the study, with each cohort scheduled to receive four doses of bavituximab over a 14-day period. Patients received twice-weekly doses of bavituximab at escalating dose levels of 0.3, 1, 3 or 6 mg/kg of body weight. Patients in all cohorts were followed for 12 weeks. The results indicate that bavituximab was generally safe and well-tolerated, with no dose-limiting toxicities or serious adverse events reported. Anti-viral activity (decline of greater than or equal to 0.5 log<sub>10</sub> reduction in HCV RNA) was observed at all dose levels. In the study, 83% of patients at the 3 mg/kg dose level demonstrated a maximum peak reduction in HCV RNA levels of at least a 75% (0.6 log), with an average of an 84% (0.8 log) peak reduction for those patients.

Preclinical research conducted by our researchers and collaborators demonstrate that PS becomes exposed on the surface of a broad class of viruses known as enveloped viruses, as well as on the cells they infect. These pathogens are responsible for about half of all human viral diseases, including HCV, influenza, HIV, cytomegalovirus (“CMV”) and other virus strains that cause serious and life-threatening conditions. Scientists studying bavituximab believe the drug’s mechanism of action may help reactivate the body’s natural immune defenses to destroy both the virus particles and the cells they infect. Since the target for bavituximab is only exposed on diseased cells, healthy cells should not be affected by bavituximab.

#### **Investigator-Sponsored Trials Program**

We have recently launched a new investigator-sponsored trial (“IST”) program for bavituximab and Cotara to meet the increasing number of requests from investigators interested in conducting clinical studies with our novel monoclonal antibodies. This IST program is a cost-effective way of generating additional clinical data on our novel antibodies. Our goal is for investigators’ trials to be supported from a variety of public and private sources, such as governments and foundations, and we will supply the clinical materials of our products produced by our wholly-owned subsidiary Avid Bioservices, Inc. Additionally, as these multiple small studies typically will be unblinded, they can provide additional insight into bavituximab’s mechanism of action, augment our safety database, and evaluate new combination therapy approaches to treating cancer patients with our antibodies.

## **Mechanism of Action of Our Technology Platforms**

Our three products in clinical trials fall under two technology platforms: PS-targeting technology and Tumor Necrosis Therapy (“TNT”) technology.

### *PS-Targeting Technology Platform*

Peregrine’s new class of PS-targeting therapeutics are monoclonal antibodies that target and bind to components of cells normally found only on the inner surface of the cell membrane. This target is a specific phospholipid known as phosphatidylserine (“PS”). Under stress, PS becomes exposed on the surface of tumor blood vessels and during certain viral infections.

PS is a highly immunosuppressive molecule that inactivates immune responses. Bavituximab targets exposed PS on tumor blood vessels and virally infected cells, and has been shown to reactivate the immune system, restoring the ability to recognize and respond to tumors and viruses by blocking PS-mediated immunosuppression.

### *Tumor Necrosis Therapy (“TNT”) Technology Platform*

Peregrine’s targeted TNT technology uses monoclonal antibodies designed to bind to DNA-histone H1 complex which is exposed primarily in the dead and dying cells that are present in abundance at the center of tumors. TNT antibodies are capable of carrying a variety of therapeutic agents, including radioisotopes, into the interior of solid tumors where they kill the tumor from the inside out. Peregrine’s lead TNT-based brain cancer therapy is Cotara, an antibody conjugated to a therapeutic radioisotope that binds to the core of the tumor mass and kills adjacent cells.

## **Two Primary Sources of Revenue**

### **Avid Bioservices, Inc.**

Our wholly-owned subsidiary, Avid Bioservices, Inc. (“Avid”) provides integrated commercial and clinical manufacturing services for Peregrine and third-party clients. Avid’s total revenue generated from third-party customers for fiscal years 2010, 2009, and 2008 amounted to \$13,204,000, \$12,963,00, and \$5,587,000, respectively.

Avid manufactures cGMP commercial and clinical products and has over 10 years of experience producing monoclonal antibodies and recombinant proteins in batch, fed-batch and perfusion modes. Avid’s services include cell banking, stability testing, clinical and commercial product manufacturing and purification, bulk packaging, final product filling and regulatory strategy, submission and support. Avid also provides a variety of process development activities, including cell line optimization, analytical method development and product characterization.

For more information about Avid, visit [www.avidbio.com](http://www.avidbio.com). Information on, or that can be accessed through, the foregoing website is not part of this Annual Report.

### **Government-Sponsored Programs**

We have performed development work with our PS-targeting antibodies for the treatment of viral hemorrhagic fever (“VHF”) infections under our first government contract and we are applying for additional government contracts and grants to support our cancer and viral infections programs.

Our first contract has been with the TMTI of the U.S. Department of Defense’s Defense Threat Reduction Agency. This contract with the TMTI covers research up to a five-year period potentially worth up to \$44.4 million, with a two-year base period and three one-year option periods. This contract provides us for up to \$22.3 million in funding during a two-year base period ending June 29, 2010. On June 29, 2010, we announced that the base period has been extended by 45 days (or through August 13, 2010) to complete ongoing preclinical studies, review scientific data, and to finalize plans for continuing preclinical evaluation in animal models of VHF. Subject to the progress of the program and budgetary considerations in future years, the contract can be extended by the TMTI beyond the base period to cover up to \$44.4 million in funding over the five-year contract period through three option periods up to one-year per option period.

### **Preclinical Programs**

We have historically developed several earlier-stage technologies that are intended to be used as an adjuvant to improve the performance of standard cancer drugs, anti-angiogenesis agents, and vascular targeting agents that complement our other anti-cancer platforms. In order to focus our efforts and resources on our current clinical programs, we have curtailed our efforts in developing these pre-clinical programs and we are actively seeking partners to further develop these technologies. In July of 2009, we out-licensed exclusive worldwide rights to develop and commercialize products under our anti-VEGF intellectual property portfolio, including the fully human antibody R84, to Affitech A/S.

## In-Licensing Collaborations

The following discussions cover our collaborations and in-licensing obligations related to our products in clinical trials:

### *PS-Targeting Program (bavituximab)*

In August 2001 and August 2005, we exclusively in-licensed the worldwide rights to the PS-targeting technology platform from the University of Texas Southwestern Medical Center at Dallas (“UTSWMC”), including bavituximab. During November 2003, we entered into a non-exclusive license agreement with Genentech, Inc. to license certain intellectual property rights covering methods and processes for producing antibodies used in connection with the development of our PS-targeting program. During December 2003, we entered into an exclusive commercial license agreement with Avanir Pharmaceuticals, Inc., (“Avanir”) covering the generation of the chimeric monoclonal antibody, bavituximab. In March 2005, we entered into a worldwide non-exclusive license agreement with Lonza Biologics (“Lonza”) for intellectual property and materials relating to the expression of recombinant monoclonal antibodies for use in the manufacture of bavituximab.

Under our in-licensing agreements relating to the PS-targeting program, including the development of bavituximab, we typically pay an up-front license fee, annual maintenance fees, and are obligated to pay future milestone payments based on development progress, plus a royalty on net sales and/or a percentage of sublicense income. The applicable royalty rate under each of the foregoing in-licensing agreements is in the low single digits. The following table provides certain information with respect to each of our in-licensing agreements relating to our PS-targeting program.

Licensors	Agreement Date	Expiration Date	Total Payments To Date	Potential Future Milestone Obligations
UTSWMC	August 2001	(1)	\$ 97,500	\$ 375,000
UTSWMC	August 2005	(1)	\$ 35,000	\$ 425,000
Lonza	March 2005	(2)	-	(3)
Avanir	December 2003	(4)	\$ 50,000	\$ 1,050,000
Genentech, Inc.	November 2003	December 2018	\$ 500,000	\$ 5,000,000
Total			\$ 682,500	\$ 6,850,000

- (1) Expiration date of the license agreement occurs upon expiry of underlying patents. These patents, and certain related patent applications that may issue as patents, are currently set to expire between 2019 and 2021.
- (2) Expiration date of the license agreement occurs upon expiry of underlying patents. These patents, and certain related patent applications that may issue as patents, are currently set to expire between 2023 and 2025.
- (3) Expiration date of the license agreement is 15 years from first commercial sale or upon expiry of underlying patents, whichever occurs last. To date, we have no commercial sales under the license agreement nor do we expect any commercial sales in the near future. The last patent covered under this license agreement expires in November 2016.
- (4) We are required to pay future milestone payments upon the completion of Phase II clinical trial enrollment in the amount of 75,000 pounds sterling, the amount of which will continue as an annual license fee thereafter. In the event we utilize an outside contract manufacturer other than Lonza to manufacture bavituximab for commercial purposes, we would owe Lonza 300,000 pounds sterling per year. We expect to complete Phase II clinical trial enrollment in 2011. Expiration date of license agreement is 10 years from first commercial sale in each respective country. To date we have no commercial sales under the license agreement nor do we expect any commercial sales in the near future.

Of the total potential future milestone obligations of \$6,850,000, \$6,400,000 would be due upon the first commercial approval of a drug candidate developed under our PS-targeting program, including bavituximab, with the technologies licensed pursuant to such license agreements.

During fiscal year 2008, we expensed \$50,000 under in-licensing agreements covering our PS-targeting program, which is included in research and development expense in the accompanying consolidated statements of operations. We did not incur any milestone related expenses during fiscal years 2010 and 2009.

#### *Tumor Necrosis Therapy (Cotara)*

We acquired the patent rights to the TNT technology, including Cotara, in July 1994 after the merger between Peregrine and Cancer Biologics, Inc. was approved by our stockholders. To date, no product revenues have been generated from Cotara.

In October 2004, we entered into a worldwide non-exclusive license agreement with Lonza for intellectual property and materials relating to the expression of recombinant monoclonal antibodies for use in the manufacture of Cotara. Under the terms of the agreement, we will pay a royalty (in the low single digits) on net sales of any products we market that utilize the underlying technology. In the event a product is approved and we or Lonza do not manufacture Cotara, we would owe Lonza 300,000 pounds sterling per year in addition to an increased royalty (in the low single digits) on net sales. Unless sooner terminated due to a party's breach of the license agreement, the license agreement with Lonza will terminate upon the last to occur of the expiration of a period of fifteen (15) years following our first commercial sale of a product or the expiration of the last valid claim within the patents that are the subject of the license agreement; provided that if after the expiration of the last claim but prior to the expiration of the fifteen (15) year period, Lonza has publicly made available certain materials and know how, then the agreement will terminate at such time as the materials and know how are made public.

#### **Out-Licensing Collaborations**

In October 2000, we entered into a licensing agreement with Merck KGaA to out-license a segment of our TNT technology for use in the application of cytokine fusion proteins. During January 2003, we entered into an amendment to the license agreement, whereby we received an extension to the royalty period from six years to ten years from the date of the first commercial sale. Under the terms of the agreement, we would receive a royalty on net sales if a product is approved under the agreement. Merck KGaA has not publicly disclosed the development status of its program.

#### **Contract Manufacturing Services**

During January 2002, we commenced the operations of our wholly owned subsidiary, Avid Bioservices, Inc. ("Avid"), which was formed from the facilities and expertise of Peregrine. Avid provides an array of contract biomanufacturing services, including contract manufacturing of antibodies, recombinant proteins and enzymes; cell culture development; process development; and testing of biologics for biopharmaceutical and biotechnology companies under current Good Manufacturing Practices ("cGMP"). Avid's current cGMP manufacturing operations includes the following four bioreactors: two 1,000 liter, a 300 liter, and a 100 liter. Avid also maintains spinner flasks and bioreactors in our process development laboratory ranging from 1 to 100 liter.

Operating a cGMP facility requires highly specialized personnel and equipment that must be maintained on a continual basis. Prior to the formation of Avid, we manufactured our own antibodies for more than 10 years and developed the manufacturing expertise and quality systems to provide the same service to other biopharmaceutical and biotechnology companies. Avid is also well positioned to increase its capacity in the future in order to become a significant supplier of contract manufacturing services.

Avid provides an array of services for Peregrine as well as working with a variety of companies in the biotechnology and pharmaceutical industries. Even though much of the process is very technical, knowledge of the process should help in understanding the overall business and complexities involved in cGMP manufacturing.

The manufacturing of monoclonal antibodies and recombinant proteins under cGMP is a complex process that includes several phases before the finished drug product is released for clinical or commercial use. The first phase of the manufacturing process, called technology transfer phase, is to receive the production cell line (the cells that produce the desired protein) and any available process information from the client. The cell line must be adequately tested according to FDA guidelines and/or other regulatory guidelines to certify that it is suitable for cGMP manufacturing. This testing generally takes between one and three months to complete, depending on the necessary testing. The cell line that is used may either be from a master cell bank (base cells from which all future cells will be grown), which is already fully tested or may represent a research cell line. In the case of a research cell line, Avid can use the research cell line to produce master and working cell banks. Clients often request further development through media screening and adaptation followed by small scale bioreactor process development in 1 to 15 liter bioreactor systems. In parallel to the production of the master and working cell banks, the growth and productivity characteristics of the cell line may be evaluated in the process development laboratories. The whole manufacturing process (master cell bank characterization, process development, assay development, raw materials specifications, test methods, downstream processing methods, purification methods, testing methods and final release specifications) must be developed and documented prior to the commencement of manufacturing in the bioreactors.

The second phase of the process is in the manufacturing facility. Once the process is developed, pilot runs are generally performed using smaller scale bioreactors, such as the 36 or 100 liter bioreactors, in order to verify the process. Once the process is set, the process will be transferred to GMP manufacturing and a pilot run(s) or full scale engineering run(s) will be performed to finalize manufacturing batch records. Material produced during these runs is often used for toxicology studies. After completing the pilot batch run(s), full-scale cGMP manufacturing is typically initiated. Once the cGMP run(s) is completed, batch samples are taken for various required tests, including sterility and viral testing. Once the test results verify that the material meet specifications, the material and/or product is released for research, clinical or commercial use.

Each batch manufactured is tailored to meet the specific needs of Peregrine or the client. Full process development from start to finish can take ten months or longer. All stages of manufacturing can generally take from one to several weeks depending on the manufacturing method and process. Material or product testing and release can take up to three months to complete once the manufacturing process is complete.

Given its inherent complexity, necessity for detail, and magnitude (contracts may be into the millions of dollars), contract negotiations and sales cycle for cGMP manufacturing services can take a significant amount of time. Our anticipated sales cycle from client introduction to signing an agreement will take anywhere from between six months to more than one year. Introduction to Avid's services will usually come from exhibiting at trade shows, exposure from attending and presenting at industry conferences and through word of mouth or referrals. The sales cycle consists of the introduction phase, the proposal phase, the audit phase, the contract phase and the project initiation phase.

To date, Avid has been audited and qualified by large and small, domestic and foreign, biotechnology companies interested in the production of biologic material for clinical trials and, as discussed below, including for clinical and commercial use. Additionally, Avid has been audited by the European Regulatory authorities, the U.S. Food and Drug Administration ("FDA") and the California Department of Health.



In 2005, Avid was inspected by the FDA in a Pre-Approval Inspection (“PAI”) supporting a New Drug Application (“NDA”) for commercial application by a client company. The Los Angeles District FDA office recommended to Washington that the facility be approved as a site for the Active Pharmaceutical Ingredient (“API”) for the client company. The client’s NDA was in fact approved later in 2005 and includes Avid as the source of the API. Avid has been subsequently inspected by the FDA most recently in January 2009 with no objectionable citations. Avid is currently producing commercial material for the client company under this approved NDA.

### **Government Regulation**

Regulation by governmental authorities in the U.S. and other countries is a significant factor in our ongoing research and development activities and in the production of our products under development. Our products and our research and development activities are subject to extensive governmental regulation in the U.S., including the Federal Food, Drug, and Cosmetic Act, as amended, the Public Health Service Act, also as amended, as well as to other federal, state, and local statutes and regulations. These laws, and similar laws outside the U.S., govern the clinical and non-clinical testing, manufacture, safety, effectiveness, approval, labeling, distribution, sale, import, export, storage, record keeping, reporting, advertising and promotion of our products, if approved. Violations of regulatory requirements at any stage may result in various adverse consequences, including regulatory delay in approving or refusal to approve a product, enforcement actions, including withdrawal of approval, labeling restrictions, seizure of products, fines, injunctions and/or civil or criminal penalties. Any product that we develop must receive all relevant regulatory approvals or clearances before it may be marketed in a particular country.

The regulatory process, which includes extensive pre-clinical testing and clinical trials of each clinical candidate to study its safety and efficacy, is uncertain, takes many years and requires the expenditure of substantial resources. We cannot assure you that the clinical trials of our product candidates under development will demonstrate the safety and efficacy of those product candidates to the extent necessary to obtain regulatory approval.

The activities required before a product may be marketed in the U.S., such as Cotara or bavituximab, are generally performed in the following sequential steps:

1. Pre-clinical testing. This generally includes evaluation of our products in the laboratory or in animals to determine characterization, safety and efficacy. Some pre-clinical studies must be conducted by laboratories that comply with FDA regulations regarding good laboratory practice.
2. Submission to the FDA of an Investigational New Drug application (“IND”). The results of pre-clinical studies, together with manufacturing information, analytical data and proposed clinical trial protocols, are submitted to the FDA as part of an IND, which must become effective before the clinical trials can begin. Once the IND is filed, the FDA has 30 days to review it. The IND will automatically become effective 30 days after the FDA receives it, unless the FDA indicates prior to the end of the 30-day period that the proposed protocol raises concerns that must be resolved to the FDA’s satisfaction before the trial may proceed. If the FDA raises concerns, we may be unable to resolve the proposed protocol to the FDA’s approval in a timely fashion, if at all.

3. Completion of clinical trials. Human clinical trials are necessary to seek approval for a new drug or biologic and typically involve a three-phase process. In Phase I, small clinical trials are generally conducted to determine the safety of the product. In Phase II, clinical trials are generally conducted to assess safety, acceptable dose, and gain preliminary evidence of the efficacy of the product. In Phase III, clinical trials are generally conducted to provide sufficient data for the statistically valid proof of safety and efficacy. A clinical trial must be conducted according to good clinical practices under protocols that detail the trial's objectives, inclusion and exclusion criteria, the parameters to be used to monitor safety and the efficacy criteria to be evaluated, and informed consent must be obtained from all study subjects. Each protocol must be submitted to the FDA as part of the IND. The FDA may impose a clinical hold on an ongoing clinical trial if, for example, safety concerns arise, in which case the study cannot recommence without FDA authorization under terms sanctioned by the Agency. In addition, before a clinical trial can be initiated, each clinical site or hospital administering the product must have the protocol reviewed and approved by an institutional review board ("IRB"). The IRB will consider, among other things, ethical factors and the safety of human subjects. The IRB may require changes in a protocol, which may delay initiation or completion of a study. Phase I, Phase II or Phase III clinical trials may not be completed successfully within any specific period of time, if at all, with respect to any of our potential products. Furthermore, we, the FDA or an IRB may suspend a clinical trial at any time for various reasons, including a finding that the healthy individuals or patients are being exposed to an unacceptable health risk.
4. Submission to the FDA of a Biologics License Application ("BLA") or New Drug Application ("NDA"). After completion of clinical studies for an investigational product, a BLA or NDA is submitted to the FDA for product marketing approval. No action can be taken to market any new drug or biologic product in the U.S. until the FDA has approved an appropriate marketing application.
5. FDA review and approval of the BLA or NDA before the product is commercially sold or shipped. The results of pre-clinical studies and clinical trials and manufacturing information are submitted to the FDA in the form of a BLA or NDA for approval of the manufacture, marketing and commercial shipment of the product. The FDA may take a number of actions after the BLA or NDA is filed, including but not limited to, denying the BLA or NDA if applicable regulatory criteria are not satisfied, requiring additional clinical testing or information; or requiring post-market testing and surveillance to monitor the safety or efficacy of the product. Adverse events that are reported after marketing approval can result in additional limitations being placed on the product's use and, potentially, withdrawal of the product from the market. Any adverse event, either before or after marketing approval, can result in product liability claims against us.

In addition, we are subject to regulation under state, federal, and international laws and regulations regarding occupational safety, laboratory practices, the use and handling of radioactive isotopes, environmental protection and hazardous substance control, and other regulations. Our clinical trial and research and development activities involve the controlled use of hazardous materials, chemicals and radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages that result and any such liability could exceed our financial resources. In addition, disposal of radioactive materials used in our clinical trials and research efforts may only be made at approved facilities. We believe that we are in material compliance with all applicable laws and regulations including those relating to the handling and disposal of hazardous and toxic waste.

Our product candidates, if approved, may also be subject to import laws in other countries, the food and drug laws in various states in which the products are or may be sold and subject to the export laws of agencies of the U.S. government.

In addition, we must also adhere to current Good Manufacturing Practice (“cGMP”) and product-specific regulations enforced by the FDA through its facilities inspection program. Failure to comply with manufacturing regulations can result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to renew marketing applications and criminal prosecution.

During fiscal year 1999, the Office of Orphan Products Development of the FDA determined that Cotara qualified for orphan designation for the treatment of glioblastoma multiforme and anaplastic astrocytoma (both brain cancers). The 1983 Orphan Drug Act (with amendments passed by Congress in 1984, 1985, and 1988) includes various incentives that have stimulated interest in the development of orphan drug and biologic products. These incentives include a seven-year period of marketing exclusivity for approved orphan products, tax credits for clinical research, protocol assistance, and research grants. Additionally, legislation re-authorizing FDA user fees also created an exemption for orphan products from fees imposed when an application to approve the product for marketing is submitted. A grant of an orphan designation is not a guarantee that a product will be approved. If a sponsor receives orphan drug exclusivity upon approval, there can be no assurance that the exclusivity will prevent another entity from receiving approval for the same or a similar drug for the same or other uses.

Cotara was granted Fast Track designation by the FDA for the treatment of recurrent glioblastoma multiforme. This designation facilitates the development and expedites the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. The Fast Track mechanism is described in the Food and Drug Administration Modernization Act of 1997 (“FDAMA”). The benefits of Fast Track include scheduled meetings to seek FDA input into development plans, the option of submitting an NDA in sections rather than all components simultaneously, and the option of requesting evaluation of studies using surrogate endpoints.

### **Manufacturing and Raw Materials**

*Manufacturing.* We manufacture pharmaceutical-grade products to supply our clinical trials through our wholly owned subsidiary, Avid Bioservices, Inc. We have assembled a team of experienced scientific, production and regulatory personnel to facilitate the manufacturing of our antibodies, including bavituximab and Cotara.

Our bavituximab product is shipped directly from our facility to the clinical trial sites or to contract research organizations that distribute the clinical trial materials to clinical sites. Our TNT antibodies are shipped to a third party facility for radiolabeling (the process of attaching the radioactive agent, Iodine 131, to the antibody). From the radiolabeling facility, Cotara (the radiolabeled-TNT antibodies) is shipped directly to the clinical site for use in clinical trials.

Any commercial radiolabeling supply arrangement will require a significant investment of funds by us in order for a radiolabeling vendor to develop the expanded facilities necessary to support our product. There can be no assurance that material produced by our current radiolabeling supplier will be suitable for commercial quantities to meet the possible demand of Cotara, if approved. We will continue with our research in radiolabeling scale-up, but we believe this research will be eventually supported by a potential licensing or marketing partner for Cotara.

*Raw Materials.* Various common raw materials are used in the manufacture of our products and in the development of our technologies. These raw materials are generally available from several alternate distributors of laboratory chemicals and supplies. We have not experienced any significant difficulty in obtaining these raw materials and we do not consider raw material availability to be a significant factor in our business.

#### **Patents and Trade Secrets**

Peregrine continues to seek patents on inventions originating from ongoing research and development activities within the Company and in collaboration with other companies and university researchers. In addition to seeking patent protection in the U.S., we typically file patent applications in Europe, Canada, Japan and additional countries on a selective basis. Patents, issued or applied for, cover inventions relating in general to cancer therapy and anti-viral therapy and in particular to different proteins, peptides, antibodies and conjugates, methods and devices for labeling antibodies, and therapeutic and diagnostic uses of the peptides, antibodies and conjugates. We intend to pursue opportunities to license these technologies and any advancements or enhancements, as well as to pursue the incorporation of our technologies in the development of our own products.

Our issued patents extend for varying periods according to the date of patent application filing and/or grant and the legal term of patents in the various countries where patent protection is obtained. In the U.S., patents issued on applications filed prior to June 8, 1995 have a term of 17 years from the issue date or 20 years from the earliest effective filing date, whichever is longer. U.S. patents issued on applications filed on or after June 8, 1995, have a term first calculated as 20 years from the earliest effective filing date. Certain U.S. patents issued on applications filed on or after June 8, 1995, and particularly on applications filed on or after May 29, 2000, are eligible for Patent Term Adjustment (“PTA”), which extends the term of the patent to compensate for delays in examination at the U.S. Patent and Trademark Office. The term of foreign patents varies in accordance with provisions of applicable local law, but is typically 20 years from the effective filing date, which is often the filing date of an application under the provisions of the Patent Cooperation Treaty (“PCT”).

In addition, in certain cases, the term of U.S. and foreign patents can be extended to recapture a portion of the term effectively lost as a result of health authority regulatory review. As such, certain U.S. patents may be eligible for Patent Term Extension under 35 U.S.C. § 156 (known as “the Hatch-Waxman Act”) to restore the portion of the patent term that has been lost as a result of review at the U.S. FDA. Such extensions, which may be up to a maximum of five years (but cannot extend the remaining term of a patent beyond a total of 14 years), are potentially available to one U.S. patent that claims an approved human drug product (including a human biological product), a method of using a drug product, or a method of manufacturing a drug product.

We consider that in the aggregate our patents, patent applications and licenses under patents owned by third parties are of material importance to our operations. Of the patent portfolios that are owned, controlled by or exclusively licensed to Peregrine, those concerning our PS-Targeting Technology Platform and our TNT Technology Platform are of particular importance to our operations.

Our patent portfolios relating to the PS-Targeting Technology Platform in oncology include U.S. and foreign patents and patent applications with claims directed to methods, compositions and combinations for targeting tumor vasculature and imaging and treating cancer using antibodies and conjugates that localize to the aminophospholipids, PS (Phosphatidylserine) and PE (Phosphatidylethanolamine), exposed on tumor vascular endothelial cells. These patents, and any related patent applications that may issue as patents, are currently set to expire between 2019 and 2021.

Our patent portfolios relating to the PS-Targeting Technology Platform in the viral field include U.S. and foreign patents and patent applications with claims directed to methods, compositions and combinations for inhibiting viral replication or spread and for treating viral infections and diseases using antibodies and conjugates that localize to the aminophospholipids, PS and PE, exposed on viruses and virally-infected cells. These patents, and certain related patent applications that may issue as patents, are currently set to expire in 2023.

Additionally, we have U.S. and foreign patents and patent applications relating more specifically to our product, bavituximab, including compositions, combinations and methods of use in treating angiogenesis and cancer and in treating viral infections and diseases. These patents, and certain related patent applications that may issue as patents, are currently set to expire between 2023 and 2025.

Our patent portfolios relating to the TNT Technology Platform, which includes our Cotara product, include U.S. and foreign patents with claims directed to compositions of matter and claims directed to diagnostic methods, which patents are currently set to expire in 2017 and 2016, respectively. Our TNT Technology Platform and Cotara product are also protected by patents and patent applications that include claims directed to methods and apparatus for radiolabeling and to the resultant radiolabeled products. The radiolabeling patents in the U.S. and overseas, and any related patent applications that may issue as patents, are currently set to expire between 2024 and 2028.

The information given above is based on our current understanding of the patents and patent applications that we own, control or have exclusively licensed. The information is subject to revision, for example, in the event of changes in the law or legal rulings affecting our patents or if we become aware of new information. In particular, the expiry information given above does not account for possible extension of any U.S. or foreign patent to recapture patent term effectively lost as a result of FDA or other health authority regulatory review. We intend to seek such extensions, as appropriate to approved product(s), which may be up to a maximum of five years (but not extending the term of a patent beyond 14 years).

The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the country. We have either been issued patents or have patent applications pending that relate to a number of current and potential products including products licensed to others. In general, we have obtained licenses from various parties that we deem to be necessary or desirable for the manufacture, use or sale of our products. These licenses (both exclusive and non-exclusive) generally require us to pay royalties to the parties. The terms of the licenses, obtained and that we expect to be obtained, are not expected to significantly impact the cost structure or marketability of the Company's products.

In general, the patent position of a biotechnology firm is highly uncertain and no consistent policy regarding the breadth of issued claims has emerged from the actions of the U.S. Patent Office and courts with respect to biotechnology patents. Similar uncertainties also exist for biotechnology patents in important overseas markets. Accordingly, there can be no assurance that our patents, including those issued and those pending, will provide protection against competitors with similar technology, nor can there be any assurance that such patents will not be legally challenged, invalidated, infringed upon and/or designed around by others.

International patents relating to biologics are numerous and there can be no assurance that current and potential competitors have not filed or in the future will not file patent applications or receive patents relating to products or processes utilized or proposed to be used by the Company. In addition, there is certain subject matter which is patentable in the U.S. but which may not generally be patentable outside of the U.S.. Statutory differences in patentable subject matter may limit the protection the Company can obtain on some of its products outside of the U.S.. These and other issues may prevent the Company from obtaining patent protection outside of the U.S.. Failure to obtain patent protection outside the U.S. may have a material adverse effect on the Company's business, financial condition and results of operations.

No one has sued us for infringement and no third party has asserted their patents against us that we believe are of any merit. However, there can be no assurances that such lawsuits have not been or will not be filed and, if so filed, that we will prevail or be able to reach a mutually beneficial settlement.

We also intend to continue to rely upon trade secrets and improvements, unpatented proprietary know-how, and continuing technological innovation to develop and maintain our competitive position in research and development of therapeutic and diagnostic products. We typically place restrictions in our agreements with third parties, which contractually restrict their right to use and disclose any of the Company's proprietary technology with which they may be involved. In addition, we have internal non-disclosure safeguards, including confidentiality agreements, with our employees. There can be no assurance, however, that others may not independently develop similar technology or that the Company's secrecy will not be breached.

#### **Customer Concentration and Geographic Area Financial Information**

We are currently in the research and development phase for all of our products and we have not generated any product sales from any of our technologies under development. For financial information concerning Avid's customer concentration and geographic areas of its customers, see Note 12, "Segment Reporting" to the accompanying consolidated financial statements.

#### **Marketing Our Potential Products**

We intend to sell our products, if approved, in the U.S. and internationally in collaboration with marketing partners or through a direct sales force. If the FDA approves bavituximab or Cotara or our other product candidates under development, the marketing of these product candidates will be contingent upon us entering into an agreement with a company to market our products or upon us recruiting, training and deploying our own sales force, either internally or through a contract sales organization. We do not presently possess the resources or experience necessary to market bavituximab, Cotara, or any of our other product candidates and we currently have no arrangements for the distribution of our product candidates, if approved. Development of an effective sales force requires significant financial resources, time, and expertise. There can be no assurance that we will be able to obtain the financing necessary to establish such a sales force in a timely or cost effective manner or that such a sales force will be capable of generating demand for our product candidates.

#### **Competition**

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

Bavituximab is currently in clinical trials for the treatment of advanced solid tumors, including NSCLC. Although we are not aware of any other products in development targeting PS as a potential therapy for advanced solid tumors, there are a number of possible competitors with approved or developmental targeted agents used in combination with standard chemotherapy for the treatment of cancer, including but not limited to, Avastin® by Roche/Genentech, Gleevec® by Novartis, Tarceva® by OSI Pharmaceuticals, Inc., and Roche/Genentech, Inc., Erbitux® by ImClone Systems Incorporated and Bristol-Myers Squibb Company, Rituxan® and Herceptin® by Roche/Genentech, and Vectibix® by Amgen. There are a significant number of companies developing cancer therapeutics using a variety of targeted and non-targeted approaches. A direct comparison of these potential competitors will not be possible until bavituximab advances to later-stage clinical trials.

In addition, we are evaluating bavituximab 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 PS as a potential therapy for HCV. There are a number of companies that have products approved and on the market for the treatment of HCV, including but not limited to: Peg-Intron® (pegylated interferon-alpha-2b), Rebetol® (ribavirin), 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, and Infergen® (interferon alfacon-1) now marketed by Three Rivers Pharmaceuticals, LLC. 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 ZALBIN™ (albumin interferon alpha-2b) from Human Genome Sciences, Inc. Other developmental approaches include, but are not limited to, protease inhibitors such as telaprevir from Vertex Pharmaceuticals Incorporated and boceprevir from Schering-Plough Corporation.

We are currently enrolling patients in a Cotara® Phase II clinical trial for the treatment of recurrent GBM, the most aggressive form of brain cancer. Approved treatments for brain cancer include the Gliadel® Wafer (polifeprosan 20 with carmustine implant) from Eisai, Inc., Temodar® (temozolomide) from Schering-Plough Corporation and Avastin® (bevacizumab) from Genentech, Inc. Gliadel Wafers are inserted in the tumor cavity following surgical resection and releases a chemotherapeutic agent over time. Temodar is administered orally to patients with brain cancer. Avastin is a monoclonal antibody that targets vascular endothelial growth factor (“VEGF”) to prevent the formation of new tumor blood vessels.

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

## **Research and Development**

A major portion of our operating expenses to date is related to research and development. Research and development expenses primarily include (i) payroll and related costs associated with research and development personnel, (ii) costs related to clinical and pre-clinical testing of our technologies under development, (iii) costs to develop and manufacture the product candidates, including raw materials and supplies, product testing, depreciation, and facility related expenses, (iv) expenses for research services provided by universities and contract laboratories, including sponsored research funding, and (v) other research and development expenses. Research and development expenses were \$24,658,000 in fiscal year 2010, \$18,424,000 in fiscal year 2009, and \$18,279,000 in fiscal year 2008.

## **Corporate Governance**

Our Board is committed to legal and ethical conduct in fulfilling its responsibilities. The Board expects all directors, as well as officers and employees, to act ethically at all times and to adhere to the policies comprising the Company's Code of Business Conduct and Ethics. The Board of Directors (the "Board") of the Company adopted the corporate governance policies and charters. Copies of the following corporate governance documents are posted on our website, and are available free of charge, at [www.peregrineinc.com](http://www.peregrineinc.com): (1) Peregrine Pharmaceuticals, Inc., Code of Business Conduct and Ethics (2) Peregrine Pharmaceuticals, Inc., Charter of the Nominating Committee of the Board of Directors, (3) Peregrine Pharmaceuticals, Inc., Charter of the Audit Committee of the Board of Directors, and (4) Peregrine Pharmaceuticals, Inc., Charter of the Compensation Committee of the Board of Directors. If you would like a printed copy of any of these corporate governance documents, please send your request to Peregrine Pharmaceuticals, Inc., Attention: Corporate Secretary, 14282 Franklin Avenue, Tustin, California 92780.

## **Human Resources**

As of April 30, 2010, we employed 139 full-time employees and 7 part-time employees. Each of our employees has signed a confidentiality agreement and none are covered by a collective bargaining agreement. We have never experienced employment-related work stoppages and consider our employee relations to be good.



## Glossary of Terms

**Adjuvant** - An agent added to a drug to increase or aid its effect.

**Antibody** - Protein formed by the body to help defend against infection and disease.

**Antigen** - Any substance that antagonizes or stimulates the immune system to produce antibodies.

**Bavituximab** - Our first monoclonal antibody under our PS-targeting technology platform, currently in clinical development for the treatment of cancer and hepatitis C virus infection.

**Chemotherapy** - Treatment of disease by means of chemical substances or drugs.

**Chimeric** - A type of antibody that is mostly human and partially mouse.

**cGMP** - current Good Manufacturing Practices; regulations established by the FDA and/or other regulatory bodies for the manufacture, processing, packing, or holding of a drug to assure that such drug meets the requirements of the Federal Food, Drug and Cosmetic Act as to safety, and has the identity and strength and meets the quality and purity characteristics that it purports or is represented to possess.

**Cotara®** - The trade name of our first Tumor Necrosis Therapy (“TNT”) clinical compound. Cotara is a chimeric monoclonal antibody combined with Iodine 131 (radioisotope) that targets dead and dying cells found primarily at the core of a tumor.

**Cytokine** - A chemical messenger protein released by certain white blood cells. The cytokines include the interferons, the interleukins, tumor necrosis factor, and many others.

**DNA (Deoxyribonucleic Acid)** - A complex polynucleotide that is the carrier of genetic information.

**EMA** - European Medicines Agency.

**Endothelial Cells** - A layer of flat cells that line blood vessels.

**FDA** - the U.S. Food and Drug Administration; the government agency responsible for regulating the food, drug and cosmetic industries, including the commercial approval of pharmaceuticals in the U.S.

**Glioblastoma multiforme** - A type of brain tumor that forms from glial (supportive) tissue of the brain. Also called grade IV astrocytoma.

**IND** - Investigational New Drug Application; the application submitted to the FDA requesting permission to conduct human clinical trials.

**Maximum Tolerated Dose** - The highest nontoxic dose that can be reasonably given to patients.

**Monoclonal antibody** - Antibodies that have identical molecular structure and bind to a specific target. The inherent selectivity of monoclonal antibodies makes them ideally suited for targeting specific cells, such as cancer cells or certain viruses, while bypassing most normal tissue.

**Necrosis or Necrotic** - The death and degradation of cells within a tissue.

**Oncology** - The study and treatment of cancer.

**Pharmacokinetic** - Concerning the study of how a drug is processed by the body, with emphasis on the time required for absorption, distribution in the body metabolism and excretion.

**Phospholipids** - Phospholipids are normal cellular structures that are present in all cells of the human body and form the building blocks that make up the outer and inner surface of cells responsible for maintaining integrity and normal functions.

**Pre-clinical** - Generally refers to research that is performed in animals or tissues in the laboratory.

**Protocol** - A detailed plan for conducting a research study such as a clinical trial.

**Radiolabeling** - Process of attaching a radioactive isotope, such as Iodine 131.

**Recurrent** - The return or flare-up of a condition thought to be cured or in remission.

**Response Evaluation Criteria In Solid Tumors (“RECIST”)** - A set of published rules that define when cancer patients improve (“respond”), stay the same (“stable”) or worsen (“progression”) during treatments.

**Solid tumors** - Cancer cells which grow as a solid mass.

**Tumor Necrosis Therapy (“TNT”)** - Therapeutic agents that target dead and dying cells found primarily at the core of a tumor.

## ITEM 1A. RISK FACTORS

*This Annual Report on Form 10-K contains forward-looking information based on our current expectations. Because our actual results may differ materially from any forward-looking statements made by or on behalf of Peregrine, this section includes a discussion of important factors that could affect our actual future results, including, but not limited to, our potential product sales, potential royalties, contract manufacturing revenues, expenses, net income(loss) and earnings(loss) per common share.*

### ***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 April 30, 2010, we had \$19,681,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to \$14,494,000, \$16,524,000, and \$23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future. As discussed in Note 1 to the accompanying consolidated financial statements, there exists substantial doubt regarding our ability to continue as a going concern.

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

With respect to financing our operations through the issuance of equity, during fiscal year 2010, we raised \$26,324,000 in gross proceeds (as described in Note 7 to the accompanying consolidated financial statements). As of April 30, 2010, gross proceeds of up to \$30,568,000 remained available under an effective shelf registration statement. Subsequent to April 30, 2010 and through June 30, 2010 we raised \$4,718,000 in gross proceeds (as described in Note 7 to the accompanying consolidated financial statements). As of June 30, 2010, gross proceeds of up to \$25,850,000 remained available under an effective shelf registration statement.

In addition, we may also raise additional capital through additional equity offerings, licensing our products in development, procuring additional government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring additional government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, combined with the projected revenues from our government contract, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers and from our government contract to meet our obligations as they become due through at least the third quarter of our fiscal year 2011, ending January 31, 2011, based on current assumptions. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party or government contracts, technical challenges, or possible reductions in funding under our government contract, which could reduce or delay our future projected cash-inflows. In addition, under our Loan Agreement (as described in Note 4 to the accompanying consolidated financial statements), in the event our government contract with the TMTI is terminated or canceled for any reason, including reasons pertaining to budget cuts by the government or reduction in government funding for the program, we would be required to set aside cash and cash equivalents in an amount equal to 80% of the outstanding loan balance (or \$2,667,000 as of April 30, 2010) in a restricted collateral account non-accessible by us. In the event our projected cash-inflows are reduced or delayed or if we default on a loan covenant that limits our access to our available cash on hand, we might not have sufficient capital to operate our business through the third quarter of our fiscal year 2011 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

***Our Outstanding Indebtedness To MidCap Financial LLC and BlueCrest Capital Finance, L.P. Imposes Certain Restrictions On How We Conduct Our Business. In Addition, All Of Our Assets, Including Our Intellectual Property, Are Pledged To Secure This Indebtedness. If We Fail To Meet Our Obligations To The Lenders, Our Payment Obligations May Be Accelerated And The Collateral Securing The Debt May Be Sold To Satisfy These Obligations.***

Pursuant to a Loan and Security Agreement dated December 9, 2008 (the "Loan Agreement"), MidCap Financial LLC and BlueCrest Capital Finance, L.P. (the "Lenders") have provided us a three-year, \$5,000,000 working capital loan, which funded on December 19, 2008. At April 30, 2010, we had an outstanding principal balance of \$3,333,000 under the Loan Agreement. As collateral to secure our repayment obligations to the Lenders, we and our wholly-owned subsidiary, Avid Bioservices, Inc., have granted the Lenders a first priority security interest in generally all of our respective assets, including our intellectual property.

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

- incur additional indebtedness, except for certain permitted indebtedness. Permitted indebtedness is defined to include accounts payable incurred in the ordinary course of business, leases of equipment or property incurred in the ordinary course of business not to exceed in the aggregate \$100,000 outstanding at any one time;
- incur additional liens on any of our assets except for certain permitted liens including but not limited to non-exclusive licenses of our intellectual property in the ordinary course of business and exclusive licenses of intellectual property provided they are approved by our board of directors and do not involve baviximab or Cotara;
- make any payment of subordinated debt, except as permitted under the applicable subordination or intercreditor agreement;
- merge with or acquire any other entity, or sell all or substantially all of our assets, except as permitted under the Loan Agreement;
- pay dividends (other than stock dividends) to our shareholders;
- redeem any outstanding shares of our common stock or any outstanding options or warrants to purchase shares of our common stock except in connection with the repurchase of stock from former employees and consultants pursuant to share repurchase agreements provided such repurchases do not exceed \$50,000 in the aggregate during any twelve-month period;
- enter into transactions with affiliates other than on arms-length terms; and
- make any change in any of our business objectives, purposes and operations which has or could be reasonably expected to have a material adverse effect on our business.

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

***In The Event Our Contract With The TMTI Is Terminated, Our Loan Requires Us To Place A Significant Amount Of Our Cash In A Restricted Bank Account.***

Under the terms of the Loan Agreement, if our contract with the TMTI of the U.S. Department of Defense's Defense Threat Reduction Agency is terminated while any principal balance of the loan is outstanding, we will be required to at all times thereafter maintain cash and cash equivalents in an amount of at least eighty percent (80%) of the then outstanding principal balance of the loan (or \$2,667,000 as of April 30, 2010) in a restricted account over which we will not be permitted to make withdrawals or otherwise exercise control.

***We Have Had Significant Losses And We Anticipate Future Losses.***

We have incurred net losses in most fiscal years since we began operations in 1981. The following table represents net losses incurred for the three years ended April 30, 2010:

<u>Net Loss</u>	
Fiscal Year 2010	\$14,494,000
Fiscal Year 2009	\$16,524,000
Fiscal Year 2008	\$23,176,000

As of April 30, 2010, we had an accumulated deficit of \$261,854,000. While we expect to continue to generate revenues from Avid's contract manufacturing services, in order to achieve and sustain profitable operations, we must successfully develop and obtain regulatory approval for our products, either alone or with others, and must also manufacture, introduce, market and sell our products. The costs associated with clinical trials and product manufacturing is very expensive and the time frame necessary to achieve market success for our products is long and uncertain. We do not expect to generate product or royalty revenues for at least the next two years, and we may never generate product and/or royalty revenues sufficient to become profitable or to sustain profitability.

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

As of April 30, 2010, there were 53,094,896 shares of our common stock outstanding. Substantially all of these shares are eligible for trading in the public market, subject in some cases to volume and other limitations. The market price of our common stock may decline if our common stockholders sell a large number of shares of our common stock in the public market, or the market perceives that such sales may occur.

We could also issue up to 6,002,366 additional shares of our common stock that are reserved for future issuance under our stock option plans and for outstanding warrants, as further described in the following table:

	<b>Number of Shares of Common Stock Reserved For Issuance</b>
Common shares reserved for issuance under outstanding option and restricted stock award grants and available for issuance under our equity compensation plans	5,663,956
Common shares issuable upon exercise of outstanding warrants	338,410
Total shares reserved for issuance	<u>6,002,366</u>

In addition, the above table does not include shares of common stock that we have available to issue under an effective shelf registration statement, under which we may issue, from time to time, in one or more offerings, shares of our common stock for remaining gross proceeds of up to \$30,568,000 as of April 30, 2010.

Of the total options, restricted stock awards and warrants outstanding as of April 30, 2010, 3,843,393 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 April 30, 2010.

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

***Current Economic Conditions And Capital Markets Are In A Period Of Disruption And Instability Which Could Adversely Affect Our Ability To Access The Capital Markets, And Thus Adversely Affect Our Business And Liquidity.***

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

***Our Highly Volatile Stock Price And Trading Volume May Adversely Affect The Liquidity Of Our Common Stock.***

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

The following table shows the high and low sales price and trading volume of our common stock for each quarter in the three fiscal years ended April 30, 2010:

	Common Stock Sales Price		Common Stock Daily Trading Volume (000's omitted)	
	High	Low	High	Low
<b>Fiscal Year 2010</b>				
Quarter Ended April 30, 2010	\$4.30	\$2.86	1,278	66
Quarter Ended January 31, 2010	\$3.46	\$2.51	1,384	49
Quarter Ended October 31, 2009	\$4.74	\$2.74	2,243	64
Quarter Ended July 31, 2009	\$5.65	\$1.85	7,345	39
<b>Fiscal Year 2009</b>				
Quarter Ended April 30, 2009	\$2.60	\$1.52	702	14
Quarter Ended January 31, 2009	\$2.35	\$1.10	260	19
Quarter Ended October 31, 2008	\$2.00	\$1.15	263	15
Quarter Ended July 31, 2008	\$2.65	\$1.54	599	21
<b>Fiscal Year 2008</b>				
Quarter Ended April 30, 2008	\$3.63	\$1.75	769	26
Quarter Ended January 31, 2008	\$3.25	\$1.75	622	28
Quarter Ended October 31, 2007	\$3.95	\$2.70	526	34
Quarter Ended July 31, 2007	\$7.00	\$3.60	4,331	47

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

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

***The Liquidity Of Our Common Stock Will Be Adversely Affected If Our Common Stock Is Delisted From The NASDAQ Capital Market.***

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

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

On July 25, 2007, we received a deficiency notice from The NASDAQ Stock Market notifying us that we had not met the \$1.00 minimum closing bid price requirement for thirty consecutive trading days as required under NASDAQ listing rules and several extensions of time not to exceed November 11, 2009 to meet the \$1.00 minimum closing bid price requirement. In order to regain compliance, at the close of business on October 16, 2009, we implemented a 1-for-5 reverse stock split of our outstanding common stock previously approved by our stockholders. On November 3, 2009, the Company received a letter from the NASDAQ Market Listing Qualifications Department stating that the Company had regained compliance with the minimum bid price rule for the continued listing of its common stock on the NASDAQ Capital Market.

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

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



***Successful Development Of Our Products Is Uncertain. To Date, No Revenues Have Been Generated From The Commercial Sale Of Our Products And Our Products May Not Generate Revenues In The Future.***

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

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

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

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

***We Are Primarily Focusing Our Activities And Resources On The Development Of Bavituximab And Depend On Its Success.***

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

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

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

***Clinical Trials Required For Our Product Candidates Are Expensive And Time Consuming, And Their Outcome Is Uncertain.***

In order to obtain FDA approval to market a new drug product, we or our potential partners must demonstrate proof of safety and efficacy in humans. To meet these requirements, we or our potential partners will have to conduct extensive 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:

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

Even if we obtain positive results from 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.

***We Rely On Third Parties To Conduct Our Clinical Trials And Many Of Our Preclinical Studies. If Those Parties Do Not Successfully Carry Out Their Contractual Duties Or Meet Expected Deadlines, Our Drug Candidates May Not Advance In A Timely Manner Or At All.***

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

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

***We Do Not Have Experience As a Company Conducting Large-Scale Clinical Trials, Or In Other Areas Required For The Successful Commercialization And Marketing Of Our Product Candidates.***

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

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

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

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

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

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

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

***Our International Clinical Trials May Be Delayed Or Otherwise Adversely Impacted By Social, Political And Economic Factors Affecting The Particular Foreign Country.***

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

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

Because some of the trial sites for our recently announced Phase IIb clinical trials will be in India and potentially other foreign countries, any disruption to our international clinical trial sites could significantly delay our product development efforts.

***Success In Early Clinical Trials May Not Be Indicative Of Results Obtained In Later Trials.***

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

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

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

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

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

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

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

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

***If We Cannot License Or Sell Cotara, It May Be Delayed Or Never Be Further Developed in the U.S.***

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

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

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

***Our Manufacturing Facilities May Not Continue To Meet Regulatory Requirements And Have Limited Capacity.***

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

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

We may also encounter problems with the following:

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

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

***We Currently Depend On A Government Contract To Partially Fund Our Research And Development Efforts. If Our Current Government Funding Is Reduced Or Delayed, Our Drug Development Efforts May Be Negatively Affected.***

On June 30, 2008, we were awarded up to a five-year contract potentially worth up to \$44.4 million to test and develop bavituximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections. The initial contract was awarded through the TMTI of the U.S. Department of Defense's Defense Threat Reduction Agency. This government contract is expected to provide us with up to \$22.3 million in funding over an initial two-year base period ending June 29, 2010. On June 28, 2010, we announced that the base period was extended by 45 days (or through August 13, 2010) to complete ongoing pre-clinical studies and to determine potential next steps under the contract. Subject to the progress of the program and budgetary considerations in future years, the contract can be extended by the TMTI beyond the base period to cover up to \$44.4 million in total funding over the five-year contract period through three option terms of up to one-year per option period. Work under this contract commenced on June 30, 2008. If we do not receive the expected funding under this contract, we may not be able to develop therapeutics to treat hemorrhagic fever virus infection nor otherwise receive the other indirect benefits that may be derived from receipt of the full funding under this contract.

***Federal Government Contracts Contain Provisions Giving Government Customers A Variety Of Rights That Are Unfavorable To Us, Including The Ability To Terminate A Contract At Any Time For Convenience.***

Federal government contracts, such as our contract with the TMTI, contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts. These provisions may allow the government to:

- Reduce, cancel, or otherwise modify our contracts or related subcontract agreements;
- Decline to exercise an option to renew a multi-year contract;
- Claim rights in products and systems produced by us;
- Prohibit future procurement awards with a particular agency as a result of a finding of an organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors;
- Subject the award of contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest;
- Suspend or debar us from doing business with the federal government or with a governmental agency; and
- Control or prohibit the export of our products and services.

If the government terminates our contract for convenience, we may recover only our incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates our contract for default, we may not recover even those amounts, and instead may be liable for excess costs incurred by the government in procuring undelivered items and services from another source. If the TMTI were to unexpectedly terminate or cancel, or decline to exercise the option to extend our contract beyond the base period, our revenues, product development efforts and operating results would be materially harmed.

***We May Have Significant Product Liability Exposure Because We Maintain Only Limited Product Liability Insurance.***

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



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

***If We Are Unable To Obtain, Protect And Enforce Our Patent Rights, We May Be Unable To Effectively Protect Or Exploit Our Proprietary Technology, Inventions And Improvements.***

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

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

- the pending patent applications we have filed or to which we have exclusive rights may not result in issued patents or may take longer than we expect to result in issued patents;
- the claims of any patents that issue may not provide meaningful protection;
- we may be unable to develop additional proprietary technologies that are patentable;
- the patents licensed or issued to us may not provide a competitive advantage;
- other parties may challenge patents licensed or issued to us;
- disputes may arise regarding the invention and corresponding ownership rights in inventions and know-how resulting from the joint creation or use of intellectual property by us, our licensors, corporate partners and other scientific collaborators; and
- other parties may design around our patented technologies.

***We May Become Involved In Lawsuits To Protect Or Enforce Our Patents That Would Be Expensive And Time Consuming.***

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

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

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

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

Bavituximab is currently in clinical trials for the treatment of advanced solid tumors. Although we are not aware of any other products in development targeting PS as a potential therapy for advanced solid tumors, there are a number of possible competitors with approved or developmental targeted agents used in combination with standard chemotherapy for the treatment of cancer, including but not limited to, Avastin by Roche/Genentech, Inc., Gleevec by Novartis, Tarceva by OSI Pharmaceuticals, Inc. and Roche/Genentech, Inc., Erbitux by ImClone Systems Incorporated and Bristol-Myers Squibb Company, Rituxan and Herceptin by Roche/Genentech, Inc., and Vectibix by Amgen. There are a significant number of companies developing cancer therapeutics using a variety of targeted and non-targeted approaches. A direct comparison of these potential competitors will not be possible until bavituximab advances to later-stage clinical trials.

In addition, we are evaluating bavituximab 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 PS as a potential therapy for HCV. There are a number of companies that have products approved and on the market for the treatment of HCV, including but not limited to: Peg-Intron (pegylated interferon-alpha-2b), Rebetol (ribavirin), 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 Three Rivers Pharmaceuticals, LLC. 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 ZALBIN (albumin interferon alpha-2b) from Human Genome Sciences, Inc. Other developmental approaches include, but are not limited to, protease inhibitors such as telaprevir from Vertex Pharmaceuticals Incorporated and boceprevir from Schering-Plough Corporation.

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

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

***Avid Bioservices, Inc., Our Subsidiary, Is Exposed To Risks Resulting From Its Small Customer Base.***

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

***If We Lose Qualified Management And Scientific Personnel Or Are Unable To Attract And Retain Such Personnel, We May Be Unable To Successfully Develop Our Products Or We May Be Significantly Delayed In Developing Our Products.***

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

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

***Our Governance Documents And State Law Provide Certain Anti-Takeover Measures Which Will Discourage A Third Party From Seeking To Acquire Us Unless Approved By the Board of Directors.***

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

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our corporate, research and development, and clinical trial operations are located in Tustin, California. We lease approximately 48,000 square feet of office and laboratory space in two adjacent buildings with monthly rent expense of approximately \$67,000. The lease initially expires in December 2017 and includes two five-year options to extend the lease through December 2027. We believe our facilities are adequate for our current needs and that suitable additional substitute space would be available if needed.

**ITEM 3. 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 4. [REMOVED AND RESERVED]**

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) *Market Information.* We are listed on The NASDAQ Capital Market under the stock trading symbol "PPHM". The following table shows the high and low sales price of our common stock for each quarter in the two years ended April 30, 2010:

	<b>Common Stock Sales Price</b>	
	<b>High</b>	<b>Low</b>
<b>Fiscal Year 2010</b>		
Quarter Ended April 30, 2010	\$4.30	\$2.86
Quarter Ended January 31, 2010	\$3.46	\$2.51
Quarter Ended October 31, 2009	\$4.74	\$2.74
Quarter Ended July 31, 2009	\$5.65	\$1.85
<b>Fiscal Year 2009</b>		
Quarter Ended April 30, 2009	\$2.60	\$1.52
Quarter Ended January 31, 2009	\$2.35	\$1.10
Quarter Ended October 31, 2008	\$2.00	\$1.15
Quarter Ended July 31, 2008	\$2.65	\$1.54

(b) *Holder.* As of June 30, 2010, the number of stockholders of record of our common stock was 5,741.

(c) *Dividends.* No dividends on common stock have been declared or paid by us. We intend to employ all available funds for the development of our business and, accordingly, do not intend to pay any cash dividends in the foreseeable future.

(d) *Securities Authorized for Issuance Under Equity Compensation.* The information included under Item 12 of Part III of this Annual Report is hereby incorporated by reference into this Item 5 of Part II of this Annual Report.

(e) *Recent Sale of Unregistered Securities.* None.

**ITEM 6.        SELECTED FINANCIAL DATA**

The following selected financial data has been derived from audited consolidated financial statements of the Company for each of the five years in the period ended April 30, 2010. These selected financial summaries should be read in conjunction with the financial information contained for each of the three years in the period ended April 30, 2010, included in the consolidated financial statements and notes thereto, Management's Discussion and Analysis of Results of Operations and Financial Condition, and other information provided elsewhere herein.

**CONSOLIDATED STATEMENTS OF OPERATIONS  
FIVE YEARS ENDED APRIL 30,**

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	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues	\$ 27,943,000	\$ 18,151,000	\$ 6,093,000	\$ 3,708,000	\$ 3,193,000
Net loss	\$ (14,494,000)	\$ (16,524,000)	\$ (23,176,000)	\$ (20,796,000)	\$ (17,061,000)
Basic and diluted loss per common share	\$ (0.30)	\$ (0.37)	\$ (0.52)	\$ (0.54)	\$ (0.51)
Weighted average common shares outstanding	49,065,322	45,246,293	44,229,669	38,459,462	33,658,957

**CONSOLIDATED BALANCE SHEET DATA  
AS OF APRIL 30,**

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	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 19,681,000	\$ 10,018,000	\$ 15,130,000	\$ 16,044,000	\$ 17,182,000
Working capital	\$ 12,375,000	\$ 1,270,000	\$ 12,403,000	\$ 14,043,000	\$ 15,628,000
Total assets	\$ 29,335,000	\$ 23,127,000	\$ 23,057,000	\$ 22,997,000	\$ 22,676,000
Long-term debt	\$ 1,375,000	\$ 3,212,000	\$ 22,000	\$ 149,000	\$ 545,000
Accumulated deficit	\$ (261,854,000)	\$ (247,360,000)	\$ (230,836,000)	\$ (207,660,000)	\$ (186,864,000)
Stockholders' equity	\$ 13,407,000	\$ 901,000	\$ 15,595,000	\$ 16,989,000	\$ 17,626,000

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion is included to describe our financial position and results of operations for each of the three years in the period ended April 30, 2010. The consolidated financial statements and notes thereto contain detailed information that should be referred to in conjunction with this discussion.

**Overview**

We are a clinical-stage biopharmaceutical company developing first-in-class monoclonal antibodies for the treatment of cancer and viral infections. We are advancing our two Phase II oncology programs as well as our Phase I HCV program. Our Phase II single-arm trials in lung, breast, and brain cancers have demonstrated promising results compared to data from separate historical control trials, leading us to initiate two new randomized Phase IIb trials in non-small cell lung cancer ("NSCLC").

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

Recently, we initiated a new randomized Phase IIb trial evaluating bavituximab in combination with standard chemotherapy in patients with refractory NSCLC, which represents a significant unmet medical need and fastest potential path to market. We also recently initiated a randomized Phase IIb trial evaluating bavituximab in combination with chemotherapy in front-line NSCLC. By the end of 2011, we plan to initiate an additional company-sponsored clinical trial. In addition to these company-sponsored trials, we have recently launched an investigator-sponsored trials ("IST") program as a cost-effective way to generate insight into bavituximab's mechanism of action, augment our safety database, and evaluate new combination therapy approaches to treating cancer patients.

Our novel brain cancer therapy Cotara is a targeted monoclonal antibody linked to a radioisotope that is administered directly into the tumor, destroying the tumor from the inside out, with minimal exposure to healthy tissue. Cotara is currently in a Phase II safety and efficacy study designed to treat up to 40 patients at first relapse and enrollment is over 75% complete. Cotara has been granted orphan drug status and fast track designation for the treatment of GBM and anaplastic astrocytoma by the U.S. Food and Drug Administration.

In addition to our clinical programs, we are performing pre-clinical research on bavituximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections under a contract awarded through the TMTI of the U.S. Department of Defense's Defense Threat Reduction Agency. This government contract is expected to provide us with up to \$22.3 million in funding over an initial two-year based period ending June 29, 2010. On June 28, 2010, we announced that the base period was extended by 45 days (or through August 13, 2010) to complete ongoing pre-clinical studies and to determine potential next steps under the contract. Subject to the progress of the program and budgetary considerations in future years, this contract can be extended by the TMTI beyond the base period to cover up to \$44.4 million in funding over the five-year contract period through three option terms up to one-year per option period.

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

### **Going Concern**

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

At April 30, 2010, we had \$19,681,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to \$14,494,000, \$16,524,000, and \$23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid’s contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

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

With respect to financing our operations through the issuance of equity, during fiscal year 2010, we raised \$26,324,000 in gross proceeds (as described in Note 7 to the accompanying consolidated financial statements). As of April 30, 2010, gross proceeds of up to \$30,568,000 remained available under an effective shelf registration statement. Subsequent to April 30, 2010 and through June 30, 2010 we raised \$4,718,000 in gross proceeds (as described in Note 7 to the accompanying consolidated financial statements). As of June 30, 2010, gross proceeds of up to \$25,850,000 remained available under an effective shelf registration statement.

In addition, we may also raise additional capital through additional equity offerings, licensing our products in development, procuring additional government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring additional government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, combined with the projected revenues from our government contract, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers and from our government contract to meet our obligations as they become due through at least the third quarter of our fiscal year 2011 ending January 31, 2011 based on current assumptions. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party or government contracts, technical challenges, or possible reductions in funding under our government contract, which could reduce or delay our future projected cash inflows. In addition, under our Loan Agreement (as described in Note 4 to the accompanying consolidated financial statements), in the event our government contract with the TMTI is terminated or canceled for any reason, including reasons pertaining to budget cuts by the government or reduction in government funding for the program, we would be required to set aside cash and cash equivalents in an amount equal to 80% of the outstanding loan balance (or \$2,667,000 as of April 30, 2010) in a restricted collateral account non-accessible by us. In the event our projected cash-inflows are reduced or delayed or if we default on a loan covenant that limits our access to our available cash on hand, we might not have sufficient capital to operate our business through the third quarter of our fiscal year 2011 unless we raise additional capital. The uncertainties surrounding our future cash-inflows have raised substantial doubt regarding our ability to continue as a going concern.



## Results of Operations

The following table compares the consolidated statements of operations for the fiscal years ended April 30, 2010, 2009 and 2008. This table provides an overview of the changes in the statement of operations for the comparative periods, which changes are further discussed below.

	Years Ended April 30,			Years Ended April 30,		
	2010	2009	\$ Change	2009	2008	\$ Change
<b>REVENUES:</b>						
Contract manufacturing	\$ 13,204,000	\$ 12,963,000	\$ 241,000	\$ 12,963,000	\$ 5,897,000	\$ 7,066,000
Government contract revenue	14,496,000	5,013,000	9,483,000	5,013,000	-	5,013,000
License revenue	243,000	175,000	68,000	175,000	196,000	(21,000)
Total revenues	27,943,000	18,151,000	9,792,000	18,151,000	6,093,000	12,058,000
<b>COST AND EXPENSES:</b>						
Cost of contract manufacturing	8,716,000	9,064,000	(348,000)	9,064,000	4,804,000	4,260,000
Research and development	24,658,000	18,424,000	6,234,000	18,424,000	18,279,000	145,000
Selling, general and administrative	8,182,000	6,979,000	1,203,000	6,979,000	7,150,000	(171,000)
Total cost and expenses	41,556,000	34,467,000	7,089,000	34,467,000	30,233,000	4,234,000
<b>LOSS FROM OPERATIONS</b>	(13,613,000)	(16,316,000)	2,703,000	(16,316,000)	(24,140,000)	7,824,000
<b>OTHER INCOME (EXPENSE):</b>						
Interest and other income	116,000	200,000	(84,000)	200,000	989,000	(789,000)
Interest and other expense	(997,000)	(408,000)	(589,000)	(408,000)	(25,000)	(383,000)
<b>NET LOSS</b>	\$ (14,494,000)	\$ (16,524,000)	\$ 2,030,000	\$ (16,524,000)	\$ (23,176,000)	\$ 6,652,000

## **Contract Manufacturing Revenue**

*Year Ended April 30, 2010 Compared to the Year Ended April 30, 2009:*

Contract manufacturing revenue for the year ended April 30, 2010 remained in-line with the prior year increasing slightly by \$241,000 (or 2%). This increase in contract manufacturing revenue was primarily due to an increase in manufacturing services provided by Avid to third-party customers on a fee-for-service basis compared to the prior year.

We expect to continue to generate contract manufacturing revenue during fiscal year 2011 based on the anticipated completion of in-process customer related projects and the anticipated demand for Avid's services under signed contracts and outstanding proposals.

*Year Ended April 30, 2009 Compared to the Year Ended April 30, 2008:*

The increase in contract manufacturing revenue of \$7,066,000 (or 120%) during the year ended April 30, 2009 compared to fiscal year 2008 was primarily due to increases in both manufacturing and process development services provided by Avid to third-party customers on a fee-for-service basis including an increase in the number of completed manufacturing runs and the mix of completed manufacturing runs utilizing our larger capacity bioreactors compared to the year ended April 30, 2008.

## **Government Contract Revenue**

*Year Ended April 30, 2010 Compared to the Year Ended April 30, 2009:*

Government contract revenue stems from our contract with the TMTI of the U.S. Department of Defense's Defense Threat Reduction Agency. The purpose of the contract is to test and develop bavituximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections. The increase in government contract revenue of \$9,483,000 (or 189%) during the year ended April 30, 2010 compared to the prior year was due to an increase in research and development services performed under the contract as pre-clinical and manufacturing activities have increased compared to the prior year. In addition, since the contract was signed on June 30, 2008, there was no corresponding revenue generated during the initial two months of the prior fiscal year.

As of April 30, 2010, we have recognized \$19,509,000 in total government contract revenue under this contract, of which we recognized \$5,013,000 during fiscal year 2009 and \$14,496,000 during fiscal year 2010. The contract is expected to provide us with up to \$22.3 million in funding over an initial 24-month base period ending June 29, 2010. On June 28, 2010, we announced that the base period was extended by the TMTI by 45 days (or through August 13, 2010) to complete ongoing pre-clinical studies and to determine potential next steps under the contract. Subject to the progress of the program and budgetary considerations in future years, the contract can be extended by the TMTI beyond the base period to cover up to \$44.4 million in funding over the five-year contract period through three option terms up to one-year per option term. In addition, subject to the progress of the program and budgetary considerations, the contract can be canceled by the TMTI at any time. Due to the uncertainty regarding the extension of the contract beyond the base period, it is difficult for us to estimate if we are going to continue to recognize revenue under this contract beyond the extended base period.

In addition to our current government contract with the TMTI, we are also actively applying for additional government contracts and grants to support our oncology and anti-viral programs. However, due to the uncertainty surrounding our ability to successfully secure additional government contracts or grants, we cannot estimate with any certainty future government contract revenue in addition to our current government contract during fiscal year 2011.

*Year Ended April 30, 2009 Compared to the Year Ended April 30, 2008:*

The increase in government contract revenue of \$5,013,000 during the year ended April 30, 2009 compared to fiscal year 2008 was related to research and development services performed under our government contract with the DTRA, a division of the Department of Defense. The contract was signed on June 30, 2008 and therefore, there was no corresponding revenue in fiscal year 2008.

**Cost of Contract Manufacturing**

*Year Ended April 30, 2010 Compared to the Year Ended April 30, 2009:*

Cost of contract manufacturing for the year ended April 30, 2010 remained in line with the prior year decreasing slightly by \$348,000 (or 4%). In addition, the cost of contract manufacturing as a percentage of contract manufacturing revenue improved from 70% in fiscal year 2009 to 66% in fiscal year 2010, which was directly related to the increase contract manufacturing revenue related to the increase in manufacturing services. We expect to continue to incur contract manufacturing costs during fiscal year 2011 based on the anticipated completion of customer projects under our current contract manufacturing agreements.

*Year Ended April 30, 2009 Compared to the Year Ended April 30, 2008:*

The increase in cost of contract manufacturing of \$4,260,000 (or 89%) during the year ended April 30, 2009 compared to fiscal year 2008 was directly related to the fiscal year 2009 increase in contract manufacturing revenue. In addition, the cost of contract manufacturing as a percentage of contract manufacturing revenue improved from 81% in fiscal year 2008 to 70% in fiscal year 2009, which was primarily due to an increase in contract manufacturing revenue combined with improved efficiencies in costs associated with contract manufacturing services and the mix of completed manufacturing runs from the utilization of our larger capacity bioreactors.

**Research and Development Expenses**

*Year Ended April 30, 2010 Compared to the Year Ended April 30, 2009:*

The increase in research and development ("R&D") expenses of \$6,234,000 (or 34%) during the year ended April 30, 2010 compared to the prior year was due to the following changes associated with each of our following platform technologies under development:

	<b>R&amp;D Expenses –</b>		
	<b>Fiscal Year Ended April 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>\$ Change</b>
<b>Technology Platform:</b>			
PS-Targeting (bavituximab)	\$ 20,866,000	\$ 13,779,000	\$ 7,087,000
TNT (Cotara)	3,246,000	4,351,000	(1,105,000)
Other	546,000	294,000	252,000
Total R&D Expenses	<u>\$ 24,658,000</u>	<u>\$ 18,424,000</u>	<u>\$ 6,234,000</u>

- o *PS-Targeting Technology Platform (bavituximab)* – The increase in PS-targeting program expenses of \$7,087,000 during the year ended April 30, 2010 compared to the prior year was primarily due to an increase in R&D expenses directly associated with our efforts to advance the development of bavituximab and a fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections under our government contract with the TMTI as pre-clinical and manufacturing activities performed under the contract have increased compared to the prior year. The increase in PS-targeting program expenses was further supplemented with an increase in clinical trial and related expenses to support the advancement of our bavituximab clinical program. During the current year, we completed patient enrollment in one Phase I and three Phase II clinical trials using bavituximab for the treatment of solid tumors. In addition, based on positive signs of activity from these Phase II studies, we began to incur expenses during fiscal year 2010 associated with initiating larger multi-center Phase IIb trials during fiscal year 2011. This initial ground work included the submission of two separate Phase IIb clinical protocols using bavituximab in combination with chemotherapy for the treatment of refractory and front-line NSCLC patients.
- o *Tumor Necrosis Therapy (“TNT”) Technology Platform (Cotara)* – The decrease in TNT program expenses of \$1,105,000 during the year ended April 30, 2010 compared to the prior year was primarily due to a decrease in clinical trial expenses associated with the timing of patient enrollment in our two Cotara clinical trials for the treatment of brain cancer, one of which completed patient enrollment during December 2009. The decrease in TNT program expenses was further supplemented by a decrease in our in-house TNT development efforts as our in-house development efforts were focused primarily on our PS-targeting program.
- o *Other R&D programs* – The increase in our other R&D program expenses of \$252,000 during the year ended April 30, 2010 compared to the prior year was primarily due to an increase in R&D expenses associated with increased development efforts associated with the advancement of our R84 antibody that was subsequently licensed to a unaffiliated entity in July 2009.

Based on our current projections, which includes estimated clinical trial enrollment rates that are always uncertain, we expect research and development expenses in fiscal year 2011 to increase in comparison to fiscal year 2010 as we expect to continue the advancement of our bavituximab and Cotara clinical programs, which includes the initiation of two separate Phase IIb trials evaluating bavituximab in combination with chemotherapy for the treatment of refractory and front-line NSCLC patients. In addition, we expect to continue the advancement of bavituximab through our new investigator-sponsored trial (“IST”) program as cost-effective method to gain valuable information on bavituximab, augmenting its safety database, providing insights into mechanisms of action, and facilitating the evaluation of new indications and therapeutic combinations. During fiscal year 2011, we expect to continue to direct the majority of our research and development expenses towards our PS-targeting technology platform.

*Year Ended April 30, 2009 Compared to the Year Ended April 30, 2008:*

The increase in R&D expenses of \$145,000 during the year ended April 30, 2009 compared to fiscal year 2008 was due to the following changes associated with each of our following platform technologies under development:

	<b>R&amp;D Expenses – Fiscal Year Ended April 30,</b>		
	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
<b>Technology Platform:</b>			
PS-Targeting (bavituximab)	\$ 13,779,000	\$ 11,371,000	\$ 2,408,000
TNT (Cotara)	4,351,000	3,942,000	409,000
Other	294,000	2,966,000	(2,672,000)
Total R&D Expenses	<u>\$ 18,424,000</u>	<u>\$ 18,279,000</u>	<u>\$ 145,000</u>

- o *PS-Targeting Technology Platform (bavituximab)* – The increase in PS-targeting program expenses of \$2,408,000 during the year ended April 30, 2009 compared to fiscal year 2008 was primarily due to an increase in clinical trial expenses to support the advancement of four clinical trials using bavituximab for the treatment of solid tumors and one clinical trial for the treatment of HCV patients co-infected with HIV. Patient enrollment for all three of our Phase II studies using bavituximab in combination with chemotherapy advanced to the second stage of our two-stage Phase II study designs during fiscal year 2009. The increase in PS-targeting program expenses was further supplemented with an increase in R&D expenses directly associated with increased efforts to advance the development of bavituximab and a fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections under our government contract with the TMTI, which was awarded to us on June 30, 2008.
- o *Tumor Necrosis Therapy (“TNT”) (Cotara)* – The increase in TNT program expenses of \$409,000 during the year ended April 30, 2009 compared to fiscal year 2008 was primarily due to increases in clinical trial and payroll expenses to support the continued advancement of our two ongoing Cotara clinical trials for the treatment of brain cancer.
- o *Other R&D Programs* -The decrease in other R&D program expenses of \$2,672,000 during the year ended April 30, 2009 compared to fiscal year 2008 was primarily due to our efforts to significantly curtail our development expenses associated with our Vascular Targeting Agents, Anti-Angiogenesis Agents, and Vasopermeation Enhancements Agents programs while focusing our efforts on seeking partners to further advance these technologies. During fiscal year 2009, our rights to the Vasopermeation Enhancements Agents technology expired under the terms of the license agreement.

Looking beyond the next twelve months, 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 future clinical trial results;
- the uncertainty of the ultimate number of patients to be treated in any current or future clinical trial;
- the uncertainty of the U.S. Food and Drug Administration allowing our studies to move forward from Phase I clinical studies to Phase II and Phase III clinical studies;
- the uncertainty of the rate at which patients are enrolled into any current or future study. Any delays in clinical trials could significantly increase the cost of the study and would extend the estimated completion dates;
- the uncertainty of terms related to potential future partnering or licensing arrangements;

- the uncertainty of receiving future economic benefit from prepaid research and development services to third parties;
- the uncertainty of protocol changes and modifications in the design of our clinical trial studies, which may increase or decrease our future costs; and
- the uncertainty of our ability to raise additional capital to support our future research and development efforts beyond the third quarter of our fiscal year 2011 ending January 31, 2011.

We, or our potential partners, will need to do additional development and clinical testing prior to seeking any regulatory approval for commercialization of our product candidates as all of our products are in discovery, 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 U.S. 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 U.S. Food and Drug Administration may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Even if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Accordingly, we or our potential partners may experience difficulties and delays in obtaining necessary governmental clearances and approvals to market our products.

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

#### *Year Ended April 30, 2010 Compared to the Year Ended April 30, 2009:*

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

The increase in selling, general and administrative (“SG&A”) expenses of \$1,203,000 (or 17%) during the year ended April 30, 2010 compared to the prior year was primarily due to increases in payroll and related expense and share-based compensation expense offset by a decrease in corporate legal fees. Our current year increase in payroll and related expenses of \$1,215,000 was primarily the result of an increase in headcount and related compensation, consulting, and recruiting expenses associated with the increase SG&A activities, including non-cash share-based compensation expense of \$255,000 associated with the amortization of the fair value of options and performance-based restricted stock awards granted to employees during February 2010. We also incurred incremental increases in other general corporate related expenses primarily associated with travel and related expenses, audit and accounting fees, and facility-related expenses. These increases in SG&A expenses were offset with a current year decrease in corporate legal fees of \$607,000, which was primarily due to legal fees incurred in the prior year associated with the settlement of a lawsuit regarding an out-licensing agreement related to our TNT technology.

#### *Year Ended April 30, 2009 Compared to the Year Ended April 30, 2008:*

The slight decline in SG&A expenses of \$171,000 (or 2%) during the year ended April 30, 2009 compared to fiscal year 2008 was primarily due to our efforts to curtail discretionary expenses. The decrease in discretionary expenses were offset by an increase in corporate legal fees associated with the settlement of a lawsuit regarding an out-licensing agreement related to our TNT technology offset by an overall decrease in other general corporate matters.

## **Interest and Other Income**

*Year Ended April 30, 2010 Compared to the Year Ended April 30, 2009:*

The decrease in interest and other income of \$84,000 during the year ended April 30, 2010, compared to the prior year was primarily due to a \$74,000 decrease in interest income as a result of lower prevailing interest rates during the current year compared to the prior year.

*Year Ended April 30, 2009 Compared to the Year Ended April 30, 2008:*

The decrease in interest and other income of \$789,000 during the year ended April 30, 2009 compared to fiscal year 2008 was primarily due to an \$800,000 decrease in interest income as a result of a lower average cash balance on hand combined with lower prevailing interest rates during fiscal year 2009 compared to fiscal year 2008.

## **Interest and Other Expense**

*Year Ended April 30, 2010 Compared to the Year Ended April 30, 2009:*

The increase in interest and other expense of \$589,000 during the year ended April 30, 2010 compared to prior year was primarily due to a \$294,000 increase in interest expense associated with the \$5,000,000 term loan we entered into during the prior year combined with a \$245,000 increase in non-cash interest expense associated with the amortization of the fair value of detachable warrants and related debt issuance costs. Since the term loan was entered into during December 2008, there were no corresponding interest or non-cash interest amounts reported during the first two fiscal quarters in the prior year.

*Year Ended April 30, 2009 Compared to the Year Ended April 30, 2008:*

The increase in interest and other expense of \$383,000 during the year ended April 30, 2009 compared to fiscal year 2008 was due to a \$199,000 increase in interest expense associated with the \$5,000,000 term loan we entered into during December 2008 combined with a \$184,000 increase in non-cash interest expense associated with the amortization of the fair value of detachable warrants and related debt issuance costs.

## **Critical Accounting Policies**

The preparation and presentation of financial statements in conformity with accounting principles generally accepted in the U.S., or GAAP, requires us to establish policies and to make estimates and assumptions that affect the amounts reported in our interim unaudited condensed consolidated financial statements. In our judgment, our critical accounting policies, estimates and assumptions have the greatest potential impact on our consolidated financial statements. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

## ***Revenue Recognition***

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

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

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

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

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

*License Revenue* - Revenue associated with licensing agreements primarily consist of non-refundable upfront license fees, non-refundable annual license fees and milestone payments.

Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology. If a license agreement has multiple element arrangements, we analyze and determine whether the deliverables, which often include performance obligations, can be separated or whether they must be accounted for as a single unit of accounting in accordance with the authoritative guidance. Under multiple element arrangements, we recognize upfront license payments as revenue upon delivery of the license only if the license has stand-alone value and the fair value of the undelivered performance obligations can be determined. If the fair value of the undelivered performance obligations can be determined, such obligations would then be accounted for separately as performed. If the license is considered to either not have stand-alone value or have stand-alone value but the fair value of any of the undelivered performance obligations cannot be determined, the arrangement would then be accounted for as a single unit of accounting and the license payments and payments for performance obligations are recognized as revenue over the estimated period of when the performance obligations are performed. If we determine that an arrangement should be accounted for as a single unit of accounting, we must determine the period over which the performance obligations will be performed and revenue will be recognized. Revenue recognized under licensing agreements is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined using the straight-line method, as of the period ending date. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated financial statements.



Non-refundable annual license fees are recognized as revenue on the anniversary date of the agreement in accordance with the authoritative guidance for revenue recognition.

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

*Government Contract Revenue* - On June 30, 2008, we were awarded up to a five-year government contract (the "Government Contract") potentially worth up to \$44.4 million to test and develop bavituximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections. The contract was awarded through the TMTI of the U.S. Department of Defense's Defense Threat Reduction Agency. This Government Contract is expected to provide us with up to \$22.3 million in funding over an initial two-year base period ending June 29, 2010. On June 28, 2010, we announced that the base period was extended by 45 days (or through August 13, 2010) to complete ongoing pre-clinical studies and to determine potential next steps under the Government Contract. Subject to the progress of the program and budgetary considerations in future years, the contract can be extended by the TMTI beyond the base period to cover up to \$44.4 million in funding over the five-year contract period through three option terms of up to one-year per option term.

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

#### ***Share-based Compensation Expense***

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

The fair value of each option grant is estimated using the Black-Scholes option valuation model, which requires us to make certain estimates and assumptions with respect to selected model inputs. These model inputs include, but are not limited to, our expected stock price volatility, actual and projected employee stock option exercise activity, risk-free interest rate and expected dividends. The expected volatility is based on the daily historical volatility of our stock covering the estimated expected term. The expected term of options granted reflects actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options. 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. The expected dividend yield assumption is based on our expectation of future dividend payouts. We have never declared or paid any cash dividends on our common stock and currently do not anticipate paying such cash dividends. In addition, guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

If factors change and we employ different assumptions in the determination of fair value in future periods, the share-based compensation expense that we record may differ significantly from what we have recorded in the current period. There are a number of factors that affect the amount of share-based compensation expense, including the number of employee options granted during subsequent fiscal years, 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.

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

### ***Research and Development***

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

Advance payments, including non-refundable amounts, to secure the receipt of future research and development services are deferred and capitalized. These pre-payments are recognized as an expense in the period that the services are performed. We assess our prepaid research and development expenses for impairment when events or changes in circumstances indicate that the carrying amount of the prepaid expense may not be recoverable or provide future economic benefit.

In addition, we record research and development expenses based on accruals associated with work performed in connection with advancing our clinical trials, which relies on estimates and/or representations from clinical research organizations ("CROs"), hospitals, consultants, and other clinical trial related vendors. We maintain regular communication with our vendors, including our CRO vendors, and gauge the reasonableness of estimates provided. However, actual clinical trial costs may differ from estimated clinical trial costs and are adjusted for in the period in which they become known. There were no material adjustments for a change in estimate to research and development expenses in the accompanying consolidated financial statements in any of the three years ended April 30, 2010.

#### ***Fair Value Measurements***

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

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

As of April 30, 2010, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash and cash equivalents are carried at fair value based on quoted market prices for identical securities (Level 1 input).

#### **Liquidity and Capital Resources**

At April 30, 2010, we had \$19,681,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to \$14,494,000, \$16,524,000, and \$23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

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

With respect to financing our operations through the issuance of equity, during fiscal year 2010, we raised \$26,324,000 in gross proceeds (as described in Note 7 to the accompanying consolidated financial statements). As of April 30, 2010, gross proceeds of up to \$30,568,000 remained available under an effective shelf registration statement. Subsequent to April 30, 2010 and through June 30, 2010 we raised \$4,718,000 in gross proceeds (as described in Note 7 to the accompanying consolidated financial statements). As of June 30, 2010, gross proceeds of up to \$25,850,000 remained available under an effective shelf registration statement.

In addition, we may also raise additional capital through additional equity offerings, licensing our products in development, procuring additional government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring additional government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, combined with the projected revenues from our government contract, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers and from our government contract to meet our obligations as they become due through at least the third quarter of our fiscal year 2011 ending January 31, 2011 based on current assumptions. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party or government contracts, technical challenges, or possible reductions in funding under our government contract, which could reduce or delay our future projected cash-inflows. In addition, under our Loan Agreement (as described in Note 4 to the accompanying consolidated financial statements), in the event our government contract with the TMTI is terminated or canceled for any reason, including reasons pertaining to budget cuts by the government or reduction in government funding for the program, we would be required to set aside cash and cash equivalents in an amount equal to 80% of the outstanding loan balance (or \$2,667,000 as of April 30, 2010) in a restricted collateral account non-accessible by us. In the event our projected cash-inflows are reduced or delayed or if we default on a loan covenant that limits our access to our available cash on hand, we might not have sufficient capital to operate our business through the third quarter of our fiscal year 2011 unless we raise additional capital. The uncertainties surrounding our future cash-inflows have raised substantial doubt regarding our ability to continue as a going concern.

Significant components of the changes in cash flows from operating, investing, and financing activities for the year ended April 30, 2010 compared to the prior year 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 year ended April 30, 2010, cash used in operating activities increased \$3,783,000 to \$13,865,000 compared to \$10,082,000 for the year ended April 30, 2009. This increase in net cash used in operating activities was due to a net change in operating assets and payment or reduction of liabilities in the aggregate amount of \$6,590,000 offset by a decrease of \$2,807,000 in net loss reported during fiscal year 2010 after taking into consideration non-cash operating expenses. The increase in the net change in operating assets and payment or reduction of liabilities was primarily due to net changes associated with receivables, inventories, accounts payable, accrued liabilities, deferred revenue and deferred contract manufacturing revenue. The decrease in our fiscal year 2010 net loss was primarily due to a current year increase in government contract revenue of offset by increases in research and development expenses and selling, general and administrative expenses.

The changes in operating activities 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 are as follows:

	<b>Year Ended April 30,</b>	
	<b>2010</b>	<b>2009</b>
Net loss, as reported	\$ (14,494,000)	\$ (16,524,000)
Less non-cash operating expenses:		
Depreciation and amortization	447,000	503,000
Share-based compensation	1,421,000	866,000
Amortization of expenses paid in shares of common stock	239,000	255,000
Amortization of discount on notes payable and debt issuance costs	430,000	185,000
Loss on disposal of property	49,000	-
Net cash used in operating activities before changes in operating assets and liabilities	<u>\$ (11,908,000)</u>	<u>\$ (14,715,000)</u>
Net change in operating assets and liabilities	<u>\$ (1,957,000)</u>	<u>\$ 4,633,000</u>
Net cash used in operating activities	<u>\$ (13,865,000)</u>	<u>\$ (10,082,000)</u>

*Cash Used In Investing Activities.* Net cash used in investing activities increased \$276,000 to \$364,000 for the year ended April 30, 2010 compared to net cash used in investing activities of \$88,000 during the year ended April 30, 2009. This increase was due to an increase in property acquisitions of \$178,000 combined with an \$118,000 increase in other assets associated with an increase in deposits and/or progress payments for certain laboratory equipment. These increases in cash used in investing activities were offset with proceeds of \$20,000 from the sale of property.

*Cash Provided By Financing Activities.* Net cash provided by financing activities increased \$18,834,000 to \$23,892,000 for the year ended April 30, 2010 compared to net cash provided of \$5,058,000 for the year ended April 30, 2009. During fiscal year 2010, we received net proceeds under two separate At Market Issuance Sales Agreements, whereby we sold 7,498,921 shares of our common stock for net proceeds of \$25,474,000. This amount was supplemented with net proceeds from the exercise of stock options of \$105,000. These current year net proceeds were offset with aggregate principal payments on notes payable and capital leases of \$1,687,000.

During fiscal year 2009, we received net proceeds of \$4,531,000 from notes payable under a loan and security agreement we entered into in December 2008. In addition, during fiscal year 2009, we received proceeds under an At Market Issuance Sales Agreement whereby we sold 295,587 shares of our common stock for net proceeds of \$550,000. These prior year net proceeds were offset with principal payments on capital leases of \$23,000.

## Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude contingent liabilities for which we cannot reasonably predict future payments. The following chart represents our contractual obligations as of April 30, 2010, aggregated by type:

	Payments Due by Period				
	Total	< 1 year	1-3 years	4-5 years	After 5 years
Operating leases, net (1)	\$ 6,602,000	\$ 854,000	\$ 2,516,000	\$ 1,738,000	\$ 1,494,000
Note payable obligation (2)	3,689,000	2,294,000	1,395,000	-	-
Capital lease obligation (3)	89,000	22,000	54,000	13,000	-
Other long-term liabilities - minimum license obligations (4)	-	-	-	-	-
<b>Total contractual obligations</b>	<b>\$ 10,380,000</b>	<b>\$ 3,170,000</b>	<b>\$ 3,965,000</b>	<b>\$ 1,751,000</b>	<b>\$ 1,494,000</b>

- (1) Represents our (i) facility operating lease in Tustin, California under a non-cancelable lease agreement, (ii) facility operating lease in Houston, Texas, which has a three year lease term and expires in February 2011, and (iii) various office equipment leases, which generally have three year lease terms.
- (2) Amounts represent anticipated principal and interest payments on our security and loan agreement. Under the security and loan agreement, the outstanding principal balance each month will bear interest at a monthly variable rate equal to the then current thirty (30) day LIBOR rate (set at a floor of 3%) plus 9%. Anticipated interest payments were calculated using an interest rate of 12% (representing a LIBOR floor rate of 3% plus 9%). As of April 30, 2010, the thirty (30) day LIBOR rate was less than the minimum 3% floor.
- (3) Represents capital lease agreements to finance certain equipment. Amounts include principal and interest.
- (4) Represents licensing agreements we periodically enter into with third parties to obtain exclusive or non-exclusive licenses for certain technologies. The terms of certain of these agreements require us to pay future milestone payments based on product development success. We do not anticipate making any milestone payments under any of our licensing agreements for at least the next fiscal year. In addition, milestone payments beyond fiscal year 2011 cannot be predicted due to the uncertainty of future clinical trial results and development milestones and therefore, cannot be reasonably predicted or estimated at the present time.

## Recently Issued Accounting Pronouncements

See Note 3, *Accounting Pronouncements*, in the accompanying Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect, if any, on our consolidated financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Based on our overall cash and cash equivalents interest rate exposure at April 30, 2010, a near-term change in interest rates, based on historical movements, would not have a material adverse effect on our financial position or results of operations.

At April 30, 2010, we had an outstanding notes payable balance of \$3,333,000 under a loan and security agreement, which bear interest at a monthly variable rate equal to the then current thirty (30) day LIBOR rate (set at a floor of 3%) plus 9%, which may expose us to market risk due to changes in interest rates. However, based on current LIBOR interest rates, which are currently under the minimum floor set at 3% under our loan and security agreement and based on historical movements in LIBOR rates, we believe a near-term change in interest rates would not have a material adverse effect on our financial position or results of operations.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Reference is made to the financial statements included in this Report at pages F-1 through F-33.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*(a) Evaluation of Disclosure Controls and Procedures.* The term “disclosure controls and procedures” (defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the “Exchange Act”)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the required time periods. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as of April 30, 2010. Based on this evaluation, our president and chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of April 30, 2010 to ensure the timely disclosure of required information in our Securities and Exchange Commission filings.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving their control objectives.

*(b) Management’s Report on Internal Control Over Financial Reporting.* Management’s Report on Internal Control Over Financial Reporting and the report of our independent registered public accounting firm on our internal control over financial reporting, which appear on the following pages, are incorporated herein by this reference.

*(c) Changes in Internal Control over Financial Reporting.* There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

On July 14, 2010, the Company's Board of Directors authorized an increase to the annual salary for Mr. Joseph Shan, Vice President, Clinical & Regulatory Affairs, from \$203,490 to \$250,000. The increase is retroactive to July 5, 2010.

**PEREGRINE PHARMACEUTICALS, INC.**  
**MANAGEMENT'S REPORT ON**  
**INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of the Company is responsible for establishing and maintaining effective internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. The Company's internal control over financial reporting is a process designed, as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting is supported by written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual consolidated financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO Framework"). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting.

Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of April 30, 2010.

Ernst & Young LLP, the independent registered public accounting firm that audited the company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting which appears on the following page.

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

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

July 14, 2010



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Peregrine Pharmaceuticals, Inc.

We have audited Peregrine Pharmaceuticals, Inc.'s (the "Company") internal control over financial reporting as of April 30, 2010, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Peregrine Pharmaceuticals, Inc.'s Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Peregrine Pharmaceuticals, Inc., maintained, in all material respects, effective internal control over financial reporting as of April 30, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Peregrine Pharmaceuticals, Inc. as of April 30, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2010 and our report dated July 14, 2010 expressed an unqualified opinion including an explanatory paragraph with respect to the Company's ability to continue as a going concern.

**/s/ Ernst & Young LLP**

Orange County, California  
July 14, 2010

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item regarding our directors, executive officers and committees of our board of directors is incorporated by reference to the information set forth under the captions “Election of Directors” and “Executive Compensation and Related Matters” in our 2010 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2010 (the “2010 Definitive Proxy Statement”).

Information required by this Item regarding Section 16(a) reporting compliance is incorporated by reference to the information set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2010 Proxy Statement.

Information required by this Item regarding our code of ethics is incorporated by reference to the information set forth under the caption “Corporate Governance” in Part I of this Annual Report on Form 10-K.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the information set forth under the caption “Executive Compensation and Related Matters” in our 2010 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2010.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated by reference to the information set forth under the caption “Security Ownership of Directors and Executive Officers and Certain Beneficial Owners” in our 2010 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2010.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated by reference to the information set forth under the captions “Certain Relationships and Related Transactions” and “Compensation Committee Interlocks and Insider Participation” in our 2010 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2010.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item is incorporated by reference to the information set forth under the caption “Independent Registered Public Accounting Firm Fees” in our 2010 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2010.

PART IV

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) (1) Consolidated Financial Statements

Index to consolidated financial statements:

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of April 30, 2010 and 2009	F-2
Consolidated Statements of Operations for each of the three years in the period ended April 30, 2010	F-4
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended April 30, 2010	F-5
Consolidated Statements of Cash Flows for each of the three years in the period ended April 30, 2010	F-6
Notes to Consolidated Financial Statements	F-8

(2) Financial Statement Schedules

The following schedule is filed as part of this Form 10-K:

Schedule II- Valuation of Qualifying Accounts for each of the three years in the period ended April 30, 2010	F-33
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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) Exhibits

<b>Exhibit Number</b>	<b>Description</b>
3.1	Certificate of Incorporation of Techniclone Corporation, a Delaware corporation (Incorporated by reference to Exhibit B to the Company's 1996 Proxy Statement as filed with the Commission on or about August 20, 1996).
3.2	Amended and Restated Bylaws of Peregrine Pharmaceuticals, Inc. (formerly Techniclone Corporation), a Delaware corporation (Incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2003).
3.3	Certificate of Designation of 5% Adjustable Convertible Class C Preferred Stock as filed with the Delaware Secretary of State on April 23, 1997. (Incorporated by reference to Exhibit 3.1 contained in Registrant's Current Report on Form 8-K as filed with the Commission on or about May 12, 1997).
3.4	Certificate of Amendment to Certificate of Incorporation of Techniclone Corporation to effect the name change to Peregrine Pharmaceuticals, Inc., a Delaware corporation. (Incorporated by reference to Exhibit 3.4 contained in Registrant's Annual Report on Form 10-K for the year ended April 30, 2001).
3.5	Certificate of Amendment to Certificate of Incorporation of Peregrine Pharmaceuticals, Inc. to increase the number of authorized shares of the Company's common stock to two hundred million shares (Incorporated by reference to Exhibit 3.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2003).
3.6	Certificate of Amendment to Certificate of Incorporation of Peregrine Pharmaceuticals, Inc. to increase the number of authorized shares of the Company's common stock to two hundred fifty million shares (Incorporated by reference to Exhibit 3.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2005).
3.7	Certificate of Designation of Rights, Preferences and Privileges of Series D Participating Preferred Stock of the Registrant, as filed with the Secretary of State of the State of Delaware on March 16, 2006. (Incorporated by reference to Exhibit 3.7 to Registrant's Current Report on Form 8-K as filed with the Commission on March 17, 2006).
3.8	Certificate of Amendment to Certificate of Incorporation of Peregrine Pharmaceuticals, Inc. to increase the number of authorized shares of the Company's common stock to three hundred twenty five million shares (Incorporated by reference to Exhibit 3.8 to Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2007).
3.9	Amended and Restated Bylaws of Peregrine Pharmaceuticals, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.9 to Registrant's Current Report on Form 8-K as filed with the Commission on December 21, 2007).
3.10	Certificate of Amendment to Certificate of Incorporation of Peregrine Pharmaceuticals, in order to effect a 1-for-5 reverse stock split of the Company common stock effective as of the close of business on October 16, 2009 (Incorporated by reference to Exhibit 3.10 to Registrant's Current Report on Form 8-K as filed with the Commission on October 19, 2009).
4.0	Form of Certificate for Common Stock (Incorporated by reference to the exhibit of the same number contained in Registrant's Annual Report on Form 10-K for the year end April 30, 1988).
4.1	Form of Non-qualified Stock Option Agreement by and between Registrant, Director and certain consultants dated December 22, 1999 (Incorporated by reference to the exhibit contained in Registrant's Registration Statement on Form S-3 (File No. 333-40716)).*
4.2	Peregrine Pharmaceuticals, Inc., 2002 Non-Qualified Stock Option Plan (Incorporated by reference to the exhibit contained in Registrant's Registration Statement in Form S-8 (File No. 333-106385)).*
4.3	Form of 2002 Non-Qualified Stock Option Agreement (Incorporated by reference to the exhibit contained in Registrant's Registration Statement in Form S-8 (File No. 333-106385)).*
4.4	Preferred Stock Rights Agreement, dated as of March 16, 2006, between the Company and Integrity Stock Transfer, Inc., including the Certificate of Designation, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively (Incorporated by reference to Exhibit 4.19 to Registrant's Current Report on Form 8-K as filed with the Commission on March 17, 2006).
4.5	1996 Stock Incentive Plan (Incorporated by reference to the exhibit contained in Registrant's Registration Statement in form S-8 (File No. 333-17513)).*

Exhibit Number	Description
4.6	Stock Exchange Agreement dated as of January 15, 1997, among the stockholders of Peregrine Pharmaceuticals, Inc., and Registrant (Incorporated by reference to Exhibit 2.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1997).
4.7	First Amendment to Stock Exchange Agreement among the Stockholders of Peregrine Pharmaceuticals, Inc., and Registrant (Incorporated by reference to Exhibit 2.1 contained in Registrant's Current Report on Form 8-K as filed with the Commission on or about May 12, 1997).
4.8	2003 Stock Incentive Plan Non-qualified Stock Option Agreement (Incorporated by reference to the exhibit contained in Registrant's Registration Statement in form S-8 (File No. 333-121334)).*
4.9	2003 Stock Incentive Plan Incentive Stock Option Agreement (Incorporated by reference to the exhibit contained in Registrant's Registration Statement in form S-8 (File No. 333-121334)).*
4.10	Form of Incentive Stock Option Agreement for 2005 Stock Incentive Plan (Incorporated by reference to Exhibit 10.98 to Registrant's Current Report on Form 8-K as filed with the Commission on October 28, 2005).*
4.11	Form of Non-Qualified Stock Option Agreement for 2005 Stock Incentive Plan (Incorporated by reference to Exhibit 10.99 to Registrant's Current Report on Form 8-K as filed with the Commission on October 28, 2005).*
4.12	Peregrine Pharmaceuticals, Inc. 2005 Stock Incentive Plan (Incorporated by reference to Exhibit B to Registrant's Definitive Proxy Statement filed with the Commission on August 29, 2005).*
4.13	Form of Incentive Stock Option Agreement for 2009 Stock Incentive Plan (Incorporated by reference to Exhibit 4.14 to Registrant's Current Report on Form 8-K as filed with the Commission on October 27, 2009).*
4.14	Form of Non-Qualified Stock Option Agreement for 2009 Stock Incentive Plan (Incorporated by reference to Exhibit 4.15 to Registrant's Current Report on Form 8-K as filed with the Commission on October 27, 2009).*
4.15	Form of Restricted Stock Issuance Agreement dated February 1, 2010. (*)(**)(***)
10.1	Placement Agent Agreement dated June 27, 2007, between Registrant and Rodman & Renshaw, LLC (Incorporated by reference to Exhibit 1.1 to Registrant's Current Report on Form 8-K as filed with the Commission on June 28, 2007).
10.2	Form of Securities Purchase Agreement dated June 28, 2007 (Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K as filed with the Commission on June 28, 2007).
10.3	Government contract by and between Peregrine Pharmaceuticals, Inc. and the Defense Threat Reduction Agency dated June 30, 2008 (Incorporated by reference to Exhibit 10.110 to Registrant's Current Report on Form 10-Q as filed with the Commission on September 9, 2008).
10.4	Loan and Security Agreement dated December 9, 2008, between Registrant and BlueCrest Capital Finance, L.P. (Incorporated by reference to Exhibit 10.111 to Registrant's Current Report on Form 10-Q as filed with the Commission on March 12, 2009).**
10.5	Secured Term Promissory Note dated December 19, 2008 between Registrant and BlueCrest Capital Finance, L.P. (Incorporated by reference to Exhibit 10.112 to Registrant's Current Report on Form 10-Q as filed with the Commission on March 12, 2009).
10.6	Secured Term Promissory Note dated December 19, 2008 between Registrant and MidCap Funding I, LLC. (Incorporated by reference to Exhibit 10.113 to Registrant's Current Report on Form 10-Q as filed with the Commission on March 12, 2009)

Exhibit Number	Description
10.7	Intellectual Property Security Agreement dated December 19, 2008 between Avid Bioservices, Inc. and MidCap Funding I, LLC. (Incorporated by reference to Exhibit 10.114 to Registrant's Current Report on Form 10-Q as filed with the Commission on March 12, 2009).
10.8	Intellectual Property Security Agreement dated December 19, 2008, between Registrant and MidCap Funding I, LLC. (Incorporated by reference to Exhibit 10.115 to Registrant's Current Report on Form 10-Q as filed with the Commission on March 12, 2009).
10.9	Warrant to purchase 507,614 shares of Common Stock of Registrant issued to BlueCrest Capital Finance, L.P. dated December 9, 2008. (Incorporated by reference to Exhibit 10.116 to Registrant's Current Report on Form 10-Q as filed with the Commission on March 12, 2009).
10.10	Warrant to purchase 1,184,433 shares of Common Stock of Registrant issued to MidCap Funding I, LLC dated December 9, 2008. (Incorporated by reference to Exhibit 10.117 to Registrant's Current Report on Form 10-Q as filed with the Commission on March 12, 2009).
10.11	At Market Issuance Sales Agreement, dated March 26, 2009, by and between Peregrine Pharmaceuticals, Inc., and Wm. Smith & Co. (Incorporated by reference to Exhibit 10.118 to Registrant's Current Report on Form 8-K as filed with the Commission on March 27, 2009).
10.12	Employment Agreement by and between Peregrine Pharmaceuticals, Inc., and Steven W. King, dated March 18, 2009. *
10.13	Employment Agreement by and between Peregrine Pharmaceuticals, Inc., and Paul J. Lytle, dated March 18, 2009. *
10.14	Employment Agreement by and between Peregrine Pharmaceuticals, Inc., and Joseph Shan, dated March 18, 2009. *
10.15	Employment Agreement by and between Peregrine Pharmaceuticals, Inc., and Shelley P.M. Fussey, Ph.D., dated March 18, 2009. *
10.16	At Market Issuance Sales Agreement, dated July 14, 2009, by and between Peregrine Pharmaceuticals, Inc., and Wm. Smith & Co. (Incorporated by reference to Exhibit 10.16 to Registrant's Current Report on Form 8-K as filed with the Commission on July 14, 2009).
10.17	Exclusive Patent License Agreement between The University of Texas System and Peregrine Pharmaceuticals, Inc., effective as of August 18, 2005 (Incorporated by reference to Exhibit 10.17 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
10.18	Amendment No. 1 to Exclusive Patent License Agreement between The University of Texas System and Peregrine Pharmaceuticals, Inc., dated June 1, 2009 (Incorporated by reference to Exhibit 10.18 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
10.19	Exclusive Patent License Agreement between The University of Texas System and Peregrine Pharmaceuticals, Inc., effective as of August 1, 2001 (Incorporated by reference to Exhibit 10.19 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
10.20	Amendment No. 1 to Exclusive Patent License agreement between The University of Texas System and Peregrine Pharmaceuticals, Inc., dated June 1, 2009 (Incorporated by reference to Exhibit 10.20 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
10.21	Non-Exclusive Cabilly Patent License Agreement between Genentech, Inc., and Peregrine Pharmaceuticals, Inc., effective as of November 5, 2003 (Incorporated by reference to Exhibit 10.21 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
10.22	Commercial License Agreement between Avanir Pharmaceuticals, Inc., and Peregrine Pharmaceuticals, Inc., dated December 1, 2003 (Incorporated by reference to Exhibit 10.22 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
10.23	License Agreement between Lonza Biologics PLC and Peregrine Pharmaceuticals, Inc., dated July 1, 1998 (Incorporated by reference to Exhibit 10.23 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
10.24	License Agreement between Lonza Biologics PLC and Peregrine Pharmaceuticals, Inc., dated March 1, 2005 (Incorporated by reference to Exhibit 10.24 to Registrant's Current Report on Form 8-K as filed with the Commission on April 14, 2010). **
21	Subsidiaries of Registrant. ***
23.1	Consent of Independent Registered Public Accounting Firm. ***
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ***
31.2	Certification of 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. ***

\* *This Exhibit is a management contract or a compensation plan or arrangement.*  
\*\* *Portions omitted pursuant to a request of confidentiality filed separately with the Commission.*  
\*\*\* *Filed herewith.*

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

Dated: July 14, 2010

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

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steven W. King, President and Chief Executive Officer, and Paul J. Lytle, Chief Financial Officer and Corporate Secretary, and each of them, his true and lawful attorneys-in-fact and agents, with the full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Steven W. King</u> Steven W. King	President & Chief Executive Officer (Principal Executive Officer), and Director	July 14, 2010
<u>/s/ Paul J. Lytle</u> Paul J. Lytle	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	July 14, 2010
<u>/s/ Carlton M. Johnson</u> Carlton M. Johnson	Director	July 14, 2010
<u>/s/ David H. Pohl</u> David H. Pohl	Director	July 14, 2010
<u>/s/ Eric S. Swartz</u> Eric S. Swartz	Director	July 14, 2010

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Peregrine Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Peregrine Pharmaceuticals, Inc. (the "Company") as of April 30, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15 (a)(2). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peregrine Pharmaceuticals, Inc. at April 30, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 30, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying financial statements have been prepared assuming Peregrine Pharmaceuticals, Inc. will continue as a going concern. As more fully described in Note 1, the Company's recurring losses from operations and recurring negative cash flows from operating activities raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Peregrine Pharmaceuticals, Inc.'s internal control over financial reporting as of April 30, 2010, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 14, 2010 expressed an unqualified opinion thereon.

**/s/ Ernst & Young LLP**

Orange County, California  
July 14, 2010



**PEREGRINE PHARMACEUTICALS, INC.**

**CONSOLIDATED BALANCE SHEETS  
AS OF APRIL 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 19,681,000	\$ 10,018,000
Trade and other receivables, net of allowance of \$20,000 and \$0, respectively	1,481,000	1,770,000
Government contract receivables	367,000	1,944,000
Inventories, net	3,123,000	4,707,000
Debt issuance costs, current portion	122,000	229,000
Prepaid expenses and other current assets, net	<u>2,004,000</u>	<u>1,466,000</u>
Total current assets	26,778,000	20,134,000
<b>PROPERTY:</b>		
Leasehold improvements	697,000	675,000
Laboratory equipment	4,221,000	4,180,000
Furniture, fixtures and computer equipment	<u>917,000</u>	<u>902,000</u>
	5,835,000	5,757,000
Less accumulated depreciation and amortization	<u>(4,366,000)</u>	<u>(4,076,000)</u>
Property, net	1,469,000	1,681,000
Debt issuance costs, less current portion	21,000	142,000
Other assets	<u>1,067,000</u>	<u>1,170,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 29,335,000</u>	<u>\$ 23,127,000</u>

**PEREGRINE PHARMACEUTICALS, INC.****CONSOLIDATED BALANCE SHEETS  
AS OF APRIL 30, 2010 AND 2009 (continued)**

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,259,000	\$ 2,809,000
Accrued clinical trial and related fees	2,666,000	1,664,000
Accrued payroll and related costs	1,623,000	1,580,000
Notes payable, current portion and net of discount	1,893,000	1,465,000
Deferred revenue	2,406,000	3,776,000
Deferred government contract revenue	78,000	3,871,000
Customer deposits	2,618,000	2,287,000
Other current liabilities	<u>860,000</u>	<u>1,412,000</u>
Total current liabilities	14,403,000	18,864,000
Notes payable, less current portion and net of discount	1,315,000	3,208,000
Other long-term liabilities	210,000	154,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock - \$.001 par value; authorized 5,000,000 shares; non-voting; none issued	-	-
Common stock - \$.001 par value; authorized 325,000,000 shares; outstanding - 53,094,894 and 45,537,711, respectively	53,000	46,000
Additional paid-in-capital	275,208,000	248,215,000
Accumulated deficit	<u>(261,854,000)</u>	<u>(247,360,000)</u>
Total stockholders' equity	<u>13,407,000</u>	<u>901,000</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 29,335,000</u></u>	<u><u>\$ 23,127,000</u></u>

See accompanying notes to consolidated financial statements.

**PEREGRINE PHARMACEUTICALS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010**

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	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>REVENUES:</b>			
Contract manufacturing revenue	\$ 13,204,000	\$ 12,963,000	\$ 5,897,000
Government contract revenue	14,496,000	5,013,000	-
License revenue	<u>243,000</u>	<u>175,000</u>	<u>196,000</u>
Total revenues	27,943,000	18,151,000	6,093,000
<b>COSTS AND EXPENSES:</b>			
Cost of contract manufacturing	8,716,000	9,064,000	4,804,000
Research and development	24,658,000	18,424,000	18,279,000
Selling, general and administrative	<u>8,182,000</u>	<u>6,979,000</u>	<u>7,150,000</u>
Total costs and expenses	<u>41,556,000</u>	<u>34,467,000</u>	<u>30,233,000</u>
LOSS FROM OPERATIONS	(13,613,000)	(16,316,000)	(24,140,000)
<b>OTHER INCOME (EXPENSE):</b>			
Interest and other income	116,000	200,000	989,000
Interest and other expense	<u>(997,000)</u>	<u>(408,000)</u>	<u>(25,000)</u>
<b>NET LOSS</b>	<u>\$ (14,494,000)</u>	<u>\$ (16,524,000)</u>	<u>\$ (23,176,000)</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	<u>49,065,322</u>	<u>45,246,293</u>	<u>44,229,669</u>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<u>\$ (0.30)</u>	<u>\$ (0.37)</u>	<u>\$ (0.52)</u>

See accompanying notes to consolidated financial statements.

PEREGRINE PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In Capital	Deficit	Stockholders' Equity
<b>BALANCES, April 30, 2007</b>	<b>39,222,440</b>	<b>\$ 40,000</b>	<b>\$ 224,609,000</b>	<b>\$ (207,660,000)</b>	<b>\$ 16,989,000</b>
Common stock issued for cash under June 28, 2007 Financing, net of issuance costs of \$1,641,000	6,000,000	6,000	20,853,000	-	20,859,000
Common stock issued upon exercise of options	9,000	-	27,000	-	27,000
Common stock issued upon exercise of warrants	10,684	-	46,000	-	46,000
Share-based compensation	-	-	850,000	-	850,000
Net loss	-	-	-	(23,176,000)	(23,176,000)
<b>BALANCES, April 30, 2008</b>	<b>45,242,124</b>	<b>46,000</b>	<b>246,385,000</b>	<b>(230,836,000)</b>	<b>15,595,000</b>
Common stock issued for cash under March 26, 2009 Financing, net of issuance costs of \$58,000	295,587	-	550,000	-	550,000
Fair market value of warrants issued with notes payable	-	-	414,000	-	414,000
Share-based compensation	-	-	866,000	-	866,000
Net loss	-	-	-	(16,524,000)	(16,524,000)
<b>BALANCES, April 30, 2009</b>	<b>45,537,711</b>	<b>46,000</b>	<b>248,215,000</b>	<b>(247,360,000)</b>	<b>901,000</b>
Common stock issued for cash under March 26, 2009 Financing, net of issuance costs of \$305,000	1,855,172	2,000	6,585,000	-	6,587,000
Common stock issued for cash under July 14, 2009 Financing, net of issuance costs of \$545,000	5,643,749	5,000	18,882,000	-	18,887,000
Common stock issued upon exercise of options	57,253	-	105,000	-	105,000
Fractional shares issued pursuant to reverse stock split	1,011	-	-	-	-
Share-based compensation	-	-	1,421,000	-	1,421,000
Net loss	-	-	-	(14,494,000)	(14,494,000)
<b>BALANCES, April 30, 2010</b>	<b>53,094,896</b>	<b>\$ 53,000</b>	<b>\$ 275,208,000</b>	<b>\$ (261,854,000)</b>	<b>\$ 13,407,000</b>

See accompanying notes to consolidated financial statements.

**PEREGRINE PHARMACEUTICALS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (14,494,000)	\$ (16,524,000)	\$ (23,176,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	447,000	503,000	486,000
Share-based compensation	1,421,000	866,000	850,000
Amortization of expenses paid in shares of common stock	239,000	255,000	-
Amortization of discount on notes payable and debt issuance costs	430,000	185,000	-
Loss on sale of property	49,000	-	-
Changes in operating assets and liabilities:			
Trade and other receivables, net	289,000	(1,165,000)	145,000
Government contract receivables	1,577,000	(1,944,000)	-
Inventories, net	1,584,000	(1,807,000)	(984,000)
Prepaid expenses and other current assets, net	(777,000)	(513,000)	(203,000)
Other non-current assets	183,000	(52,000)	3,000
Accounts payable	(550,000)	1,365,000	185,000
Accrued clinical trial site and related fees	1,002,000	811,000	201,000
Accrued payroll and related expenses	43,000	496,000	210,000
Deferred revenue	(1,370,000)	1,580,000	1,132,000
Deferred government contract revenue	(3,793,000)	3,871,000	-
Customer deposits	331,000	1,449,000	253,000
Other accrued expenses and current liabilities	(476,000)	542,000	(26,000)
Net cash used in operating activities	<u>(13,865,000)</u>	<u>(10,082,000)</u>	<u>(20,924,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Refund of security deposits on notes payable	-	-	150,000
Property acquisitions	(304,000)	(126,000)	(691,000)
Proceeds from sale of property	20,000	-	-
(Increase) decrease in other assets	(80,000)	38,000	(42,000)
Net cash used in investing activities	<u>(364,000)</u>	<u>(88,000)</u>	<u>(583,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock, net of issuance costs of \$850,000, \$58,000, and \$1,641,000, respectively	25,474,000	550,000	20,859,000
Proceeds from issuance of notes payable, net of issuance costs of \$469,000	-	4,531,000	-
Proceeds from exercise of stock options	105,000	-	27,000
Proceeds from exercise of warrants	-	-	46,000
Principal payments on notes payable	(1,667,000)	-	(323,000)
Principal payments on capital leases	(20,000)	(23,000)	(16,000)
Net cash provided by financing activities	<u>23,892,000</u>	<u>5,058,000</u>	<u>20,593,000</u>

**PEREGRINE PHARMACEUTICALS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)**

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	<u>2010</u>	<u>2009</u>	<u>2008</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 9,663,000	\$ (5,112,000)	\$ (914,000)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>10,018,000</u>	<u>15,130,000</u>	<u>16,044,000</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 19,681,000</u>	<u>\$ 10,018,000</u>	<u>\$ 15,130,000</u>
SUPPLEMENTAL INFORMATION:			
Interest paid	<u>\$ 535,000</u>	<u>\$ 174,000</u>	<u>\$ 25,000</u>
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Fair market value of warrants issued in connection with notes payable	\$ -	\$ 414,000	\$ -
Property acquired under capital lease	<u>\$ 78,000</u>	<u>\$ -</u>	<u>\$ 13,000</u>
Accounts payable for purchase of property	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ -</u>
Applied security deposit on payoff of notes payable to GE Capital	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 175,000</u>

See accompanying notes to consolidated financial statements.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010

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#### 1. ORGANIZATION AND BUSINESS DESCRIPTION

*Organization* – In this Annual Report, “Peregrine,” “Company,” “we,” “us,” and “our,” refer to Peregrine Pharmaceuticals, Inc. and our wholly owned subsidiary, Avid Bioservices, Inc. Peregrine was incorporated under the laws of the state of California in June 1981, reincorporated in Delaware in September 1996 and commenced operations of Avid Bioservices, Inc., (“Avid”) in January 2002.

*Business Description* – We are a clinical-stage biopharmaceutical company developing first-in-class monoclonal antibodies for the treatment of cancer and viral infections. We are advancing our two Phase II oncology programs as well as our Phase I HCV program with our first-in-class compounds bavituximab and Cotara.

Recently, we initiated two new randomized Phase IIb trials evaluating bavituximab in combination with standard chemotherapy in front-line and refractory patients with non-small cell lung cancer based on results from our Phase II single arm trials. In addition, we are continuing to advance our Phase II safety and efficacy study using Cotara for the treatment of recurrent glioblastoma multiforme, a deadly form of brain cancer.

In addition to our clinical programs, we are performing pre-clinical research on bavituximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections under a contract awarded through the Transformational Medical Technologies Initiative (“TMTI”) of the U.S. Department of Defense's Defense Threat Reduction Agency.

In addition to our clinical and pre-clinical research and development efforts, we operate a wholly owned cGMP (current Good Manufacturing Practices) contract manufacturing subsidiary, Avid Bioservices®, Inc. (“Avid”). Avid provides integrated manufacturing services for biotechnology and biopharmaceutical companies on a fee-for-service basis, from pre-clinical drug supplies up through commercial-scale drug manufacturing. In addition to generating revenue from providing a broad range of biomanufacturing services to third-party clients, Avid is strategically integrated with Peregrine to manufacture clinical products for our clinical trials.

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

At April 30, 2010, we had \$19,681,000 in cash and cash equivalents. We have expended substantial funds on the research, development and clinical trials of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect the negative cash flows from operations to continue for the foreseeable future. Our net losses incurred during the past three fiscal years ended April 30, 2010, 2009 and 2008 amounted to \$14,494,000, \$16,524,000, and \$23,176,000, respectively. Unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our products under development, we expect such losses to continue for the foreseeable future.

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

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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With respect to financing our operations through the issuance of equity, during fiscal year 2010, we raised \$26,324,000 in gross proceeds (Note 7). As of April 30, 2010, gross proceeds of up to \$30,568,000 remained available under an effective shelf registration statement. Subsequent to April 30, 2010 and through June 30, 2010 we raised \$4,718,000 in gross proceeds (Note 7). As of June 30, 2010, gross proceeds of up to \$25,850,000 remained available under an effective shelf registration statement.

In addition, we may also raise additional capital through additional equity offerings, licensing our products in development, procuring additional government contracts and grants, or increasing revenue from our wholly owned subsidiary, Avid. While we will continue to explore these potential opportunities, there can be no assurances that we will be successful in raising sufficient capital on terms acceptable to us, or at all, or that we will be successful in procuring additional government contracts and grants, or that sufficient additional revenues will be generated from Avid or under potential licensing or partnering agreements to complete the research, development, and clinical testing of our product candidates. Based on our current projections, which include projected revenues under signed contracts with existing customers of Avid, combined with the projected revenues from our government contract, we believe we have sufficient cash on hand combined with amounts expected to be received from Avid customers and from our government contract to meet our obligations as they become due through at least the third quarter of our fiscal year 2011 ending January 31, 2011 based on current assumptions. There are a number of uncertainties associated with our financial projections, including but not limited to, termination of third party or government contracts, technical challenges, or possible reductions in funding under our government contract, which could reduce or delay our future projected cash-inflows. In addition, under our Loan Agreement (see Note 4), in the event our government contract with the Transformational Medical Technologies Initiative is terminated or canceled for any reason, including reasons pertaining to budget cuts by the government or reduction in government funding for the program, we would be required to set aside cash and cash equivalents in an amount equal to 80% of the outstanding loan balance (or \$2,667,000 as of April 30, 2010) in a restricted collateral account non-accessible by us. In the event our projected cash-inflows are reduced or delayed or if we default on a loan covenant that limits our access to our available cash on hand, we might not have sufficient capital to operate our business through the third quarter of our fiscal year 2011 unless we raise additional capital. The uncertainties surrounding our future cash inflows have raised substantial doubt regarding our ability to continue as a going concern.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation* - The accompanying consolidated financial statements include the accounts of Peregrine and its wholly owned subsidiary, Avid Bioservices, Inc. All intercompany balances and transactions have been eliminated.

*Use of Estimates* - The preparation of our financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

*Reclassification* - Certain comparative amounts in fiscal year 2009 and 2008 consolidated financial statements have been reclassified to conform to the current fiscal year presentation. These reclassifications had no effect on previously reported operating expenses or net loss



## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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*Reverse Stock Split* - On October 16, 2009, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a reverse split of our common stock at a ratio of one-for-five. The reverse stock split was effective at the close of business on October 16, 2009. All fractional shares created by the reverse stock split were rounded up to the nearest whole share. All historical share and per share amounts except par value have been adjusted to reflect the reverse stock split.

*Subsequent Events* - In connection with the preparation of the consolidated financial statements, we have evaluated subsequent events through the filing date of this Form 10-K.

*Cash and Cash Equivalents* - We consider all highly liquid, short-term investments with an initial maturity of three months or less to be cash equivalents.

*Accounts Receivable* - Accounts receivable is recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. Trade and other receivables primarily include amounts billed for contract manufacturing services provided by Avid ("trade" receivables). Government contract receivables include amounts billed under our contract with the Transformational Medical Technologies Initiative ("TMTI") of the U.S. Department of Defense's Defense Threat Reduction Agency. In addition, amounts unbilled under our contract with TMTI at April 30, 2010, net of allowances, were \$158,000, of which amount, included \$108,000 in prepaid expenses and other current assets and included \$50,000 in other assets in the accompanying consolidated financial statements.

*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 these factors at that point in time.

Amounts billed under our contract with TMTI during fiscal year 2010 include reimbursement for provisional rates covering allowable indirect overhead and general and administrative cost ("Indirect Rates"). These Indirect Rates are initially estimated based on financial projections and are subject to change based on actual costs incurred during each fiscal year. In addition, these Indirect Rates are subject to annual audits by the Defense Contract Audit Agency ("DCAA") for cost reimbursable type contracts. As of April 30, 2010, we recorded an unbilled receivable of \$202,000 pertaining to the calculated difference between estimated and actual Indirect Rates for fiscal year 2010. As of April 30, 2010, we determined it appropriate to record a corresponding allowance for doubtful account in the amount of \$202,000 due to the uncertainty of its collectability given that our actual Indirect Rates for fiscal year 2010 have not been audited by the DCAA.

*Prepaid Research and Development Expenses* - Our prepaid research and development expenses represent deferred and capitalized pre-payments to secure the receipt of future research and development services. These pre-payments are recognized as an expense in the period that the services are performed. We assess our prepaid research and development expenses for impairment when events or changes in circumstances indicate that the carrying amount of the prepaid expense may not be recoverable or provide future economic benefit.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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*Inventories* - Inventories are stated at the lower of cost or market and include raw materials, direct labor, and overhead costs (work-in-process) associated with our wholly owned subsidiary, Avid. Cost is determined by the first-in, first-out method. Inventories consist of the following at April 30,

	<u>2010</u>	<u>2009</u>
Raw materials, net	\$ 1,243,000	\$ 1,654,000
Work-in-process	1,880,000	3,053,000
Total inventories, net	<u>\$ 3,123,000</u>	<u>\$ 4,707,000</u>

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

*Concentrations of Credit Risk* - Financial instruments that potentially subject us to a significant concentration of credit risk consist of cash and cash equivalents and trade receivables. We maintain our cash balances with one major commercial bank and our deposits held with the bank exceed the amount of insurance provided on our deposits.

Our trade receivables have historically been derived from a small customer base. Most contracts require up-front payments and installment payments during the term of the service. We perform periodic credit evaluations of our ongoing customers and generally do not require collateral, but we can terminate any contract if a material default occurs. As of April 30, 2010 and 2009, 55% of trade and other receivables were from two customers and 93% of trade and other receivables were from three customers, respectively.

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

*Impairment* - Long-lived assets are reviewed for impairment in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Long-lived assets are reported at the lower of carrying amount or fair value less cost to sell.

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

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

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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

As of April 30, 2010, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash and cash equivalents are carried at fair value based on quoted market prices for identical securities (Level 1 input).

*Customer Deposits* - Customer deposits primarily represents advance billings and/or payments received from customers prior to the initiation of contract manufacturing services.

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

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

We also comply with the authoritative guidance for revenue recognition regarding arrangements with multiple deliverables. We recognize revenue for delivered elements only when the delivered element has stand-alone value and we have objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, the arrangement would then be accounted for as a single unit of accounting, and revenue is recognized over the estimated period of when the performance obligation(s) are performed.

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

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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#### *Contract Manufacturing Revenue*

Revenue associated with contract manufacturing services provided by Avid are recognized once the service has been rendered and/or upon shipment (or passage of title) of the product to the customer. On occasion, we recognize revenue on a "bill-and-hold" basis in accordance with the authoritative guidance. Under "bill-and-hold" arrangements, revenue is recognized once the product is complete and ready for shipment, title and risk of loss has passed to the customer, management receives a written request from the customer for "bill-and-hold" treatment, the product is segregated from other inventory, and no further performance obligations exist. There were no "bill-and-hold" arrangements outstanding as of April 30, 2010.

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

#### *License Revenue*

Revenue associated with licensing agreements primarily consist of non-refundable upfront license fees, non-refundable annual license fees and milestone payments.

Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology. If a license agreement has multiple element arrangements, we analyze and determine whether the deliverables, which often include performance obligations, can be separated or whether they must be accounted for as a single unit of accounting in accordance with the authoritative guidance. Under multiple element arrangements, we recognize upfront license payments as revenue upon delivery of the license only if the license has stand-alone value and the fair value of the undelivered performance obligations can be determined. If the fair value of the undelivered performance obligations can be determined, such obligations would then be accounted for separately as performed. If the license is considered to either not have stand-alone value or have stand-alone value but the fair value of any of the undelivered performance obligations cannot be determined, the arrangement would then be accounted for as a single unit of accounting and the license payments and payments for performance obligations are recognized as revenue over the estimated period of when the performance obligations are performed. If we determine that an arrangement should be accounted for as a single unit of accounting, we must determine the period over which the performance obligations will be performed and revenue will be recognized. Revenue recognized under licensing agreements is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined using the straight-line method, as of the period ending date. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated financial statements.

Non-refundable annual license fees are recognized as revenue on the anniversary date of the agreement in accordance with the authoritative guidance for revenue recognition.

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

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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#### *Government Contract Revenue*

On June 30, 2008, we were awarded up to a five-year government contract (the "Government Contract") potentially worth up to \$44.4 million to test and develop baviximab and an equivalent fully human antibody as potential broad-spectrum treatments for viral hemorrhagic fever infections. The contract was awarded through the Transformational Medical Technologies Initiative ("TMTI") of the U.S. Department of Defense's Defense Threat Reduction Agency. This Government Contract is expected to provide us with up to \$22.3 million in funding over an initial two-year base period ending June 29, 2010. On June 28, 2010, we announced that the base period was extended by 45 days (or through August 13, 2010) to complete ongoing pre-clinical studies and to determine potential next steps under the Government Contract. Subject to the progress of the program and budgetary considerations in future years, the contract can be extended by the TMTI beyond the base period to cover up to \$44.4 million in funding over the five-year contract period through three option terms of up to one-year per option term.

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

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

*Accrued Clinical Trial Site and Related Fees* - We accrue clinical trial site and related fees based on work performed in connection with advancing our clinical trials, which relies on estimates and/or representations from clinical research organizations ("CRO"), hospitals, consultants, and other clinical trial related vendors. We maintain regular communication with our vendors, including our CRO vendors, and gauge the reasonableness of estimates provided. However, actual clinical trial costs may differ from estimated clinical trial costs and are adjusted for in the period in which they become known. There were no material adjustments for a change in estimate to research and development expenses in the accompanying consolidated financial statements in any of the three years ended April 30, 2010.

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

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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In addition, we periodically grant stock options and awards to non-employee consultants, which we account for in accordance with the authoritative guidance for share-based compensation. The cost of non-employee services received in exchange for share-based awards are measured based on either the fair value of the consideration received or the fair value of the share-based award issued, whichever is more reliably measurable. In addition, guidance requires share-based compensation related to unvested options and awards issued to non-employees to be recalculated at the end of each reporting period based upon the fair market value on that date until the share-based award has vested, and any adjustment to share-based compensation resulting from the remeasurement is recognized in the current period. See Note 8 for further discussion regarding share-based compensation.

*Income Taxes* - We utilize the liability method of accounting for income taxes in accordance with authoritative guidance for accounting for income taxes. Under the liability method, deferred taxes are determined based on the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

In addition, in accordance with authoritative guidance, we are required to recognize the impact of an uncertain tax position in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained upon examination by the tax authorities. It is also our policy, in accordance with authoritative guidance, to recognize interest and penalties related to income tax matters in interest and other expense in our consolidated statements of operations. We did not recognize interest or penalties related to income taxes for fiscal years ended April 30, 2010, 2009, and 2008, and we did not accrue for interest or penalties as of April 30, 2010 and 2009.

*Basic and Dilutive Net Loss Per Common Share* - Basic net loss per common share is computed by dividing our net loss by the weighted average number of common shares outstanding during the period excluding the dilutive effects of stock options, unvested stock awards and warrants in accordance with the authoritative guidance. Diluted net loss per common share is computed by dividing the net loss by the sum of the weighted average number of common shares outstanding during the period plus the potential dilutive effects of stock options, unvested stock awards and warrants outstanding during the period calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. Because the impact of options 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 years ended April 30, 2010.

The calculation of weighted average diluted shares outstanding excludes the dilutive effect of the following weighted average outstanding stock options, unvested stock awards and warrants since their impact are anti-dilutive during periods of net loss, resulting in an anti-dilutive effect as of April 30,:

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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	<u>2010</u>	<u>2009</u>	<u>2008</u>
Stock options and awards	435,686	22,059	185,760
Warrants	190,042	24,829	-
Total	<u>625,728</u>	<u>46,888</u>	<u>185,760</u>

The calculation of weighted average diluted shares outstanding also excludes the following weighted average outstanding stock options, unvested stock awards and warrants, as their exercise prices were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect as of April 30,:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Stock options and awards	1,759,861	2,601,415	2,024,277
Warrants	-	-	66,767
Total	<u>1,759,861</u>	<u>2,601,415</u>	<u>2,091,044</u>

Subsequent to April 30, 2010 and through June 30, 2010, we issued an aggregate of 1,498,568 shares of our common stock (Note 7), which are not included in the calculation of basic and dilutive net loss per common share for the year ended April 30, 2010.

### 3. ACCOUNTING PRONOUNCEMENTS

#### *Recently Adopted Accounting Standards*

In June 2009, the Financial Accounting Standards Board ("FASB") approved The FASB Accounting Standards Codification (the "Codification") as the single source of authoritative U.S. GAAP for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which launched on July 1, 2009, changes the referencing and organization of accounting guidance and became effective for interim and annual periods ending after September 15, 2009. The Codification is now the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related literature. Only one level of authoritative U.S. GAAP now exists. All other literature is considered non-authoritative. The Codification does not change U.S. GAAP. We adopted the Codification effective August 1, 2009. The adoption of the Codification did not have a material impact on our consolidated financial statements.

Effective May 1, 2009 and as updated as of February 24, 2010, we adopted authoritative guidance for subsequent events which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance sets forth the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Effective May 1, 2009, we adopted authoritative guidance on accounting for collaborative arrangements, which focuses on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how sharing payments pursuant to a collaboration agreement should be presented in the statement of operations and certain related disclosure questions. The adoption of the new guidance on accounting for collaborative arrangements did not have a material impact on our consolidated financial statements.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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Effective May 1, 2009, we adopted authoritative guidance on determining whether an instrument (or an embedded feature) is indexed to an entity's own stock. The guidance provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Effective May 1, 2009, we adopted authoritative guidance which requires publicly traded companies to include in their interim financial reports certain disclosures about the carrying value and fair value of financial instruments previously required only in annual financial statements and to disclose changes in significant assumptions used to calculate the fair value of financial instruments. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

#### *New Accounting Standards Not Yet Adopted*

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

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

#### 4. NOTE PAYABLE AND CAPITAL LEASE OBLIGATIONS

##### *Note Payable Obligation*

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



## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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Under the Loan Agreement, the outstanding principal balance each month will bear interest at the then current thirty (30) day LIBOR rate (set at a floor of 3%) plus 9% (12% from inception to April 30, 2010). The Loan Agreement allowed for interest-only payments during the initial six (6) months through July 2009 followed by thirty (30) equal monthly principal payments plus interest. The Loan Agreement, which is secured by generally all assets of the Company, contains customary covenants that, among other things, generally restricts our ability to incur additional indebtedness. In addition, the Loan Agreement contains a covenant, whereby if our contract with the TMTI (Note 2) is terminated while the loan is outstanding, we would be required to set aside cash and cash equivalents in an amount equal to at least 80% of the outstanding loan balance (or \$2,667,000 as of April 30, 2010) in a secured account over which we will not be permitted to make withdrawals or otherwise exercise control. Moreover, the Loan Agreement includes a Material Adverse Change clause whereby if there is a material impairment in the priority of Lenders' lien in the collateral or in the value of such collateral, or if we encounter a material adverse change in our business, operations, or condition (financial or otherwise), or a material impairment of the prospect of repayment of any portion of the loan, then an event of default can be invoked by the Lenders. As of April 30, 2010, we are in compliance with all Loan Agreement covenants.

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

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

We will make the following principal payments under the Loan Agreement in the years ending April 30,

2011	\$	2,000,000
2012		1,333,000
Total	\$	<u>3,333,000</u>

#### *Capital Lease Obligations*

We have financed certain equipment under capital lease agreements which bear interest at a rate ranging from 5.36% to 6.56% per annum.

**PEREGRINE PHARMACEUTICALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)**

The equipment purchased under these capital leases is included in property in the accompanying consolidated financial statements at April 30, 2010 and 2009, as follows:

	<u>2010</u>	<u>2009</u>
Laboratory equipment	\$ 13,000	\$ 13,000
Furniture, fixtures and office equipment	78,000	68,000
Less accumulated depreciation	<u>(10,000)</u>	<u>(48,000)</u>
Net book value	<u>\$ 81,000</u>	<u>\$ 33,000</u>

Minimum future capital lease payments as of April 30, 2010 are as follows:

Year ending April 30:

2011	22,000
2012	18,000
2013	18,000
2014	18,000
2015	13,000
Total minimum lease payments	<u>89,000</u>
Amount representing interest	<u>(10,000)</u>
Net present value minimum lease payments	79,000
Less current portion	<u>19,000</u>
	<u>\$ 60,000</u>

5. COMMITMENTS AND CONTINGENCIES

*Operating Leases* - In December 1998, we sold and subsequently leased back our two facilities in Tustin, California. The lease has an original lease term of 12 years with two 5-year renewal options and includes scheduled rental increases of 3.35% every two years. On December 22, 2005, we entered into a First Amendment to Lease and Agreement of Lease ("First Amendment") with the landlord to our original lease dated December 24, 1998 and extended the original lease term for seven additional years to expire on December 31, 2017 while maintaining our two 5-year renewal options that could extend our lease to December 31, 2027. Our monthly lease payments will continue to increase at a rate of 3.35% every two years under the First Amendment. We record rent expense on a straight-line basis and the differences between the amounts paid and the amounts expensed are included in other current liabilities in the accompanying consolidated financial statements. Annual rent expense under the lease agreement totaled \$807,000, during fiscal years 2010, 2009 and 2008.

At April 30, 2010, future minimum lease payments under all non-cancelable operating leases are as follows:

Year ending April 30,:	Minimum Lease Payments
2011	\$ 854,000
2012	834,000
2013	832,000
2014	850,000
2015	860,000
Thereafter	<u>2,372,000</u>
	<u>\$ 6,602,000</u>

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

Subsequent to April 30, 2010, we entered into a separate lease agreement on May 3, 2010 to secure approximately 11,000 square feet of office and research space in a building adjacent to our existing leased office and laboratory buildings located in Tustin, California. Our monthly base rent under the lease agreement is approximately \$9,500 and includes scheduled nominal increases every twelve months. The lease expires on December 31, 2017 and includes a five-year option to extend the lease to December 31, 2022.

*Legal Proceedings* – In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We are currently not aware of any 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.

#### 6. LICENSE, RESEARCH AND DEVELOPMENT AGREEMENTS

The following represents a summary of our key collaborations for the development and commercialization of our products in clinical trials, bavituximab and Cotara. In addition, we do not perform any research and development activities for any unrelated entities.

##### *PS-Targeting Program (bavituximab)*

In August 2001 and August 2005, we exclusively in-licensed the worldwide rights to the phosphatidylserine (“PS”)-targeting technology platform from the University of Texas Southwestern Medical Center at Dallas (“UTSWMC”), including bavituximab. During November 2003, we entered into a non-exclusive license agreement with Genentech, Inc. to license certain intellectual property rights covering methods and processes for producing antibodies used in connection with the development of our PS-targeting program. During December 2003, we entered into an exclusive commercial license agreement with Avanir Pharmaceuticals, Inc. (“Avanir”) covering the generation of the chimeric monoclonal antibody, bavituximab. In March 2005, we entered into a worldwide non-exclusive license agreement with Lonza Biologics (“Lonza”) for intellectual property and materials relating to the expression of recombinant monoclonal antibodies for use in the manufacture of bavituximab.

Under our in-licensing agreements relating to the PS-targeting program, including the development of bavituximab, we typically pay an up-front license fee, annual maintenance fees, and are obligated to pay future milestone payments based on development progress, plus a royalty on net sales and/or a percentage of sublicense income. The applicable royalty rate under each of the foregoing in-licensing agreements is in the low single digits. The following table provides certain information with respect to each of our in-licensing agreements relating to our PS-targeting program.

Licensors	Agreement Date	Total Payments To Date	Potential Future Milestone Obligations
UTSWMC	August 2001	\$ 97,500	\$ 375,000
UTSWMC	August 2005	\$ 35,000	\$ 425,000
Lonza	March 2005	-	(1)
Avanir	December 2003	\$ 50,000	\$ 1,050,000
Genentech, Inc.	November 2003	\$ 500,000	\$ 5,000,000
Total		\$ 682,500	\$ 6,850,000

(1) Expiration date of license agreement is 10 years from first commercial sale in each respective country. To date we have no commercial sales under the license agreement nor do we expect any commercial sales in the near future.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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Of the total potential future milestone obligations of \$6,850,000, \$6,400,000 would be due upon the first commercial approval of a drug candidate developed under our PS-targeting program, including bavituximab, with the technologies licensed pursuant to such license agreements.

During fiscal year 2008, we expensed \$50,000 under in-licensing agreements covering our PS-targeting program, which is included in research and development expense in the accompanying consolidated statements of operations. We did not incur any milestone related expenses during fiscal years 2010 and 2009.

#### *Tumor Necrosis Therapy (Cotara)*

We acquired the patent rights to the Tumor Necrosis Therapy (“TNT”) technology, including Cotara, in July 1994 after the merger between Peregrine and Cancer Biologics, Inc. was approved by our stockholders. To date, no product revenues have been generated from Cotara.

In October 2004, we entered into a worldwide non-exclusive license agreement with Lonza for intellectual property and materials relating to the expression of recombinant monoclonal antibodies for use in the manufacture of Cotara. Under the terms of the agreement, we will pay a royalty (in the low single digits) on net sales of any products we market that utilize the underlying technology. In the event a product is approved and we or Lonza do not manufacture Cotara, we would owe Lonza 300,000 pounds sterling per year in addition to an increased royalty (in the low single digits) on net sales. Unless sooner terminated due to a party’s breach of the license agreement, the license agreement with Lonza will terminate upon the last to occur of the expiration of a period of fifteen (15) years following our first commercial sale of a product or the expiration of the last valid claim within the patents that are the subject of the license agreement; provided that if after the expiration of the last claim but prior to the expiration of the fifteen (15) year period, Lonza has publicly made available certain materials and know how, then the agreement will terminate at such time as the materials and know how are made public.

#### *Other Licenses Covering Products in Pre-Clinical Development*

During August 2001, we entered into an exclusive worldwide license for a new pre-clinical compound from the University of Texas Southwestern Medical Center. This new compound, named 2C3, added to our anti-cancer platform technologies in the anti-angiogenesis field. Under this license agreement, we paid an up-front license fee and are obligated to pay annual maintenance fees, future milestone payments based on development progress, plus a royalty on net sales. Our aggregate future milestone payments under this exclusive worldwide license are \$450,000 assuming the achievement of all development milestones under the agreement through commercialization of the product. We do not anticipate making any milestone payments under this agreement for at least the next fiscal year.

In April 1997, we gained access to certain exclusive licenses for Vascular Targeting Agents (“VTAs”) technologies from various institutions. In conjunction with various licensing agreements covering our VTA technology, we are required to pay combined annual fees of \$50,000 plus milestone payments based on the development success of the technologies and a royalty on net sales. Our aggregate future milestone payments under these exclusive licenses are \$1,688,000 assuming the achievement of all development milestones under the agreements through commercialization of the product, which are due at various stages of clinical development in accordance with the applicable license. We do not anticipate making any milestone payments for at least the next fiscal year under these agreements.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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During fiscal year 2007, we entered into a research collaboration agreement and a development and commercialization agreement with an unrelated entity regarding the generation and commercialization of up to fifteen fully human monoclonal antibodies under our platform technologies to be used as possible future clinical candidates. These agreements incorporate the various binding term sheets we entered into with the unrelated entity during June 2003, September 2004, and November 2004. Under the terms of the research collaboration agreement, we pay a non-refundable upfront technology access fee for each human antibody project initiated. In addition, under the terms of the development and commercialization agreement, we are obligated to pay future milestones payments based on the achievement of development milestones, plus a royalty on net sales. Our aggregate future milestone payments range from \$5.75 million to \$6.35 million per fully human antibody generated by the unrelated entity upon the achievement of certain development milestones through commercialization. During fiscal year 2010 and 2009, we expensed \$239,000 and \$255,000, respectively, associated with the amortization of prepaid non-refundable upfront technology access fees under the research collaboration agreement, the amounts of which are included in research and development expense in the accompanying consolidated financial statements. We expect to amortize the remaining prepaid non-refundable upfront technology access fees of \$956,000 over the estimated service period. We did not incur any expense under these agreements during fiscal year 2008. We also do not anticipate making any milestone payments for at least the next fiscal year under these agreements.

During June 2007, we entered into an exclusive license agreement with The Regents of the University of California regarding the use of certain Anti-PS antibodies to be used as a possible future generation clinical candidate. Under the terms of the agreement, we paid a non-refundable up-front license fee of \$25,000, which is included in research and development expense in fiscal year 2008 in the accompanying consolidated statements of operations. In addition, under the terms of the agreement, we are obligated to pay an annual maintenance fee, clinical development milestone fees and a royalty on net sales. Our aggregate future clinical development milestone payments under the license agreement are \$735,000 assuming the achievement of all developmental milestones under the agreement through commercialization of the product. We do not anticipate making any milestone payments for at least the next fiscal year under this agreement.

#### *Out-Licensing Collaborations*

In addition to our in-licensing collaborations, the following represents a summary of our key out-licensing collaborations.

During October 2000, we entered into a licensing agreement with Merck KGaA to out-license a segment of our TNT technology for use in the application of cytokine fusion proteins. During January 2003, we entered into an amendment to the license agreement, whereby we received an extension to the royalty period from six years to ten years from the date of the first commercial sale. Under the terms of agreement, we would receive a royalty on net sales if a product is approved under the agreement. Merck KGaA has not disclosed the development status of its program to Peregrine.

During February 2001, we licensed certain rights to SuperGen, Inc. ("SuperGen") pertaining to a segment of our Vascular Targeting Agents ("VTA") technology, specifically related to certain conjugates of Vascular Endothelial Growth Factor ("VEGF"). During January 2010, the agreement was terminated by SuperGen. During fiscal years 2009 and 2008, we recognized license revenue associated with annual license fees received under this agreement of \$175,000 and \$150,000, respectively, the amounts of which are included in license revenue in the accompanying consolidated financial statements. No revenue was recognized under this agreement during fiscal year 2010.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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During December 2002, we granted the exclusive rights for the development of diagnostic and imaging agents in the field of oncology to Schering A.G. under our VTA technology. During April 2010, this agreement was terminated by Schering A.G. No revenue was recognized under this agreement during fiscal years 2010, 2009 and 2008.

During July 2009, we sub-licensed certain rights and agreed to assign certain other rights under our anti-VEGF antibody program to an unrelated entity. In consideration for the rights granted under our anti-VEGF antibody program, we received non-refundable up-front license fees of \$250,000. In addition, we billed and/or received non-refundable payments of \$225,000 during fiscal year 2010 to be applied against aggregate milestone payments of \$1,000,000 that would be due upon delivery of a pre-clinical development packages as defined in the agreements. We could also receive up to \$16,500,000 in future milestone payments based on the achievement of all clinical and regulatory milestones for initial product approval plus a royalty on net sales, as defined in the agreements. Under the license agreements, we also granted the unrelated entity a research license in the ocular field with an option to grant sub-licenses in the ocular field. If the unrelated entity exercises this option to grant sub-licenses in the ocular field, we would receive pre-defined up-front fees, milestone payments, and a royalty on net sales. We have determined that, pursuant to the authoritative guidance for revenue recognition, the license and the undelivered services (pre-clinical development package and the option to the ocular field) are not separable and, accordingly, the license and services are being treated as a single unit of accounting. Under the agreements, we determined our obligations would be up to a four year period and therefore, we are recognizing the non-refundable up-front license fees of \$250,000 and the additional \$1,000,000 associated with other deliverables, as defined in the agreements, on a straight-line basis over a four year period. However, we will continue to reassess the length of our obligation period, and accordingly, our estimated obligation period may change based on future events. During fiscal year 2010, we recognized revenue of \$243,000 under these agreements, which amount is included in license revenue in the accompanying consolidated financial statements. Amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated financial statements.

#### 7. STOCKHOLDERS' EQUITY

##### *Adoption of a Stockholder Rights Agreement*

On March 16, 2006, our Board of Directors adopted a Stockholder Rights Agreement ("Rights Agreement") that is designed to strengthen the ability of the Board of Directors to protect the interests of our stockholders against potential abusive or coercive takeover tactics and to enable all stockholders the full and fair value of their investment in the event that an unsolicited attempt is made to acquire Peregrine. The adoption of the Rights Agreement is not intended to prevent an offer the Board of Directors concludes is in the best interest of Peregrine and its stockholders.

Under the Rights Agreement, the Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each share of our common stock held by shareholders of record as of the close of business on March 27, 2006. Each Right will entitle holders of each share of our common stock to buy one thousandth (1/1,000<sup>th</sup>) of a share of Peregrine's Series D Participating Preferred Stock, par value \$0.001 per share, at an exercise price of \$11.00 per share, subject to adjustment. The Rights are neither exercisable nor traded separately from our common stock. The Rights will become exercisable and will detach from the common shares if a person or group acquires 15% or more of our outstanding common stock, without prior approval from our Board of Directors, or announces a tender or exchange offer that would result in that person or group owning 15% or more of our common stock. Each Right, when exercised, entitles the holder (other than the acquiring person or group) to receive common stock of the Company (or in certain circumstances, voting securities of the acquiring person or group) with a value of twice the Rights exercise price upon payment of the exercise price of the Rights.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

Peregrine will be entitled to redeem the Rights at \$0.001 per Right at any time prior to a person or group achieving the 15% threshold. The Rights will expire on March 16, 2016.

#### *Financing Under Shelf Registration Statements On Form S-3*

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

With respect to financing our operations through the issuance of equity, we have raised additional capital during the three years ended April 30, 2010, under two registration statements as defined below.

Shelf Filing Date	Registration Statement Number	Amount Registered
January 2007	File number 333-139975	\$30,000,000
July 2009	File number 333-160572	\$50,000,000

The following table summarizes the various financing transactions and the amounts of capital we have raised under the shelf registration statements for the three years ended April 30, 2010:

Registration Statement No.	Description of Financing Transaction	Number of Common Stock Shares Issued	Gross Proceeds Raised
<b><i>Fiscal Year 2008</i></b>			
333-139975	Securities Purchase Agreement dated June 28, 2007	6,000,000	\$ 22,500,000
<b><i>Fiscal Year 2009</i></b>			
333-139975	At Market Sales Issuance Agreement dated March 26, 2009	295,587	\$ 608,000
<b><i>Fiscal Year 2010</i></b>			
333-139975	At Market Sales Issuance Agreement dated March 26, 2009	1,855,172	\$ 6,892,000
333-160572	At Market Sales Issuance Agreement dated July 14, 2009	5,643,749	\$ 19,432,000
		7,498,921	\$ 26,324,000

Under the Securities Purchase Agreement dated June 28, 2007, we sold 6,000,000 shares of our common stock under the January 2007 Shelf to several institutional investors in exchange for gross proceeds of \$22,500,000 before deducting placement agent fees and other offering costs of \$1,641,000.

Under the At Market Sales Issuance Agreement dated March 26, 2009 ("March 2009 AMI Agreement") we entered into with Wm Smith & Co., pursuant to which we may sell shares of our common stock through Wm Smith & Co., as agent, in registered transactions from our January 2007 Shelf, for aggregate gross proceeds of \$7,500,000. Shares of common stock sold under this arrangement were sold at market prices. During fiscal years 2009 and 2010, we had 2,150,759 shares of common stock at market prices under the March 2009 AMI Agreement for aggregate gross proceeds of \$7,500,000 before deducting commissions and other issuance costs of \$363,000.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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Under the At Market Sales Issuance Agreement dated July 14, 2009 (“July 2009 AMI Agreement”) we entered into with Wm Smith & Co., pursuant to which we may sell shares of our common stock through Wm Smith & Co., as agent, in registered transactions from our January 2007 Shelf, for aggregate gross proceeds of \$25,000,000. Shares of common stock sold under this arrangement were sold at market prices. During fiscal year 2010, we had sold 5,643,749 shares of common stock at market prices under the July 2009 AMI Agreement for aggregate gross proceeds of \$19,432,000 before deducting commissions and other issuance costs of \$545,000.

As of April 30, 2010, we exhausted all available amounts under the January 2007 Shelf. Gross proceeds of up to \$30,568,000 remained available under the July 2009 Shelf at April 30, 2010.

Subsequent to April 30, 2010 and through June 30, 2010, we had sold 1,498,568 shares of common stock at market prices under the July 2009 AMI Agreement for aggregate gross proceeds of \$4,718,000. As of June 30, 2010, gross proceeds of \$850,000 remained available under the July 2009 AMI Agreement.

In addition, on June 22, 2010, we entered into an At Market Sales Issuance Agreement (“June 2010 AMI Agreement”) with McNicoll, Lewis & Valk LLC (“MLV”), pursuant to which we may sell shares of our common stock through MLV, as agent, in registered transactions from our July 2009 Shelf, for aggregate gross proceeds of up to \$15,000,000. Shares of common stock under this arrangement are to be sold at market prices. We are obligated to pay MLV a commission equal to 2% of the gross proceeds from the sale of our common stock under the June 2010 AMI Agreement. As of June 30, 2010, we had not sold any shares of common stock under the June 2010 AMI Agreement.

#### *Shares Of Common Stock Authorized And Reserved For Future Issuance*

In accordance with our shares reserved for issuance under our equity compensation plans and warrant agreements, we have reserved 6,002,366 shares of our common stock at April 30, 2010 for future issuance, calculated as follows:

	Number of Shares of Common Stock Reserved For Issuance
Common shares reserved for issuance under outstanding option and restricted stock award grants and available for issuance under our equity compensation plans	5,663,956
Common shares issuable upon exercise of outstanding warrants	338,410
Total common shares reserved for future issuance	<u>6,002,366</u>

The total common shares reserved for future issuance at April 30, 2010 excludes 1,498,568 shares of common stock sold subsequent to April 30, 2010 and through June 30, 2010 under the July 2009 AMI Agreement and any future shares that may be sold under the July 2009 Shelf.



## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

#### 8. EQUITY COMPENSATION PLANS

We currently maintain five equity compensation plans referred to as the 2009 Plan, the 2005 Plan, the 2003 Plan, the 2002 Plan, and the 1996 Plan (collectively referred to as the "Stock Plans"). The Stock Plans provide for the granting of stock options, restricted stock awards and other forms of share-based awards 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.

As of April 30, 2010, we had an aggregate of 5,663,956 shares of common stock reserved for issuance under the Stock Plans. Of those shares, 5,384,940 shares were subject to outstanding options and restricted stock awards and 279,016 shares were available for future grants of share-based awards.

*Stock Options* – Stock options granted under our Stock Plans are granted at an exercise prices not less than the fair market value of our common stock on the date of grant. The options generally vest over a two to four year period and expire ten years from the date of grant, if unexercised.

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. 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 the daily historical volatility of our stock covering the estimated expected term. The expected term of options granted subsequent to the adoption of FASB ASC topic 718, *Compensation – Stock Compensation* (adopted May 1, 2006) through the quarter ended October 31, 2007 was based on the expected time to exercise using the "simplified method" allowable. Effective November 1, 2007, the expected term reflects actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options and is applied to all option grants subsequent to October 31, 2007. 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. The expected dividend yield assumption is based on our expectation of future dividend payouts. We have never declared or paid any cash dividends on our common stock and currently do not anticipate paying such cash dividends. In addition, guidance 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 for fiscal years ended April 30, 2010, 2009 and 2008, were as follows:

	Year Ended April 30,		
	2010	2009	2008
Risk-free interest rate	2.69%	3.10%	3.77%
Expected life (in years)	6.00	6.00	6.02
Expected volatility	73%	79%	82%
Expected dividend yield	-	-	-

**PEREGRINE PHARMACEUTICALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)**

The following summarizes our stock option transaction activity for fiscal year ended April 30, 2010:

<b>Stock Options</b>	<b>Shares</b>	<b>Weighted Average Exercisable Price</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, May 1, 2009	2,838,632	\$ 6.06		
Granted	2,913,862	\$ 3.01		
Exercised	(57,253)	\$ 1.85		
Canceled or expired	(681,551)	\$ 4.97		
Outstanding, April 30, 2010	<u>5,013,690</u>	\$ 4.49	7.59	\$ 4,184,000
Exercisable and expected to vest	4,888,971	\$ 4.53	7.54	\$ 4,063,000
Exercisable, April 30, 2010	1,972,084	\$ 6.76	4.56	\$ 1,096,000

The weighted-average grant date fair value of options granted to employees during the years ended April 30, 2010, 2009 and 2008 was \$1.99, \$1.26 and \$1.73 per share, respectively.

The aggregate intrinsic value of stock options exercised during the years ended April 30, 2010 and 2008 was \$82,000 and \$19,000, respectively. Cash proceeds from stock options exercised during the years ended April 30, 2010 and 2008 totaled \$106,000 and \$27,000, respectively. No stock options were exercised during fiscal year ended April 30, 2009.

We issue shares of common stock that are reserved for issuance under the Stock 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 April 30, 2010, the total estimated unrecognized compensation cost related to non-vested stock options was \$4,850,000. This cost is expected to be recognized over a weighted average vesting period of 1.93 years based on current assumptions.

*Restricted Stock Awards* – Restricted stock awards are grants that entitle the holder shares of common stock subject to certain terms. During February and April 2010, the Compensation Committee of the Board of Directors (the “Committee”) granted an aggregate of 371,250 performance-based restricted stock awards (“Performance Awards”) under our Stock Plans. The Performance Awards are subject to vesting based upon the Company’s timely attainment of certain predetermined clinical, financial and operational milestones with specific targeted attainment dates (“Target Dates”) ranging from June 30, 2010 through July 15, 2011. If a milestone is successfully achieved by its Target Date, then as of the date of achievement of each milestone twenty percent (20%) of the shares of common stock underlying the Performance Awards shall vest. Consequently, outstanding Performance Awards will fully vest if five of the eight predetermined milestones are successfully achieved by their respective Target Dates. No restricted stock awards were granted during fiscal years ended April 30, 2009 and 2008.

In addition, with respect to the restricted stock awards, due to the continued limited availability of shares of common stock under the Stock Plans, the Committee determined to reduce the Performance Awards granted to employees by forty percent (40%) and in exchange, agreed to pay each recipient employed by the Company his or her applicable federal and state income tax withholdings if and when the Performance Awards vest, with such withholding amounts calculated as if the Performance Awards were for the full number of shares of common stock that the Committee determined to be reasonable (and not the reduced number) and based upon the fair market value of our common stock on each date of vesting. The withholding amounts so paid by the Company shall be treated and reported as bonus compensation to the Performance Award recipients.

**PEREGRINE PHARMACEUTICALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)**

The following summarizes our restricted stock awards transaction activity for fiscal year ended April 30, 2010:

<b>Restricted Stock</b>	<b>Shares</b>	<b>Weighted Average Exercisable Price</b>
Unvested, May 1, 2009	-	\$ -
Granted	371,250	\$ 2.97
Vested	-	-
Canceled or expired	-	-
Unvested, April 30, 2010	<u>371,250</u>	<u>\$ 2.97</u>

The weighted-average grant date fair value of restricted stock awards granted during fiscal year ended April 30, 2010, was \$2.97. Although no restricted stock awards vested or were issued during the fiscal years ended April 30, 2010, we deemed it probable at April 30, 2010 that 74,250 Performance Awards would vest by their Target Date and as a result we recognized \$193,000 in share-based compensation expense and \$172,000 as bonus compensation for the taxes to be paid on behalf of the Performance Awards recipients in the accompanying consolidated financial statements during fiscal year 2010. As of April 30, 2010, total unrecognized share-based compensation and bonus compensation related to Performance Awards deemed probable to vest at April 30, 2010, was \$9,000 and \$7,000, respectively. These costs were recognized in May 2010 upon achievement of the milestone.

*Share-based Compensation Expense* – Total share-based compensation expense related to employee stock options and employee restricted stock awards for the years ended April 30, 2010, 2009 and 2008 was comprised of the following:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Research and development	\$ 671,000	\$ 475,000	\$ 534,000
Selling, general and administrative	637,000	382,000	295,000
Total share-based compensation expense	<u>\$ 1,308,000</u>	<u>\$ 857,000</u>	<u>\$ 829,000</u>
Share-based compensation from:			
Stock options	\$ 1,115,000	\$ 857,000	\$ 829,000
Restricted stock awards	193,000	-	-
	<u>\$ 1,308,000</u>	<u>\$ 857,000</u>	<u>\$ 829,000</u>

Periodically, we grant stock options and restricted stock awards to non-employee consultants, which we account for in accordance with the authoritative guidance for share-based compensation. The cost of non-employee services received in exchange for share-based awards are measured based on either the fair value of the consideration received or the fair value of the share-based award issued, whichever is more reliably measurable. Share-based compensation expense recorded during fiscal years 2010, 2009 and 2008 associated with stock options granted to non-employees amounted to \$87,000, \$9,000 and \$21,000, respectively. Share-based compensation expense recorded during fiscal years 2010, 2009 and 2008 associated with restricted stock awards granted to non-employees amounted to \$26,000, \$0 and \$0, respectively.

Due to our net loss position, no tax benefits have been recognized in the consolidated statements of cash flows.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

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#### 9. WARRANTS

*Granted* - As of April 30, 2010, we had warrants outstanding to purchase up to 338,410 shares of our common stock at an exercise price of \$1.48 per share and an expiration date of December 19, 2013. These warrants were issued during fiscal year 2009 in connection with the loan and security agreement we entered into on December 9, 2008, as further discussed in Note 4. There were no warrants granted during fiscal years 2010 and 2008.

*Exercised* - During fiscal year 2008, warrants to purchase 10,684 shares of our common stock were exercised for net proceeds of \$46,000. There were no warrants exercised during fiscal years 2010 and 2009.

Subsequent to April 30, 2010, 118,443 warrants were exercised on a cashless basis in exchange for 74,802 shares of our common stock.

#### 10. INCOME TAXES

We are primarily subject to U.S. federal and California state jurisdictions. To our knowledge, all tax years remain open to examination by U.S. federal and state authorities.

At April 30, 2010, we had total deferred tax assets of \$4,330,000. Due to uncertainties surrounding our ability to generate future taxable income to realize these tax assets, a full valuation has been established to offset our total deferred tax assets. Additionally, the future utilization of our net operating loss and general business and research and development credit carry forwards to offset future taxable income may be subject to an annual limitation, pursuant to Internal Revenue Code Sections 382 and 383, as a result of ownership changes that may have occurred previously or that could occur in the future. We have not yet performed a Section 382 analysis to determine the limitation of the net operating loss and general business and research and development credit carry forwards. Until this analysis has been performed, we have removed the deferred tax assets for net operating losses of \$77,381,000 and general business and research and development credits of \$118,000 generated through April 30, 2010 from our deferred tax asset schedule and have recorded a corresponding decrease to our valuation allowance. When this analysis is finalized, we plan to update our unrecognized benefits for uncertainty in income taxes. Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact our effective tax rate.

At April 30, 2010, we had federal net operating loss carry forwards and tax credit carry forwards of approximately \$193,858,000 and \$118,000, respectively. The net operating loss carry forwards expire in fiscal years 2011 through 2030. The net operating losses of \$2,925,000 applicable to Vascular Targeting Technologies, our wholly-owned subsidiary, can only be offset against future income of that subsidiary. The tax credit carry forwards begin to expire in fiscal year 2011 and are available to offset the future taxes of our subsidiary. We also have state net operating loss carry forwards of approximately \$129,748,000 at April 30, 2010, which begin to expire in fiscal year 2015.

## PEREGRINE PHARMACEUTICALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)

The provision for income taxes consists of the following for the three years ended April 30, 2010:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Provision for federal income taxes at statutory rate	\$ (4,929,000)	\$ (5,618,000)	\$ (7,880,000)
State income taxes, net of federal benefit	(799,000)	(926,000)	(1,309,000)
Expiration and adjustment of loss carry forwards	7,448,000	3,917,000	64,484,000
Change in valuation allowance	(1,997,000)	2,405,000	(55,510,000)
Other, net	277,000	222,000	215,000
Income tax (expense) benefit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets at April 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Stock-based compensation	\$ 2,249,000	\$ 1,988,000
Deferred revenue	989,000	3,046,000
Accrued liabilities	<u>1,092,000</u>	<u>1,293,000</u>
Total deferred tax assets	4,330,000	6,327,000
Less valuation allowance	<u>(4,330,000)</u>	<u>(6,327,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

#### 11. BENEFIT PLAN

During fiscal year 1997, we adopted a 401(k) benefit plan (the "Plan") for all full-time employees who are at least the age of 21 and have three or more months of continuous service. The Plan provides for employee contributions of up to 100% of their compensation or a maximum of \$16,500. We are not required to make matching contributions under the Plan and we have made no matching contributions to the Plan since its inception through December 31, 2009. Effective January 1, 2010, the Company has voluntarily agreed to match 50% of employee contributions of up to the first 6% of a participant's annual salary for all Plan contributions, subject to certain IRS limitations. Under the Plan, each participating employee is fully vested in his or her contributions to the Plan and Company contributions to the Plan will fully vest after six years of service.

#### 12. SEGMENT REPORTING

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

**PEREGRINE PHARMACEUTICALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)**

The accounting policies of the operating segments are the same as those described in Note 2. We evaluate the performance of our contract manufacturing services segment based on gross profit or loss from third-party customers. However, our products in the research and development segment are not evaluated based on gross profit or loss, but rather based on scientific progress of the technologies. As such, gross profit is only provided for our contract manufacturing services segment in the below table. All revenues shown below are derived from transactions with external customers.

Segment information is summarized as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Contract manufacturing services revenue	\$ 13,204,000	\$ 12,963,000	\$ 5,897,000
Cost of contract manufacturing services	8,716,000	9,064,000	4,804,000
Gross profit	<u>\$ 4,488,000</u>	<u>\$ 3,899,000</u>	<u>\$ 1,093,000</u>
Revenue from products in research and development	\$ 14,739,000	\$ 5,188,000	\$ 196,000
Research and development expense	(24,658,000)	(18,424,000)	(18,279,000)
Selling, general and administrative expense	(8,182,000)	(6,979,000)	(7,150,000)
Other income (expense), net	(881,000)	(208,000)	964,000
Net loss	<u>\$ (14,494,000)</u>	<u>\$ (16,524,000)</u>	<u>\$ (23,176,000)</u>

Revenue generated from our contract manufacturing segment was from the following customers:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Customer revenue as a percentage of revenue:</b>			
United States (customer A)	32%	57%	84%
United States (customer B)	15%	1%	0%
Germany (one customer)	23%	25%	7%
Canada (one customer)	30%	16%	3%
Other customers	0%	1%	6%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Government contract revenue (see Note 2)	\$ 14,496,000	\$ 5,013,000	\$ -
License revenue (see Note 6)	243,000	175,000	196,000
Total	<u>\$ 14,739,000</u>	<u>\$ 5,188,000</u>	<u>\$ 196,000</u>

**PEREGRINE PHARMACEUTICALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010 (continued)**

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

	<u>2010</u>	<u>2009</u>
<b>Long-lived Assets, net:</b>		
Contract manufacturing services	\$ 1,311,000	\$ 1,531,000
Products in research and development	158,000	150,000
Total	<u>\$ 1,469,000</u>	<u>\$ 1,681,000</u>

14. SUBSEQUENT EVENTS

On May 3, 2010, we entered into two separate agreements (the "Agreements") with an unrelated entity to develop our Tumor Necrosis Therapy ("TNT") technologies in certain Asia-Pacific Economic Cooperation (APEC) countries. Under the terms of the Agreements, we have agreed to sub-license certain non-exclusive licenses rights and agreed to assign certain exclusive development and commercialization rights under our TNT program in certain APEC countries. We have retained exclusive rights to our TNT program in the U.S., European Union countries, and other select countries internationally. Under the terms of the Agreements, we will receive aggregate fees in the amount of \$500,000 to be paid over a period of two years and annual maintenance fees ranging from \$100,000 to \$250,000, as defined in the Agreements beginning May 2011 through 15 years following the date of the first commercial sale. In addition, we could also receive double digit royalties on net sales, as defined in the Agreements.

On June 22, 2010, we entered into an At Market Sales Issuance Agreement with McNicoll, Lewis & Valk LLC ("MLV"), pursuant to which we may sell shares of our common stock through MLV, as agent, in registered transactions from our July 2009 Shelf, for aggregate gross proceeds of up to \$15,000,000 (Note 7).

15. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial information for each of the two most recent fiscal years is as follows:

	<u>Quarter Ended</u>							
	<u>April 30,</u> <u>2010</u>	<u>January 31,</u> <u>2010</u>	<u>October 31,</u> <u>2009</u>	<u>July 31,</u> <u>2009</u>	<u>April 30,</u> <u>2009</u>	<u>January</u> <u>31,</u> <u>2009</u>	<u>October 31,</u> <u>2008</u>	<u>July 31,</u> <u>2008</u>
Net revenues	\$ 4,420,000	\$ 9,877,000	\$ 6,896,000	\$ 6,750,000	\$ 7,867,000	\$ 6,826,000	\$ 1,941,000	\$ 1,517,000
Gross profit (a)	\$ 652,000	\$ 1,071,000	\$ 1,768,000	\$ 997,000	\$ 1,617,000	\$ 1,672,000	\$ 320,000	\$ 290,000
Loss from operations	\$ (7,569,000)	\$ (1,317,000)	\$ (2,537,000)	\$ (2,190,000)	\$ (3,372,000)	\$ (3,234,000)	\$ (4,550,000)	\$ (5,160,000)
Net loss	\$ (7,741,000)	\$ (1,538,000)	\$ (2,787,000)	\$ (2,428,000)	\$ (3,609,000)	\$ (3,332,000)	\$ (4,497,000)	\$ (5,086,000)
Basic and diluted loss per common share (b)	\$ (0.16)	\$ (0.03)	\$ (0.06)	\$ (0.05)	\$ (0.09)	\$ (0.07)	\$ (0.10)	\$ (0.11)

(a) Gross profit represents contract manufacturing revenue less cost of contract manufacturing.

(b) Basic and diluted loss per common share for each fiscal quarter prior to October 31, 2009, have been adjusted to reflect a 1-for-5 reverse stock split, which was effective at the close of business on October 16, 2009 (Note 2).

**VALUATION OF QUALIFYING ACCOUNTS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2010**

Description	<u>Balance at Beginning of period</u>	<u>Charged to expense</u>	<u>Charged to deferred revenue</u>	<u>Deductions</u>	<u>Balance at end of period</u>
<b>Valuation reserve for trade and other receivables, and unbilled amounts</b>					
Year ended April 30, 2008	\$ -	\$ -	\$ -	\$ -	\$ -
Year ended April 30, 2009	\$ -	\$ -	\$ 51,000	\$ -	\$ 51,000
Year ended April 30, 2010	\$ 51,000	\$ 20,000	\$ 202,000	\$ (51,000)	\$ 222,000





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[Form of Restricted Stock Issuance Agreement dated February 1, 2010]

PEREGRINE PHARMACEUTICALS, INC.

[Plan Year] STOCK INCENTIVE PLAN  
STOCK ISSUANCE AGREEMENT

This Stock Issuance Agreement (this “Agreement”) is entered into between Peregrine Pharmaceuticals, Inc., a Delaware corporation (the “Company”), and [First and Last Name] (the “Grantee”), as of [Grant Date] (the “Date of Grant”).

RECITALS

A. The Company has adopted the Peregrine Pharmaceuticals, Inc. [Plan Year] Stock Incentive Plan, as amended (the “Plan”), to allow the Company to make grants that will provide an incentive to attract and retain eligible individuals whose services are considered unusually valuable by providing them an opportunity to have a proprietary interest in the success of the Company.

B. The Company believes that entering into this Agreement with Grantee is consistent with the above stated purposes.

C. Any capitalized term not otherwise defined will have the meaning ascribed to it in the Plan.

NOW, THEREFORE, in consideration of the mutual covenants and conditions in this Agreement and for other good and valuable consideration, the Company and Grantee agree as follows:

1. **GRANT OF RESTRICTED SHARES.**

Subject to the terms of this Agreement, pursuant to action taken by the Compensation Committee of the Company’s Board of Directors on [Grant Date], the Company hereby grants [Restricted Shares] shares (the “Restricted Shares”) of the Company’s common stock (the “Common Stock”) to Grantee. The delivery of any documents evidencing the Restricted Shares granted pursuant to this Agreement shall be subject to the provisions of Section 3.E below.

2. **RIGHTS OF GRANTEE.**

Subject to the provisions of this Agreement and the Plan, upon the issuance by the Company to Grantee of any Restricted Shares pursuant hereto, Grantee will become a stockholder with respect to all of the Restricted Shares granted to Grantee pursuant to Section 1 and will have all of the rights of a shareholder in the Company with respect to such Restricted Shares, including, without limitation, the right to receive notice of, attend and vote at meetings of the Company’s stockholders and to receive any dividend on such Restricted Shares that the Company may declare and pay from time to time; provided, however, that such Restricted Shares will be subject to the restrictions set forth in this Agreement.

3. **RESTRICTIONS ON COMMON STOCK SUBJECT TO THIS AGREEMENT.**

A. **Limitations on Transfer.**

Grantee agrees not to sell, transfer, pledge, exchange, hypothecate, grant any security interest in, or otherwise dispose of, any Restricted Shares before the date on which the restrictions lapse under Section 3.B, or enter into any agreement or make any commitment to do so. Any attempted sale, transfer, pledge, exchange, hypothecation or disposition of the Restricted Shares shall be null and void, and the Company shall not recognize or give effect to such transaction on its books and records (including the books and records of the Company’s transfer agent) or recognize the person or persons to whom such sale, transfer, pledge, exchange, hypothecation or disposition has been made as the legal or beneficial owner of the Restricted Shares.

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**B. Lapse of Restrictions.**

Subject to the other conditions in this Section 3, the restrictions on disposition of the Restricted Shares will lapse under the following schedule:

Grantee shall automatically vest with respect to 20% of the Restricted Shares for each of the below milestones that is achieved during the term of this Agreement, up to a maximum of five (5) milestones, with the effective date of each such vesting being the date such milestone has been achieved.

<b>Corporate Milestone</b>	<b>Measureable Event</b>	<b>Milestone Deadline</b>
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***

\*\*\*] The following portion has been omitted pursuant to a Confidential Treatment Request under Rule 24b-2 of the Securities Exchange Act of 1934 and has been filed separately with the Securities and Exchange Commission.

**C. Accelerated Vesting.**

Notwithstanding the provisions of Section 3.B hereof, all of the Restricted Shares, to the extent not already vested, shall fully vest on the first to occur of the following dates: (i) the effective date of a Change of Control (as that term is defined in the Plan), and (ii) the date on which Grantee ceases to be employed by the Company on account of his or her death or Disability (as that term is defined in the Plan); provided, however, that the restrictions on the disposition of the Restricted Shares will not lapse unless Grantee is employed by the Company or any Subsidiary (as that term is defined in the Plan) as of the date the restrictions expire.

**D. Forfeiture of Restricted Shares.**

Notwithstanding the provisions of Section 3.B hereof, if Grantee is an employee of the Company on the Date of Grant, and Grantee's employment is terminated by the Company or Grantee for any reason other than death or Disability (as that term is defined in the Plan) on or after the Date of Grant but prior to the lapse of any of the restrictions pursuant to Sections 3.B above, Grantee shall forfeit the Restricted Shares that are at that time subject to restrictions.

**E. Issuance of Certificates.**

The Company shall only be required to issue stock certificates representing those Restricted Shares whose restrictions have lapsed in accordance with the provisions of this Agreement. Within sixty (60) days following the lapse of restrictions on the Restricted Shares, the Company shall issue to Grantee a stock certificate representing such Restricted Shares. Notwithstanding the foregoing, the Company may electronically transfer any vested Restricted Shares to the Grantee in accordance with the instructions provided by Grantee.

**4. SECURITIES ACT.**

**A. Registration.**

The Company has the right, but not the obligation, to cause any of the Restricted Shares issued or issuable hereunder to be registered under the appropriate rules and regulations of the Securities and Exchange Commission.

**B. Condition on Delivery of Stock.**

The Company will not be required to deliver any Restricted Shares issuable hereunder if, in the opinion of counsel for the Company, the issuance would violate the Securities Act of 1933 or any other applicable federal or state securities laws or regulations. The Company may require Grantee, prior to or after the issuance of any Restricted Shares hereunder, to sign and deliver to the Company a written statement, in form and content acceptable to the Company in its sole discretion, that Grantee (i) is acquiring the shares for investment and not with a view to the sale or distribution thereof, (ii) will not sell any of such shares or any other Common Stock of the Company that Grantee may then own or hereafter acquire except with the prior written approval of the Company, and (iii) will comply with the Securities Act of 1933, the Securities Exchange Act of 1934 and all other applicable federal and state securities laws and regulations.

**5. REPRESENTATIONS OF GRANTEE.**

In connection with Grantee's receipt of the Restricted Shares, Grantee hereby represents and warrants to the Company as follows:

**A. Further Limitations on Disposition.**

Grantee understands and acknowledges that Grantee may not make any disposition, sale, or transfer (including transfer by gift or operation of law) of all or any portion of the Restricted Shares except as provided in this Agreement. Moreover, Grantee agrees to make no disposition of all or any portion of the Restricted Shares unless and until: (i) there is then in effect a registration statement under the Securities Act of 1933 covering such proposed disposition and such disposition is made in accordance with said Registration Statement; (ii) the resale provisions of Rule 701 or Rule 144 are available in the opinion of counsel to the Company; or (iii)(A) Grantee notifies the Company of the proposed disposition and has furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, (B) Grantee furnishes the Company with an opinion of Grantee's counsel to the effect that such disposition will not require registration of such Restricted Shares under the Securities Act, and (C) such opinion of Grantee's counsel shall have been concurred with by counsel for the Company and the Company shall have advised Grantee of such concurrence.

**B. Determination of Fair Market Value.**

Grantee understands Fair Market Value of the Restricted Shares shall be determined in accordance with the Plan.

**C. Section 83(b) Election.**

Grantee understands that Section 83 of the Internal Revenue Code of 1986 (the "Code") taxes as ordinary income the difference between the amount paid for the Restricted Shares and the Fair Market Value of the Restricted Shares as of the date any restrictions on the Restricted Shares lapse. In this context, "restriction" means the restrictions set forth in Section 3.

**6. NONTRANSFERABILITY OF AGREEMENT.**

Grantee may not assign or transfer Grantee's rights under this Agreement, nor may Grantee subject such rights (or any of them) to execution, attachment, garnishment or similar process. In the event of any such occurrence, this Agreement, and all of Grantee's rights hereunder, will automatically be terminated and will thereafter be null and void.

**7. FEDERAL AND STATE TAXES.**

Grantee may incur certain liabilities for federal, state or local taxes in connection with the issuance and/or vesting of the Restricted Shares hereunder. The Company and the Grantee agree that the Company shall pay any federal, state, local or foreign employment or income taxes due upon the vesting of the Restricted Shares (or otherwise). The amount to be paid by the Company to the applicable taxing authorities for the required income tax withholding shall be "grossed up" and calculated by taking the Fair Market Value of the Restricted Shares that have vested on each vesting date and multiplied by the required tax withholding rates at the then current applicable federal and state income tax bonus withholding rates and dividing such result by sixty percent (60%). The amount so calculated shall be treated and reported as bonus compensation paid to Grantee in the year in which paid by the Company.

**8. ADJUSTMENT OF SHARES.**

The number of Restricted Shares issued to Grantee pursuant to this Agreement will be adjusted in accordance with the Plan in the event of a change in the Company's capital structure. Such number of shares may also be adjusted based on any withholding of compensation by the Company as provided in the last sentence of Section 7 hereof.

**9. AMENDMENT OF THIS AGREEMENT; TERMINATION.**

This Agreement may only be amended with the written approval of Grantee and the Company. Notwithstanding the foregoing sentence, the Company may at any time, upon written notice to Grantee, (i) amend or terminate the Plan, or (ii) terminate this Agreement; provided, however, that termination of this Agreement by the Company will be with respect to future issuances of Restricted Shares only, and will have no effect on Grantee's or the Company's rights and obligations hereunder, including, outstanding restrictions on the sale, transfer, pledge, exchange, hypothecation or disposition of the Restricted Shares issued to Grantee hereunder before the effective date of such termination.

**10. GOVERNING LAW.**

This Agreement shall be governed in all respects, whether as to validity, construction, capacity, performance, or otherwise, by the laws of the State of California, without giving effect to choice of law rules.

**11. SEVERABILITY.**

If any provision of this Agreement, or the application of any such provision to any person or circumstance, is held to be unenforceable or invalid by any court of competent jurisdiction or under any applicable law, the parties hereto will negotiate an equitable adjustment to the provisions of this Agreement with the view to effecting, to the greatest extent possible, the original purpose and intent of this Agreement, and in any event, the validity and enforceability of the remaining provisions of this Agreement will not be affected thereby.

**12. ENTIRE AGREEMENT.**

This Agreement and the provisions of the Plan applicable hereto constitute the entire, final and complete agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, promises, understandings, negotiations, representations and commitments, both written and oral, between the parties hereto with respect to the subject matter hereof. Neither party hereto will be bound by or liable for any statement, representation, promise, inducement, commitment or understanding of any kind whatsoever not expressly set forth in this Agreement or in the Plan.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized representative and Grantee has signed this Agreement as of the day and year first written above.

**PEREGRINE PHARMACEUTICALS, INC.**

By: /s/ Steven W. King

Steven W. King  
President and Chief Executive Officer

**GRANTEE:**

\_\_\_\_\_  
Signature

**Name: [First and Last Name]**



**PEREGRINE PHARMACEUTICALS, INC.**  
**Subsidiaries of Registrant**

On August 28, 2006, the Company established a wholly owned subsidiary, Peregrine (Beijing) Pharmaceutical Technology Ltd. in the Haidian District, Beijing, Peoples Republic of China.

During January 2002, the Company announced the formation of Avid Bioservices, Inc., a wholly owned subsidiary of Peregrine Pharmaceuticals, Inc.

On April 24, 1997, the Company acquired its wholly owned subsidiary, Vascular Targeting Technologies, Inc. (formerly known as Peregrine Pharmaceuticals, Inc.).



**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-164026, 333-130271, 333-121334, 333-106385, 333-57046, and 333-17513; Form S-3 Nos. 333-160572 and 333-139975) of Peregrine Pharmaceuticals, Inc. and in the related Prospectuses of our reports dated July 14, 2010, with respect to the consolidated financial statements and schedule of Peregrine Pharmaceuticals, Inc., and the effectiveness of internal control over financial reporting of Peregrine Pharmaceuticals, Inc., included in this Annual Report (Form 10-K) for the year ended April 30, 2010.

/s/ Ernst & Young LLP

Orange County, California  
July 14, 2010

**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 annual report on Form 10-K 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 period 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: July 14, 2010

By: /s/ STEVEN W. KING

Steven W. King  
President & Chief Executive Officer, and 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 annual report on Form 10-K 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 period 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: July 14, 2010

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

