SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 1998

OR

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

Commission file number 0-17085

TECHNICLONE CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	95-3698422
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
14282 Franklin Avenue, Tustin, California	92780-7017
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

Registrant's telephone number, including area code: (714) 508-6000

NOT APPLICABLE
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED, SINCE LAST REPORT)

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 X NO .
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APPLICABLE ONLY TO CORPORATE ISSUERS:

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

66,840,971 shares of Common Stock
as of November 30, 1998

PART I -- FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

The following unaudited financial statements required to be provided by this Item 1 and Rule 10.01 of Regulation S-X are filed herewith, at the respective pages indicated on this Quarterly Report on Form 10-Q:

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS. Except for historical information contained herein, this Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. In light of the important factors that can materially affect results, including those set forth elsewhere in this Form 10-Q, the inclusion of forward-looking information should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. The Company may encounter competitive, technological, financial and business challenges making it more difficult than expected to continue to develop, market and manufacture its products; competitive conditions within the industry may change adversely; upon development of the Company's products, demand for the Company's products may weaken; the market may not accept the Company's products; the Company may be unable to retain existing key management personnel; the Company's forecasts may not accurately anticipate market demand; and there may be other material adverse changes in the Company's operations or business. Certain important factors affecting the forward-looking statements made herein include, but are not limited to, the risks and uncertainties associated with completing pre-clinical and clinical trials for the Company's technologies; obtaining additional financing to support the Company's operations; obtaining regulatory approval for such technologies; complying with other governmental regulations applicable to the Company's business; obtaining the raw materials necessary in the development of such compounds; consummating collaborative arrangements with corporate

partners for product development; achieving milestones under collaborative arrangements with corporate partners; developing the capacity to manufacture, market and sell the Company's products, either directly or indirectly with collaborative partners; developing market demand for and acceptance of such products; competing effectively with other pharmaceutical and biotechnological products; attracting and retaining key personnel; protecting proprietary rights; accurately forecasting operating and capital expenditures, other commitments, or clinical trial costs, general economic conditions and other factors. Assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause the Company to alter its capital expenditure or other budgets, which may in turn affect the Company's business, financial position and results of operations.

GOING CONCERN. The accompanying 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. As shown in the financial statements, the Company experienced losses in fiscal 1998 and during the first six months of fiscal 1999 and has an accumulated deficit at October 31, 1998 of $79,991,000. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The Company must raise additional funds to sustain research and development, provide for future clinical trials and continue its operations until it is able to generate sufficient additional revenue from the sale and/or licensing of its products. The Company plans to obtain required financing through one or more methods including, a sale and subsequent leaseback of its facilities, obtaining additional equity or debt financing and negotiating a licensing or collaboration agreements with another company. There can be no assurance that the Company will be successful in raising such funds on terms acceptable to it, or at all, or that sufficient additional capital will be raised to complete the research, development, and clinical testing of the Company's product candidates. The Company's future success is dependent upon raising additional money to provide for the necessary operations of the Company. If the Company is unable to obtain additional financing, there would be a material adverse effect on the Company's business, financial position and results of operations. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required and, ultimately, to attain successful operations.

Management believes that additional capital must be raised to support the Company's continued operations and other short-term cash needs. The Company believes that it has sufficient cash on hand to meet its obligations on a timely basis through December 31, 1998. Should the Company complete the sale and subsequent leaseback of its facilities by December 31, 1998, the Company believes it would have sufficient cash on hand and available pursuant to the financing commitments under the Equity Line of Credit to meet its obligations on a timely basis through April 1999.

RESULTS OF OPERATIONS. The Company's net loss of $3,504,000, before preferred stock discount accretion and dividends, for the quarter ended October 31, 1998 represents an increase in net loss of $75,000 in comparison to the net loss of $3,429,000 for the prior year quarter ended October 31, 1997. This increase in the net loss for the quarter ended October 31, 1998 is due to a decrease in total revenues of $77,000 offset by a decrease in total costs and expenses of $2,000. The Company's net loss of $6,810,000 for the six months ended October 31, 1998 represents an increase in losses of $1,110,000 over the six months ended October 31, 1997. The increased loss for the six months ended October 31, 1998 is due to a $203,000 decrease in total revenues and a $907,000 increase in total costs and expenses.

The decrease in total revenues for the quarter and six month period ended October 31, 1998 of $77,000 and $203,000, respectively, compared to the same periods in the prior year, is primarily attributable to a decrease in interest income of $74,000 and $190,000 for the same respective periods. Interest income decreased during the quarter and six month period ended October 31, 1998 due to a lower level of cash funds available for investment. Interest income is not expected to be significant during the remainder of the fiscal year due to the expected level of future cash balances. The Company does not expect to generate product sales during the fiscal year ending April 30, 1999.

The Company's total costs and expenses decreased approximately $2,000 during the quarter ended October 31, 1998, in comparison to the same prior quarterly period ended October 31, 1997. This decrease in total costs and expenses resulted from a $365,000 decrease in general and administrative expenses offset by a $321,000 increase in research and development expenses and a $42,000 increase in interest expense, in comparison to the prior year quarter ended October 31, 1997. The Company's total costs and expenses increased $907,000 for the six months ended October 31, 1998 compared to the same period in the prior year. This six month increase resulted from a $765,000 increase in research and development expenses and a $233,000 increase in interest expense offset by a $4,000 decrease in cost of sales and a $87,000 decrease in general and administrative expenses.

The increase in research and development expenses of approximately $321,000 and $765,000 during the quarter and six months ended October 31, 1998, respectively, primarily relates to increased clinical trial costs associated with the Phase II/III clinical trials of Oncolym(R) and the Phase I and anticipated Phase II clinical trials of Tumor Necrosis Therapy ("TNT"). The increase in clinical trial costs resulted from increased patient fees, manufacturing and radiolabeling costs, and travel and consulting fees. In addition, internal research and development activities increased, including activities related to manufacturing and radiopharmaceutical scale-up and increased efforts to validate the manufacturing facility which caused a corresponding increase in related costs.

The decrease in general and administrative expenses of $365,000 during the quarter ended October 31, 1998 compared to the quarter ended October 31, 1997 resulted primarily from a non-recurring expense of $276,000 incurred in the quarter ended October 31, 1997 with respect to a penalty related to the Class C Preferred Stock combined with a decrease in consulting fees associated with Peregrine Pharmaceuticals, Inc. of approximately $122,000 and an approximate $75,000 decrease in general corporate administrative expenses. Such decreases were partially offset by an increase in stock related severance expenses of approximately $108,000 for the quarter ended October 31, 1998 to the Company's former Chief Executive Officer and former Vice President of Operations and Administration. General and administrative expenses decreased approximately $87,000 for the six months ended October 31, 1998 compared to the same period in the prior year. Such decrease was primarily due to the aforementioned non-recurring expense of $276,000 combined with a decrease in consulting fees associated with Peregrine Pharmaceuticals, Inc. of approximately $122,000 and an approximate $40,000 decrease in general corporate administrative expenses. Such decreases were partially offset by an increase in non-cash related severance expenses of approximately $351,000 for the six months ended October 31, 1998 to the Company's former Chief Executive Officer and former Vice President of Operations and Administration.

The increase in interest expense of approximately $42,000 and $233,000 for the quarter and six month periods ended October 31, 1998 compared to the same respective periods in the prior year is primarily due to a higher level of interest bearing debt outstanding during the quarter and six month periods ended October 31, 1998 for construction loans owed to one of the Company's contractors related to enhancements to the Company's manufacturing facility. For the quarter and six months ended October 31, 1998, approximately $83,000 and $115,000, respectively, was included in interest expense, which amount represents the estimated fair value of 335,000 warrants granted to the above contractor for an extension of time to pay the outstanding construction loans. The construction loans were paid in full in August 1998.

Management believes that research and development costs as well as general and administrative expenses will increase as the Company continues to expand its clinical trial activities and increases production and radiolabeling capabilities for its Oncolym(R) and TNT antibodies.

LIQUIDITY AND CAPITAL RESOURCES. At October 31, 1998, the Company had $1,599,000 in cash and cash equivalents and a working capital deficit of $1,104,000. The Company experienced losses in fiscal 1998 and during the first six months of fiscal 1999 and had an accumulated deficit of approximately $79,991,000 at October 31, 1998. The Company has significant commitments to expend additional funds for radiolabeling contracts, license contracts, severance arrangements and consulting. The Company expects operating expenditures related to clinical trials to increase in the future as the Company's clinical trial activity increases and scale-up for clinical trial production continues. The Company has experienced negative cash flows from operations since its inception and expects the negative cash flow from operations to continue for the foreseeable future. The Company expects that the monthly negative cash flow will continue for at least the next year as a result of increased activities in connection with the Phase II/III clinical trials for Oncolym(R) and the Phase I and Phase II clinical trials of TNT and the development costs associated with Vasopermeation Enhancement Agents ("VEAs") and Vascular Targeting Agents ("VTAs"). The Company believes that it will be necessary for it to raise additional capital to sustain research and development and provide for future clinical trials. Additional funds must be raised to continue its operations until the Company is able to generate sufficient additional revenue from the sale and/or licensing of its products. There can be no assurance that the Company will be successful in raising such funds on terms acceptable to it, or at all, or that sufficient capital will be raised to complete the research and development of the Company's product candidates.

The increased clinical trial activities and the manufacturing and radiolabeling scale-up efforts have impacted the Company's losses and cash consumption rate ("burn rate"). The Company believes it can only reduce the burn rate significantly if it reduces programs substantially or delays clinical trials and continued development of its scale-up efforts. The Company believes that it will continue to experience losses and negative cash flow from operations for the foreseeable future as it increases activities associated with the Phase II/III clinical trials for Oncolym(R) and Phase I and Phase II clinical trials for TNT and activities associated with the Company's research and development of its other technologies.

COMMITMENTS. At October 31, 1998, the Company had fixed commitments of approximately $2,199,000 related to radiolabeling contracts, license contracts, severance arrangements, employment agreements and consulting agreements. In addition, the Company has additional significant obligations, most of which are

contingent, for payments to licensors for its technologies and in connection with the acquisition of the Oncolym(R) rights previously owned by Alpha Therapeutic Corporation ("Alpha") and Biotechnology Development Ltd. ("BTD"). While most of the obligation to Alpha is contingent upon the Company attaining certain milestones relating to the development of Oncolym(R), the Company presently believes the milestones are achievable and that it will incur these milestone obligations. The Company is actively pursuing a partner to assist with the marketing and development costs of Oncolym(R).

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

FLUCTUATION OF FUTURE OPERATING RESULTS. A number of factors could cause actual results to differ materially from anticipated future operating results. These factors include worldwide economic and political conditions and industry specific factors. If the Company is to remain competitive and is to timely develop and produce commercially viable products at competitive prices in a timely manner, it must maintain access to external financing sources until it can generate revenue from licensing transactions or sales of products. The Company's ability to obtain financing and to manage its expenses and cash depletion rate ("burn rate") is the key to the Company's continued development of product candidates and the completion of ongoing clinical trials. The Company expects that its burn rate will vary substantially from quarter to quarter as it funds non-recurring items associated with clinical trials, product development, antibody manufacturing and radiolabeling expansion and scale-up, patent legal fees and various consulting fees. The Company has limited experience with clinical trials and if the Company encounters unexpected difficulties with its operations or clinical trials, it may have to expend additional funds, which would increase its burn rate.

EARLY STAGE OF DEVELOPMENT. Since its inception, the Company has been engaged in the development of drugs and related therapies for the treatment of people with cancer. The Company's product candidates are generally in the early stages of development, with two product candidates currently in clinical trials. Revenues from product sales have been insignificant and throughout the Company's history there have been minimal revenues from product royalties. If the initial results from any of the clinical trials are poor, then management believes that those results will adversely effect the Company's ability to raise additional capital, which will affect the Company's ability to continue full-scale research and development for its antibody technologies. Additionally, product candidates resulting from the Company's research and development efforts, if any, are not expected to be available commercially for at least the next year. No assurance can be given that the Company's product development efforts, including clinical trials, will be successful, that required regulatory approvals for the indications being studied can be obtained, that its product candidates can be manufactured and radiolabeled at an acceptable cost and with appropriate quality or that any approved products can be successfully marketed.

NEED FOR ADDITIONAL CAPITAL. The Company has experienced negative cash flows from operations since its inception and expects the negative cash flow from operations to continue for the foreseeable future. The Company currently has commitments to expend additional funds for clinical trials, radiolabeling contracts, license contracts, severance arrangements, employment agreements, consulting agreements and for the repurchase of Oncolym(R) marketing rights from Alpha and BTD. The Company expects operating expenditures related to clinical trials to increase in the future as the Company's clinical trial activity increases and scale-up for clinical trial production continues. As a result of increased activities in connection with the Phase II/III clinical trials for Oncolym(R) and Phase I and Phase II clinical trials for TNT and the development costs associated with VEAs and VTAs, the Company expects that the monthly negative cash flow will continue.

The Company has entered into an agreement for the sale and subsequent leaseback of its facilities, which consists of two buildings located in Tustin, California. The sale/leaseback transaction is with an unrelated entity and provides for the leaseback of the Company's facilities for a twelve-year period with two five-year options to renew. While the sale/leaseback agreement is in escrow, it is subject to completion of normal due diligence procedures by the buyer and there is no assurance that the transaction will be completed on a timely basis or at all.

Without obtaining additional financing or completing the aforementioned sale/leaseback transaction, the Company believes that it has sufficient cash on hand to meet its obligations on a timely basis through December 31, 1998. Should the Company complete the sale and subsequent leaseback of its facilities by December 31, 1998, the Company believes it would have sufficient cash on hand and available pursuant to such equity line financing facility to meet its obligations on a timely basis through April, 1999. The Company's ability to access funds under such equity line financing facility is subject to the satisfaction of certain conditions precedent and the failure to satisfy these conditions may limit or preclude the Company's ability to access such funds, which could adversely affect the Company's business, immediate liquidity, financial position and results of operations unless additional financing sources are available.

The Company must raise additional funds to sustain its research and development efforts, provide for future clinical trials, expand its manufacturing and radiolabeling capabilities, and continue its operations until it is able to generate sufficient additional revenue from the sale and/or licensing of its products. The Company will be required to obtain financing through one or more methods, including the aforementioned sale and subsequent leaseback of its facilities, obtaining additional equity or debt financing and/or negotiating a licensing or collaboration agreement with another company. There can be no assurance that the Company will be successful in raising these funds on terms acceptable to it, or at all, or that sufficient additional capital will be raised to complete the research, development, and clinical testing of the Company's product candidates. The Company's future success is dependent upon raising additional money to provide for the necessary operations of the Company. If the Company is unable to obtain additional financing, the Company's business, financial position and results of operations would be adversely affected.

ANTICIPATED FUTURE LOSSES. The Company has experienced significant losses since inception. As of October 31, 1998, the Company's accumulated deficit was approximately $79,991,000. The Company expects to incur significant additional operating losses in the future and expects cumulative losses to increase substantially due to expanded research and development efforts, preclinical studies and clinical trials, and scale-up of manufacturing and radiolabeling capabilities. The Company expects losses to fluctuate substantially from quarter to quarter. All of the Company's products are in development, preclinical studies or clinical trials, and no significant revenues have been generated from product sales. To achieve and sustain profitable operations, the Company, alone or with others, must successfully develop, obtain regulatory approval for, manufacture, introduce, market and sell its products. The time frame necessary to achieve market success is long and uncertain. The Company does not expect to generate significant product revenues for at least the next year. There can be no assurance that the Company will ever generate product revenues sufficient to become profitable or to sustain profitability.

TECHNOLOGICAL UNCERTAINTY. The Company's future success depends significantly upon its ability to develop and test workable products for which the Company will seek approval by the United States Food and Drug Administration ("FDA") to market to certain defined groups. A significant risk remains as to the technological performance and commercial success of the Company's technology and products. The products currently under development by the Company will

require significant additional laboratory and clinical testing and investment over the foreseeable future. The research, development and testing activities, together with the resulting increases in associated expenses, are expected to result in operating losses for the foreseeable future. Although the Company is optimistic that it will be able to complete development of one or more of its products, (i) the Company's research and development activities may not be successful; (ii) proposed products may not prove to be effective in clinical trials; (iii) patient enrollment in the clinical trials may be delayed or prolonged significantly, thus delaying the trials (iv) the Company's product candidates may cause harmful side effects during clinical trials; (v) the Company's product candidates may take longer to progress through clinical trials than has been anticipated; (vi) the Company's product candidates may prove impracticable to manufacture in commercial quantities at a reasonable cost and/or with acceptable quality; (vii) the Company may not be able to obtain all necessary governmental clearances and approvals to market its products; (viii) the Company's product candidates may not prove to be commercially viable or successfully marketed; or (ix) the Company may not ever achieve significant revenues or profitable operations. In addition, the Company may encounter unanticipated problems, including development, manufacturing, distribution, financing and marketing difficulties. The failure to adequately address these difficulties could adversely affect the Company's business, financial position and results of operations.

The results of initial preclinical and clinical testing of the products under development by the Company are not necessarily indicative of results that will be obtained from subsequent or more extensive preclinical studies and clinical testing. The Company's clinical data gathered to date with respect to its Oncolym(R) antibody are primarily from a series of Phase I and Phase II trials which were designed to develop and refine the therapeutic protocol to determine the maximum tolerated dose of total body radiation and to assess the safety and efficacy profile of treatment with a radiolabeled antibody. Further, the data from this Phase II dose escalation trial were compiled from testing conducted at a single site and with a relatively small number of patients. Substantial additional development and clinical testing and investment will be required prior to seeking any regulatory approval for commercialization of this potential product. There can be no assurance that clinical trials of Oncolym(R), TNT or other product candidates under development will demonstrate the safety and efficacy of such products to the extent necessary to obtain regulatory approvals for the indications being studied, or at all. Companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier trials. The failure to adequately demonstrate the safety and efficacy of Oncolym(R), TNT or any other therapeutic product under development could delay or prevent regulatory approval of the product and would adversely affect the Company's business, financial condition and results of operations.

LENGTHY REGULATORY PROCESS; NO ASSURANCE OF REGULATORY APPROVALS. Testing, manufacturing, radiolabeling, advertising, promotion, export and marketing, among other things, of the Company's proposed products are subject to extensive regulation by governmental authorities in the United States and other countries. In the United States, pharmaceutical products are regulated by the FDA under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, the Company believes that its products will be regulated by the FDA as biologics. Manufacturers of biologics may also be subject to state regulation.

The steps required before a biologic may be approved for marketing in the United States generally include (i) preclinical laboratory tests and animal tests, (ii) the submission to the FDA of an Investigational New Drug ("IND") application for human clinical testing, which must become effective before human

clinical trials may commence, (iii) adequate and well-controlled human clinical trials to establish the safety and efficacy of the product, (iv) the submission to the FDA of a Product License Application ("PLA") or a Biologics License Application ("BLA"), (v) the submission to the FDA of an Establishment License Application ("ELA"), (vi) FDA review of the ELA and the PLA or BLA, and (vii) satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the product is made to assess compliance with Current Good Manufacturing Practices ("CGMP"). The testing and approval process requires substantial time, effort and financial resources and there can be no assurance that any approval will be granted on a timely basis, if at all. There can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specific time period, if at all, with respect to any of the Company's product candidates. Furthermore, the FDA 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.

The results of preclinical and clinical studies, together with detailed information on the manufacture and composition of a product candidate, are submitted to the FDA as a PLA or BLA requesting approval to market the product candidate. Before approving a PLA or BLA, the FDA will inspect the facilities at which the product is manufactured, and will not approve the marketing of the product candidate unless CGMP compliance is satisfactory. The FDA may deny a PLA or BLA if applicable regulatory criteria are not satisfied, require additional testing or information, and/or require post-marketing testing and surveillance to monitor the safety or efficacy of a product. There can be no assurance that FDA approval of any PLA or BLA submitted by the Company will be granted on a timely basis or at all. Also, if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which it may be marketed.

Both before and after approval is obtained, violations of regulatory requirements, including the preclinical and clinical testing process, or the PLA or BLA review process may result in various adverse consequences, including the FDA's delay in approving or refusing to approve a product, withdrawal of an approved product from the market, and/or the imposition of criminal penalties against the manufacturer and/or license holder. For example, license holders are required to report certain adverse reactions to the FDA, and to comply with certain requirements concerning advertising and promotional labeling for their products. Also, quality control and manufacturing procedures must continue to conform to CGMP regulations after approval, and the FDA periodically inspects manufacturing facilities to assess compliance with CGMP. Accordingly, manufacturers must continue to expend time, monies and effort in the area of production and quality control to maintain CGMP compliance. In addition, discovery of problems may result in restrictions on a product, manufacturer, including withdrawal of the product from the market. Also, new government requirements may be established that could delay or prevent regulatory approval of the Company's product candidates.

The Company will also be subject to a variety of foreign regulations governing clinical trials and sales of its products. Whether or not FDA approval has been obtained, approval of a product candidate by the comparable regulatory authorities of foreign countries must be obtained prior to the commencement of marketing of the product in those countries. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. At least initially, the Company intends, to the extent possible, to rely on licensees to obtain regulatory approval for marketing its products in foreign countries.

COMMERCIAL PRODUCTION. To conduct clinical trials on a timely basis, obtain regulatory approval and be commercially successful, the Company must scale-up its manufacturing and radiolabeling processes and ensure compliance with regulatory requirements of its product candidates so that those product

candidates can be manufactured and radiolabeled in increased quantities. As the Company's products currently in clinical trials, Oncolym(R) and TNT, move towards FDA approval, the Company or contract manufacturers must scale-up the production processes to enable production and radiolabeling in commercial quantities. The Company has expended significant funds for the scale-up of its antibody manufacturing capabilities for clinical trial requirements for its Oncolym(R) and TNT products and for refinement of its radiolabeling processes. If the Company were to commercially self-manufacture either of these products, it will have to expend an estimated additional six to ten million dollars for production facility expansion. However, the Company believes it can successfully negotiate an agreement with contract antibody manufacturers to have these products produced with approximately one to three million in start-up costs and additional production costs on a "per run basis", thereby deferring or reducing the significant expenditure (six to ten million dollars) estimated to scale-up manufacturing. The Company believes that it can successfully negotiate an agreement with contract radiolabeling companies to provide radiolabeling services to meet commercial demands. Such a contract would, however, require a substantial investment by the Company (estimated at five to nine million dollars over the next two years) for equipment and related production area enhancements required by these vendors, and for vendor services associated with technology transfer assistance, scale-up and production start-up, and for regulatory assistance. The Company anticipates that production of its products in commercial quantities will create technical and financial challenges for the Company. The Company has limited manufacturing experience, and no assurance can be given as to the Company's ability to scale-up its manufacturing operations, the suitability of the Company's present facility for clinical trial production or commercial production, the Company's ability to make a successful transition to commercial production and radiolabeling or the Company's ability to reach an acceptable agreement with contract manufacturers to produce and radiolabel Oncolym(R), TNT, or the Company's other product candidates, in clinical or commercial quantities. The failure of the Company to scale-up its manufacturing and radiolabeling for clinical trial or commercial production or to obtain contract manufacturers, could adversely affect the Company's business, financial position and results of operations.

SHARES ELIGIBLE FOR FUTURE SALE; DILUTION. The decline in the market price of the Company's Common Stock has lead to substantial dilution to holders of Common Stock. Under the terms of the Company's agreement with the holders of the Class C Stock, the shares of the Class C Stock are convertible into shares of the Company's Common Stock at the lower of a conversion cap of $0.5958 (the "Conversion Cap") or a conversion price equal to the average of the lowest trading price of the Company's Common Stock for the five consecutive trading days ending with the trading date prior to the date of conversion reduced by 27 percent. The Company's agreement with the holders of the Class C Stock also provides that upon conversion, the holders of the Class C Stock will also receive warrants to purchase one-fourth of the number of shares of Common Stock issued upon conversion of the Class C Stock at an exercise price of $0.6554 per share (or 110% of the Conversion Cap), which warrants will expire in April 2002 (the "Class C Warrants"). Dividends on the Class C Stock are payable quarterly in shares of Class C Stock or cash, at the option of the Company, at the rate of $50.00 per share per annum.

From September 26, 1997 (the date the Class C Stock became convertible into Common Stock) through November 30, 1998, 13,703 shares of Class C Stock, including Class C dividend shares and additional shares of Class C Stock issued during fiscal year 1998 (as described below), were converted into 24,719,415 shares of Common Stock, resulting in substantial dilution to the common stockholders. In addition, in conjunction with the conversion of the Class C Stock, the holders were granted warrants to purchase shares of Common Stock of the Company. Class C Warrants to purchase 6,144,537 shares of common stock have been exercised on a combined cash and cashless basis through November 30, 1998, at an exercise price of $.6554 per share, in exchange for 5,831,980 shares of

common stock and proceeds to the Company of $3,599,901. As of November 30, 1998, Warrants to purchase 35,244 shares of common stock were outstanding. During fiscal year 1998, the registration statement required to be filed by the Company pursuant to the Company's agreement with the holders of the Class C Stock was not declared effective by the 180th day following the closing date of such offering, and therefore, the Company was required to issue an additional 325 shares of Class C Stock, calculated in accordance with the terms of such agreement. At November 30, 1998, 270 shares of Class C Stock remained outstanding and may be converted into shares of Common Stock at the lower of a 27% discount from the average of the lowest market trading price for the five consecutive trading days preceding the date of conversion or $.5958 per share. Assuming the conversion of all of such remaining shares of Class C Stock at the Conversion Cap, the Company is required to issue to the holders of the Class C Stock upon conversion thereof an aggregate of approximately 453,000 shares of Common Stock and Class C Warrants to purchase an aggregate of up to approximately 113,000 shares of Common Stock at a purchase price of $.6554 per share.

Sales, particularly short selling, of substantial amounts of shares of Common Stock in the public market have adversely affected and may continue to adversely affect the prevailing market price of the Common Stock and, depending upon the then current market price of the Common Stock, increase the risks associated with the possible conversion of the Class C Stock and the Class C Warrants. From September 26, 1997, the date on which the Class C Stock was first convertible through March 1998, the price of the Company's Common Stock steadily declined while the average trading volume increased significantly.

Pursuant to the terms of a Regulation D Common Stock Equity Line Subscription Agreement dated as of June 16, 1998 (the "Equity Line Agreement"), between the Company and two institutional investors (the "Equity Line Investors") (and assuming, solely for purposes of this Form 10-Q, a 10-day low closing bid price per share of not less than $1.00, which allows the Company to sell the maximum number of shares of Common Stock to the Equity Line Investors for maximum proceeds of $16,500,000), the Company may, at its option, sell to the Equity Line Investors up to 20,625,000 shares of Common Stock (the "Equity Line Investor Shares") and issue warrants to the Equity Line Investors to purchase up to an additional 2,062,500 shares of Common Stock (the "Equity Line Investor Warrants"). The price at which the Equity Line Investor Shares will be issued and sold by the Company to the Equity Line Investors will be equal to (i) 82.5% of the lowest closing bid price during the ten trading days (the "10 day low closing bid price") immediately preceding the date on which such shares are sold to the Equity Line Investors, or (ii) if 82.5% of such 10 day low closing bid price results in a discount of less than twenty cents ($0.20) per share from such 10 day low closing bid price, such 10 day low closing bid price minus twenty cents ($0.20). In addition, the Company may be obligated to issue to the Equity Line Investors an additional 954,545 shares of Common Stock upon adjustment of the purchase price of shares of Common Stock already issued to the Equity Line Investors on the three-month and six-month anniversary of the date on which the registration statement with respect to such shares is declared effective by the Commission (the "Adjustment Shares"). In addition, pursuant to the terms of a Placement Agent Agreement dated as of June 16, 1998 entered into by the Company in connection with the execution and delivery of the Equity Line Agreement (the "Placement Agent Agreement"), the Company may also be obligated to issue to the placement agent up to 1,726,364 shares of Common Stock (the "Equity Line Placement Agent Shares") and warrants to purchase up to an additional 165,000 shares of Common Stock (the "Equity Line Placement Agent Warrants"). The Company will not receive any proceeds from the exercise of the Equity Line Investor Warrants or the Equity Line Placement Agent Warrants, which may only be exercised pursuant to a cashless exercise in accordance with the express terms thereof.

In addition to the Class C Warrants, Equity Line Investor Warrants and Equity Line Placement Agent Warrants, at November 30, 1998, the Company had outstanding warrants and options to employees, directors, consultants and other parties to issue approximately 8,591,000 shares of Common Stock at an average price of $1.12 per share.

The sale and issuance of the Equity Line Investor Shares may result in substantial dilution to the existing holders of Common Stock. The issuance of the Equity Line Investor Shares, the Adjustments Shares and the Equity Line Placement Agent Shares, and the issuance of shares of Common Stock issuable upon conversion of the remaining Class C Stock and upon exercise of the remaining Class C Warrants, the Equity Line Investor Warrants, the Equity Line Placement Agent Warrants and such other outstanding warrants and options, as well as subsequent sales of the Equity Line Investor Shares, the Adjustment Shares, the Equity Line Placement Agent Shares and such shares of Common Stock in the open market, could adversely affect the market price of the Company's Common Stock and impair the Company's ability to raise additional capital.

STOCK PRICE FLUCTUATIONS AND LIMITED TRADING VOLUME. The market price of the Company's Common Stock, and the market prices of securities of companies in the biotechnology industry generally, have been highly volatile. Also, at times there is a limited trading volume in the Company's Common Stock. Announcements of technological innovations or new commercial products by the Company or its competitors, developments or disputes concerning patent or proprietary rights, publicity regarding actual or potential medical results relating to products under development by the Company or its competitors, regulatory developments in both the United States and foreign countries, public concern as to the safety of biotechnology products and economic and other external factors, as well as period-to-period fluctuations in financial results may have a significant impact on the market price of the Company's Common Stock. The volatility in the stock price and the potential additional new shares of common stock that may be issued on the exercise of warrants and options and the historical limited trading volume are significant risks investors should consider.

MAINTENANCE CRITERIA FOR NASDAQ SMALLCAP MARKET, RISKS OF LOW-PRICED SECURITIES. The Company's Common Stock is presently traded on the Nasdaq SmallCap Market. To maintain inclusion on the Nasdaq SmallCap Market, the Company's Common Stock must continue to be registered under Section 12(g) of the Exchange Act, and the Company must continue to have either net tangible assets of at least $2,000,000, market capitalization of at least $35,000,000, or net income (in either its latest fiscal year or in two of its last three fiscal years) of at least $500,000. In addition, the Company must meet other requirements, including, but not limited to, having a public float of at least 500,000 shares and $1,000,000, a minimum closing bid price of $1.00 per share of Common Stock (without falling below this minimum bid price for a period of 30 consecutive business days), at least two market makers and at least 300 stockholders, each holding at least 100 shares of Common Stock. For the period of January 29, 1998 through May 4, 1998, the Company failed to maintain a $1.00 minimum closing bid price. From May 5, 1998, through September 2, 1998, the Company met this requirement. However, at various times since September 2, 1998, the Company has failed to maintain a $1.00 minimum closing bid price and currently expects the closing bid price of the Common Stock to fall below the $1.00 minimum bid requirement from time to time in the future. If the Company fails to meet the minimum closing bid price of $1.00 for a period of 30 consecutive business days, it will be notified by the Nasdaq and will then have a period of 90 calendar days from such notification to achieve compliance with the applicable standard by meeting the minimum closing bid price requirement for at least 10 consecutive business days during such 90 day period. There can be no assurance that the Company will be able to maintain these requirements in the future. If the Company fails to meet the Nasdaq SmallCap Market listing requirements, the market value of the Common Stock could decline and holders of

the Company's Common Stock would likely find it more difficult to dispose of and to obtain accurate quotations as to the market value of the Common Stock. In addition, if the Company's Common Stock closing minimum bid price is not at least $1.00 per share for ten consecutive days before a call by the Company under the Equity Line Agreement or if the Company's Common Stock ceases to be included on the Nasdaq SmallCap Market, the Company would have limited or no access to funds under the Equity Line Agreement.

If the Company's Common Stock ceases to be included on the Nasdaq SmallCap Market, the Company's Common Stock could become subject to rules adopted by the Commission regulating broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price per share of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on Nasdaq, provided that current price and volume information with respect to transactions in these securities is provided). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Commission which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its sales person in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to these penny stock rules. If the Company's Common Stock becomes subject to the penny stock rules, investors may be unable to readily sell their shares of Common Stock.

INTENSE COMPETITION. The biotechnology industry is intensely competitive and changing rapidly. Virtually all of the Company's existing competitors have greater financial resources, larger technical staffs, and larger research budgets than the Company and greater experience in developing products and running clinical trials. Two of the Company's competitors, Idec Pharmaceuticals Corporation ("Idec") and Coulter Pharmaceuticals, Inc. ("Coulter"), each has a lymphoma antibody that may compete with the Company's Oncolym(R) product. Idec is currently marketing its lymphoma product for low grade non-Hodgkins Lymphoma and the Company believes that Coulter will be marketing its respective lymphoma product prior to the time the Oncolym(R) product will be submitted to the FDA for marketing approval. Coulter has also announced that it intends to seek to conduct clinical trials of its antibody treatment for intermediate and/or high grade non-Hodgkins lymphomas. There are several companies in preclinical studies with angiogenesis technologies which may compete with the Company's VTA technology. In addition, there may be other companies which are currently developing competitive technologies and products or which may in the future develop technologies and products which are comparable or superior to the Company's technologies and products. Some or all of these companies may also have greater financial and technical resources than the Company. Accordingly, there can be no assurance that the Company will be able to compete successfully or that competition will not adversely affect the Company's business, financial position and results of operations. There can be no assurance that the Company's existing and future competitors will not be able to raise substantial funds and to employ these funds and their other resources to develop products which compete with the Company's other product candidates.

UNCERTAINTIES ASSOCIATED WITH CLINICAL TRIALS. The Company has limited experience in conducting clinical trials. The rate of completion of the Company's clinical trials will depend on, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including the nature of the Company's clinical trial protocols, existence of competing protocols, size of the patient population, proximity of patients to clinical sites and eligibility criteria for the study. Delays in patient enrollment will result in increased costs and delays, which could adversely effect the Company. There is no assurance that patients enrolled in the Company's clinical trials will respond to the Company's product candidates. Setbacks are to be expected in conducting human clinical trials. Failure to comply with FDA regulations applicable to this testing can result in delay, suspension or cancellation of the testing, or refusal by the FDA to accept the results of the testing. In addition, the FDA may suspend clinical trials at any time if it concludes that the subjects or patients participating in such trials are being exposed to unacceptable health risks. Further, there can be no assurance that human clinical testing will show any current or future product candidate to be safe and effective or that data derived from the testing will be suitable for submission to the FDA. Any suspension or delay of any of the clinical trials could adversely effect the Company's business, financial condition and results of operations.

UNCERTAINTY OF MARKET ACCEPTANCE. Even if the Company's products are approved for marketing by the FDA and other regulatory authorities, there can be no assurance that the Company's products will be commercially successful. If the Company's two products in clinical trials, Oncolym(R) and TNT, are approved, they would represent a departure from more commonly used methods for cancer treatment. Accordingly, Oncolym(R) and TNT may experience under-utilization by oncologists and hematologists who are unfamiliar with the application of Oncolym(R) and TNT in the treatment of cancer. As with any new drug, doctors may be inclined to continue to treat patients with conventional therapies, in most cases chemotherapy, rather than new alternative therapies. The Company or its marketing partner will be required to implement an aggressive education and promotion plan with doctors in order to gain market recognition, understanding and acceptance of the Company's products. Market acceptance also could be affected by the availability of third party reimbursement. Failure of Oncolym(R) and TNT to achieve market acceptance would adversely affect the Company's business, financial condition and results of operations.

SOURCE OF RADIOLABELING SERVICES. The Company currently procures its radiolabeling services pursuant to negotiated contracts with one domestic entity and one European entity. There can be no assurance that these suppliers will be able to qualify their facilities, label and supply antibody in a timely manner, if at all, or that governmental clearances will be provided in a timely manner, if at all, and that clinical trials will not be delayed or disrupted. Prior to commercial distribution, the Company will be required to identify and contract with a commercial radiolabeling company for commercial services. The Company is presently in discussions with a few companies to provide commercial radiolabeling services. A commercial radiolabeling service agreement will require the investment of substantial funds by the Company. See "Commercial Production." The Company expects to rely on its current suppliers for all or a significant portion of its requirements for the Oncolym(R) and TNT antibody products to be used in clinical trials for the immediate future. Radiolabeled antibody cannot be stockpiled against future shortages due to the eight-day half-life of the I131 radioisotope. Accordingly, any change in the Company's existing or future contractual relationships with, or an interruption in supply from, its third-party suppliers could adversely affect the Company's ability to complete its ongoing clinical trials and to market the Oncolym(R) and TNT antibodies, if approved. Any such change or interruption would adversely affect the Company's business, financial condition and results of operations.

HAZARDOUS AND RADIOACTIVE MATERIALS. The manufacturing and use of the Company's Oncolym(R) and TNT require the handling and disposal of the radioactive isotope I131. The Company is relying on its current contract manufacturers to radiolabel its antibodies with I131 and to comply with various local, state and or national and international regulations regarding the handling and use of radioactive materials. Violation of these local, state, national or international regulations by these radiolabeling companies or a clinical trial site could significantly delay completion of the trials. Violations of safety regulations could occur with these manufacturers, so there is a risk of accidental contamination or injury. The Company could be held liable for any damages that result from an accident, contamination or injury caused by the handling and disposal of these materials, as well as for unexpected remedial costs and penalties that may result from any violation of applicable regulations, which could adversely effect the Company's business, financial condition and results of operations. In addition, the Company may incur substantial costs to comply with environmental regulations. In the event of any noncompliance or accident, the supply of Oncolym(R) and TNT for use in clinical trials or commercially could be interrupted, which could adversely affect the Company's business, financial condition and results of operations.

DEPENDENCE ON THIRD PARTIES FOR COMMERCIALIZATION. The Company intends to sell its products in the United States and internationally in collaboration with marketing partners. At the present time, the Company does not have a sales force to market Oncolym(R) or TNT. If and when the FDA approves Oncolym(R) or TNT, the marketing of Oncolym(R) and TNT will be contingent upon the Company either licensing or entering into a marketing agreement with a large company or rely upon it recruiting, developing, training and deploying its own sales force. The Company does not presently possess the resources or experience necessary to market Oncolym(R), TNT or its other product candidates. Other than the agreement with BTD, the Company presently has no agreements for the licensing or marketing of its product candidates, and there can be no assurance that the Company will be able to enter into any such agreements in a timely manner or on commercially favorable terms, if at all. Development of an effective sales force requires significant financial resources, time and expertise. There can be no assurance that the Company will be able to obtain the financing necessary or to establish such a sales force in a timely or cost effective manner, if at all, or that such a sales force will be capable of generating demand for the Company's product candidates.

PATENTS AND PROPRIETARY RIGHTS. The Company's success depends, in large part, on its ability to obtain or maintain a proprietary position in its products through patents, trade secrets and orphan drug designations. The Company has several United States patents or United States patent applications and numerous corresponding foreign patent applications, and has licenses to patents or patent applications owned by other entities. No assurance can be given, however, that the patent applications of the Company or the Company's licensors will be issued or that any issued patents will provide competitive advantages for the Company's products or will not be successfully challenged or circumvented by its competitors. The patent position worldwide of biotechnology companies in relation to proprietary products is highly uncertain and involves complex legal and factual questions. Moreover, any patents issued to the Company or the Company's licensors may be infringed by others or may not be enforceable against others. In addition, there can be no assurance that the patents, if issued, would be held valid or enforceable by a court of competent jurisdiction. Enforcement of the Company's patents may require substantial financial and human resources. The Company may have to participate in interference proceedings if declared by the United States Patent and Trademark Office to determine priority of inventions, which typically take several years to resolve and could result in substantial costs to the Company.

A substantial number of patents have already been issued to other biotechnology and biopharmaceutical companies. Particularly in the monoclonal antibody and angiogenesis fields, competitors may have filed applications for or have been issued patents and may obtain additional patents and proprietary rights relating to products or processes competitive with or similar to those of the Company. To date, no consistent policy has emerged regarding the breadth of claims allowed in biopharmaceutical patents. There can be no assurance that patents do not exist in the United States or in foreign countries or that patents will not be issued that would have an adverse effect on the Company's ability to market any product which it develops. Accordingly, the Company expects that commercializing monoclonal antibody-based products may require licensing and/or cross-licensing of patents with other companies in this field. There can be no assurance that the licenses, which might be required for the Company's processes or products, would be available, if at all, on commercially acceptable terms. The ability to license any such patents and the likelihood of successfully contesting the scope or validity of such patents is uncertain and the costs associated therewith may be significant. If the Company is required to acquire rights to valid and enforceable patents but cannot do so at a reasonable cost, the Company's ability to manufacture its products would be adversely affected.

The Company also relies on trade secrets and proprietary know-how, which it seeks to protect, in part, by confidentiality agreements with its employees and consultants. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently developed by competitors.

PRODUCT LIABILITY. The manufacture and sale of human therapeutic products involve an inherent risk of product liability claims. The Company has only limited product liability insurance. There can be no assurance that the Company will be able to maintain existing insurance or obtain additional product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Product liability insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms, if at all. An inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims brought against the Company in excess of its insurance coverage, if any, or a product recall could adversely affect the Company's business, financial condition and results of operations.

HEALTH CARE REFORM AND THIRD-PARTY REIMBURSEMENT. Political, economic and regulatory influences are subjecting the health care industry in the United States to fundamental change. Recent initiatives to reduce the federal deficit and to reform health care delivery are increasing cost-containment efforts. The Company anticipates that Congress, state legislatures and the private sector will continue to review and assess alternative benefits, controls on health care spending through limitations on the growth of private health insurance premiums and Medicare and Medicaid spending, the creation of large insurance purchasing groups, price controls on pharmaceuticals and other fundamental changes to the health care delivery system. Any such changes could affect the Company's ultimate profitability. Legislative debate is expected to continue in the future, and market forces are expected to drive reductions of health care costs. The Company cannot predict what impact the adoption of any federal or state health care reform measures or future private sector reforms may have on its business.

The Company's ability to successfully commercialize its product candidates will depend in part on the extent to which appropriate reimbursement codes and authorized cost reimbursement levels of such products and related treatment are obtained from governmental authorities, private health insurers and other organizations, such as health maintenance organizations ("HMOs"). The Health Care Financing Administration ("HCFA"), the agency responsible for

administering the Medicare program, sets requirements for coverage and reimbursement under the program, pursuant to the Medicare law. In addition, each state Medicaid program has individual requirements that affect coverage and reimbursement decisions under state Medicaid programs for certain health care providers and recipients. Private insurance companies and state Medicaid programs are influenced, however, by the HCFA requirements.

There can be no assurance that any of the Company's product candidates, once available, will be included within the then current Medicare coverage determination. In the absence of national Medicare coverage determination, local contractors that administer the Medicare program, within certain guidelines, can make their own coverage decisions. Favorable coverage determinations are made in those situations where a procedure falls within allowable Medicare benefits and a review concludes that the service is safe, effective and not experimental. Under HCFA coverage requirements, FDA approval for marketing will not necessarily lead to a favorable coverage decision. A determination will still need to be made as to whether the product is reasonable and necessary for the purpose used. In addition, HCFA has proposed adopting regulations that would add cost-effectiveness as a criterion in determining Medicare coverage. Changes in HCFA's coverage policy, including adoption of a cost-effective criterion, could adversely affect the Company's business, financial condition and results of operations.

Third-party payers are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed health care in the United States and the concurrent growth of organizations such as HMOs, which could control or significantly influence the purchase of health care services and products, as well as legislative proposals to reform health care or reduce government insurance programs, may all result in lower prices for the Company's product candidates than it expects. The cost containment measures that health care payers and providers are instituting and the effect of any health care reform could adversely affect the Company's ability to operate profitably.

DEPENDENCE ON MANAGEMENT AND OTHER KEY PERSONNEL. The Company is dependent upon a limited number of key management and technical personnel. The loss of the services of one or more of these key employees could adversely affect the Company's business, financial condition and results of operations. In addition, the Company's success is dependent upon its ability to attract and retain additional highly qualified management and technical personnel. The Company faces intense competition in its recruiting activities, and there can be no assurance that the Company will be able to attract and/or retain qualified personnel.

IMPACT OF THE YEAR 2000. The Company has identified substantially all of its major hardware and software platforms in use and is continually modifying and upgrading its software and information technology ("IT") and non-IT systems. The Company has modified its current financial software to be Year 2000 ("Y2K") compliant. The Company does not believe that, with upgrades of existing software and/or conversion to new software, the Y2K issue will pose significant operational problems for its internal computer systems. The Company expects all systems to be Y2K compliant by April 30, 1999 through the use of internal and external resources. The Company has incurred insignificant costs to date associated with Y2K compliance and the Company presently believes estimated future costs will not be material. However, the systems of other companies on which the Company may rely also may not be timely converted, and failure to convert by another company could have an adverse effect on the Company's systems. The Company presently believes the Y2K problem will not pose significant operational problems and is not anticipated to have a material effect on its financial position or results of operations in any given year. However, actual results could differ materially from the Company's expectations

due to unanticipated technological difficulties or project delays by the Company or its suppliers. If the Company and third parties upon which it relies are unable to address the issue in a timely manner, it could result in a material financial risk to the Company. In order to assure that this does not occur, the Company is in the process of developing a contingency plan and plans to devote all resources required to attempt to resolve any significant Y2K issues in a timely manner.

EARTHQUAKE RISKS. The Company's corporate and research facilities, where the majority of its research and development activities are conducted, are located near major earthquake faults which have experienced earthquakes in the past. In the event of a major earthquake or other disaster affecting the Company's facilities, the operations and operating results of the Company could be adversely affected.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

PART II

Item 1. Legal Proceedings. None.

Item 2. Changes in Securities and Use of Proceeds.

The following is a summary of transactions by the Company during the quarterly period commencing on August 1, 1998 and ending on October 31, 1998 involving issuances and sales of the Company's securities that were not registered under the Securities Act of 1933, as amended (the Securities Act")

On or about October 23, 1998, in consideration of the extension by Biotechnology Development Ltd. ("BTD") of the Company's option to repurchase the marketing rights to LYM antibodies, which repurchase option was granted to the Company in conjunction with a distribution agreement entered into by the Company and BTD in 1996, the Company issued to BTD an option to purchase up to 125,000 shares of the Company's Common Stock at an exercise price of $3.00 per share, which options are immediately exercisable and expire on October 22, 2001.

The issuance of the securities of the Company in the above transaction was deemed to be exempt from registration under the Securities Act by virtue of Section 4(2) thereof or Regulation D promulgated thereunder, as a transaction by an issuer not involving a public offering. The recipient of such securities either received adequate information about the Company or had access, through employment or other relationships with the Company, to such information.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders.

The Company held an annual meeting of stockholders' on October 13, 1998. The directors elected at the meeting were Larry O. Bymaster, Rockell N. Hankin, William C. Shepherd, Carmelo J. Santoro, Ph.D., Clive R. Taylor, M.D. Ph.D., and Thomas R. Testman. The following represent matters voted upon and the results of the voting:

		FOR	AGAINST OR WITHHELD
1)	Election of Directors:		
	Larry O. Bymaster	40,805,311	1,426,308
	Rockell N. Hankin	40,521,105	1,710,514
	William C. Shepherd	40,773,407	1,458,212
	Carmelo J. Santoro, Ph.D.	38,369,588	3,862,031
	Clive R. Taylor, M.D. Ph.D.	40,258,961	1,972,658
	Thomas R. Testman	40,535,811	1,695,808

		FOR	AGAINST OR WITHHELD
2)	To approve the issuance of Common Stock pursuant to a $20,000,000 equity-based line of credit to the extent that such issuance could result in the Company issuing more than twenty percent (20%) of the issued and outstanding Common Stock of the Company as of September 2, 1998	23,951,281	3,646,509
3)	To ratify the appointment of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending April 30, 1999	40,208,058	2,023,561

Item 5. Other Information. None.

Item 6. Exhibits and Report on Form 8-K.

(a) Exhibits:

Exhibit Number	Description
10.44	Severance Agreement between Lon H. Stone and Techniclone Corporation dated July 28, 1998.
10.45	Severance Agreement between William (Bix) V. Moding and Techniclone Corporation dated September 25, 1998.
10.46	Option Agreement dated October 23, 1998 between Biotechnology Development Ltd. and Techniclone Corporation.
27	Financial Data Schedule.

(b) Reports on Form 8-K: None

SIGNATURES

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

TECHNICLONE CORPORATION

By: /s/ Steven C. Burke

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

TECHNICLONE CORPORATION

CONSOLIDATED BALANCE SHEETS
AS OF APRIL 30, 1998 AND OCTOBER 31, 1998 (UNAUDITED)

	APRIL 30, 1998	OCTOBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,736,000	$ 1,599,000
Other receivables, net	71,000	51,000
Inventories, net	46,000	87,000
Prepaid expenses and other current assets	304,000	254,000
Total current assets	2,157,000	1,991,000
PROPERTY:		
Land	1,051,000	1,051,000
Buildings and improvements	6,227,000	6,666,000
Laboratory equipment	2,174,000	2,623,000
Furniture, fixtures and computer equipment	921,000	927,000
Construction-in-progress	524,000	11,000
	10,897,000	11,278,000
Less accumulated depreciation and amortization	(1,625,000)	(2,113,000)
Property, net	9,272,000	9,165,000
OTHER ASSETS:		
Patents, net	211,000	189,000
Note receivable from shareholder and former director (Note 5)	381,000	330,000
Other	18,000	12,000
Total other assets	610,000	531,000
	$ 12,039,000	$ 11,687,000

See accompanying notes to consolidated financial statements

TECHNICLONE CORPORATION

CONSOLIDATED BALANCE SHEETS
AS OF APRIL 30, 1998 AND OCTOBER 31, 1998 (UNAUDITED) (CONTINUED)

	APRIL 30, 1998	OCTOBER 31, 1998
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 729,000	$ 1,367,000
Notes payable, current	2,503,000	115,000
Accrued legal and accounting fees	584,000	380,000
Accrued license termination fees	350,000	100,000
Accrued royalties and sponsored research	190,000	261,000
Accrued payroll and related costs	141,000	105,000
Accrued interest	15,000	15,000
Other current liabilities	153,000	752,000
Total current liabilities	4,665,000	3,095,000
NOTES PAYABLE	1,926,000	1,872,000
OTHER LONG TERM LIABILITIES		133,000
COMMITMENTS (Note 5)		
STOCKHOLDERS' EQUITY (Note 4):		
Preferred stock- $.001 par value; authorized 5,000,000 shares: Class C convertible preferred stock, shares outstanding - April 1998, 4,807 shares; October 1998, 354 shares (liquidation preference of $355,503 at October 31, 1998)		
Common stock-$.001 par value; authorized 120,000,000 shares; outstanding April 1998 - 48,547,351 shares; October 1998 - 66,699,993 shares	49,000	67,000
Additional paid-in capital	78,423,000	86,869,000
Accumulated deficit	(72,639,000)	(79,991,000)
	5,833,000	6,945,000
Less notes receivable from sale of common stock	(385,000)	(358,000)
Total stockholders' equity	5,448,000	6,587,000
	$ 12,039,000	$ 11,687,000

See accompanying notes to consolidated financial statements

TECHNICLONE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTH PERIODS ENDED OCTOBER 31, 1997 AND 1998 (UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	OCTOBER 31, 1997	OCTOBER 31, 1998	OCTOBER 31, 1997	OCTOBER 31, 1998
REVENUES:				
Net product sales and royalties	$	$	$ 4,000	$
Interest and other income	161,000	84,000	360,000	161,000
Total revenues	161,000	84,000	364,000	161,000
COSTS AND EXPENSES:				
Cost of sales			4,000	
Research and development	1,985,000	2,306,000	3,392,000	4,157,000
General and administrative	1,551,000	1,186,000	2,565,000	2,478,000
Interest	54,000	96,000	103,000	336,000
Total costs and expenses	3,590,000	3,588,000	6,064,000	6,971,000
NET LOSS	$ (3,429,000)	$ (3,504,000)	$ (5,700,000)	$ (6,810,000)
Net loss before preferred stock accretion and dividends	$ (3,429,000)	$ (3,504,000)	$ (5,700,000)	$ (6,810,000)
Preferred stock accretion and dividends:				
Imputed dividends on Class B and Class C Preferred Stock	(275,000)		(582,000)	(11,000)
Accretion of Class C Preferred Stock Discount	(745,000)		(1,577,000)	(531,000)
Net Loss Applicable to Common Stock	$ (4,449,000)	$ (3,504,000)	$ (7,859,000)	$ (7,352,000)
Weighted Average Shares Outstanding	27,447,152	66,440,756	27,403,688	63,093,696
BASIC AND DILUTED LOSS PER SHARE (Notes 2)	$ (0.16)	$ (0.05)	$ (0.29)	$ (0.12)

See accompanying notes to consolidated financial statements

TECHNICLONE CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED OCTOBER 31, 1998 (UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Notes Receivable from Sale of	Net Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Common Stock	Equity
BALANCES, May 1, 1998	4,807	$ -	48,547,351	$ 49,000	$ 78,423,000	$(72,639,000)	$ (385,000)	$ 5,448,000
Accretion of Class C preferred stock dividends and discount					531,000	(542,000)		(11,000)
Preferred stock issued upon exercise of Class C Placement Agent Warrant	530				530,000			530,000
Common stock issued upon conversion of Class C preferred stock	(4,983)		9,036,137	9,000	(9,000)			
Common stock issued upon exercise of Class C warrants			5,831,980	6,000	3,594,000			3,600,000
Common stock issued for cash and upon exercise of options			428,200		257,000			257,000
Common stock issued under the Equity Line for cash (Note 4)			2,749,090	3,000	3,092,000			3,095,000
Common stock issued for services and interest			107,235		156,000			156,000
Stock-based compensation					295,000			295,000
Payment on notes receivable							27,000	27,000
Net loss						(6,810,000)		(6,810,000)
BALANCES, October 31, 1998	354	$ -	66,699,993	$ 67,000	$ 86,869,000	$(79,991,000)	$ (358,000)	$ 6,587,000

See accompanying notes to consolidated financial statements

TECHNICLONE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED OCTOBER 31, 1997 AND 1998 (UNAUDITED)

	SIX MONTHS ENDED	
	OCTOBER 31, 1997	OCTOBER 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,700,000)	$ (6,810,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation and common stock issued for interest and services	312,000	451,000
Depreciation and amortization	296,000	511,000
Loss on disposal of assets		6,000
Inventory write-off, net of reserve for contract losses	(53,000)	
Severance expense		351,000
Changes in operating assets and liabilities:		
Other receivables	163,000	20,000
Inventories, net	(86,000)	(41,000)
Prepaid expenses and other current assets	(119,000)	50,000
Other assets		6,000
Accounts payable and accrued legal and accounting fees	1,149,000	434,000
Accrued license termination fees		(250,000)
Accrued royalties and sponsored research fees	(155,000)	71,000
Other accrued expenses and current liabilities	417,000	396,000
Net cash used in operating activities	(3,776,000)	(4,805,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments	(2,947,000)	
Property acquisitions	(2,062,000)	(388,000)
Increase in other assets	(74,000)	
Net cash used in investing activities	(5,083,000)	(388,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	572,000	6,952,000
Proceed from issuance of Class C Preferred Stock		530,000
Proceeds from notes receivable payment		27,000
Proceeds from issuance of long-term debt	98,000	
Principal payments on notes payable	(46,000)	(2,442,000)
Payment of Class C dividends and offering costs	(120,000)	(11,000)
Net cash provided by financing activities	504,000	5,056,000

See accompanying notes to consolidated financial statements

TECHNICLONE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED OCTOBER 31, 1997 AND 1998 (UNAUDITED) (CONTINUED)

	SIX MONTHS ENDED	
	OCTOBER 31, 1997	OCTOBER 31, 1998
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (8,355,000)	$ (137,000)
CASH AND CASH EQUIVALENTS, beginning of period	12,229,000	1,736,000
CASH AND CASH EQUIVALENTS, end of period	$ 3,874,000	$ 1,599,000
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 103,000	$ 100,000
Income taxes paid	$ 1,000	$ 2,000

See accompanying notes to consolidated financial statements

TECHNICLONE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED OCTOBER 31, 1998 (UNAUDITED)

1) BASIS OF PRESENTATION. The accompanying unaudited 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. As shown in the financial statements, the Company experienced losses in fiscal 1998 and during the first six months of fiscal 1999 and has an accumulated deficit of $79,991,000 at October 31, 1998. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The Company must raise additional funds to sustain research and development, provide for future clinical trials and continue its operations until it is able to generate sufficient additional revenue from the sale and/or licensing of its products. The Company plans to obtain required financing through one or more methods including, a sale and subsequent leaseback of its facilities, obtaining additional equity or debt financing and negotiating a licensing or collaboration agreements with another company. There can be no assurance that the Company will be successful in raising such funds on terms acceptable to it, or at all, or that sufficient additional capital will be raised to complete the research, development, and clinical testing of the Company's product candidates. The Company's future success is dependent upon raising additional money to provide for the necessary operations of the Company. If the Company is unable to obtain additional financing, there would be a material adverse effect on the Company's business, financial position and results of operations. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required and, ultimately, to attain successful operations.

During the six month period ended October 31, 1998, the Company received total funding of approximately $7,482,000 from (i) the sale of common stock pursuant to a Regulation D Common Stock Equity Line Subscription Agreement dated as of June 16, 1998 between the Company and two institutional investors (the "Equity Line Agreement") ($3,095,000, net of commissions, legal, accounting and other offering costs of $405,000), (ii) the exercise of options and warrants, including the Class C preferred stock warrants ($3,857,000) and (iii) the exercise of a Class C Placement Agent Warrant ($530,000), which has resulted in cash and cash equivalents balance of $1,599,000 as of October 31, 1998. Management believes that additional capital must be raised to support the Company's continued operations and other short-term cash needs. The Company believes that it has sufficient cash on hand to meet its obligations on a timely basis through December 31, 1998. Should the Company complete the sale and subsequent leaseback of its facilities by December 31, 1998, the Company believes it would have sufficient cash on hand and available pursuant to the Equity Line Agreement to meet its obligations on a timely basis through April 1999.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at October 31, 1998, and the consolidated results of its operations and its consolidated cash flows for the six months ended October 31, 1998 and 1997. Although the Company believes that the disclosures in the financial statements

are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in the consolidated financial statements have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. The consolidated financial statements included herein should be read in conjunction with the consolidated financial statements of the Company, included in the Company's Annual Report on Form 10-K for the year ended April 30, 1998, filed with the Securities and Exchange Commission on July 29, 1998.

Results of operations for the interim periods covered by this Report may not necessarily be indicative of results of operations for the full fiscal year.

2) NET LOSS PER SHARE. Net loss per share is calculated by adding the net loss for the quarter and six month period to the Preferred Stock dividends and Preferred Stock issuance discount accretion on the Class B Preferred Stock and the Class C Preferred Stock during the quarter and six month period divided by the weighted average number of shares of common stock outstanding during the quarter and six month period. Shares issuable upon the exercise of common stock warrants and options have been excluded from the quarter and six month period ended October 31, 1998 and 1997 per share calculation because their effect is antidilutive. Accretion of the Class B and Class C Preferred Stock dividends and issue discount amounted to $1,020,000 for the quarter ended October 31, 1997 and $2,159,000 and $542,000 for the six month periods ended October 31, 1997 and 1998, respectively.

3) NEW ACCOUNTING STANDARDS. During the quarter ended July 31, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income". SFAS No. 130 established standards for the reporting and displaying of comprehensive income. Comprehensive income is defined as all changes in a Company's net assets except changes resulting from transactions with shareholders. It differs from net income in that certain items currently recorded to equity would be a part of comprehensive income. The adoption of this standard had no effect on the Company's consolidated financial statements.

The Company adopted Financial Accounting Standards Board (SFAS) No. 131, "Disclosure about Segments of an Enterprise and Related Information" on May 1, 1998. SFAS No. 131 established standards of reporting by publicly held businesses and disclosures of information about operating segments in annual financial statements, and to a lesser extent, in interim financial reports issued to shareholders. The adoption of SFAS No. 131 had no impact on the Company's consolidated unaudited financial statements or related disclosures for the three and six month periods ended October 31, 1997 and 1998.

During June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which will be effective for the Company beginning April 1, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the

statements of financial position and measure those instruments at fair value. The Company has not determined the impact on the consolidated financial statements, if any, upon adopting SFAS No. 133.

4) STOCKHOLDERS' EQUITY. During June 1998, the Company secured access of up to $20,000,000 under a Common Stock Equity Line (Equity Line) with two institutional investors ("Equity Line Investors"), expiring in June 2001. Under the terms of the Equity Line, the Company may, in its sole discretion, and subject to certain restrictions, periodically sell (Put) shares of the Company's common stock for up to $20,000,000 upon the effective registration of the Put shares. After effective registration for the Put shares, unless an increase is otherwise agreed to, $2,250,000 of Puts can be made every quarter, subject to share issuance volume limitations identical to those set forth in Rule 144(e). At the time of each Put, the investors will be issued a warrant, expiring on December 31, 2004, to purchase up to 10% of the amount of common stock issued to the investor at the same price at the time of the Put.

During the quarter ended July 31, 1998, the Company sold 2,749,090 shares of the Company's common stock under the Equity Line, including commission shares, for gross proceeds to the Company of $3,500,000. One-half of this amount is subject to adjustment at three months after the effective date of the registration statement registering these shares with the second half subject to adjustment six months after such effective date of the registration of these shares (the "Reset Provision"). At each adjustment date, if the market price at the three or six month period ("Adjustment Price") is less than the initial price paid for the common stock, the Company will be required to issue additional shares of its common stock equal to the difference between the amount of shares which would have been issued if the price had been the Adjustment Price for $1,750,000. The Company will also be required to issue additional warrants at each three month and six month period for 10% of any additional shares issued. Future Puts under the Equity Line will be priced at (i) 82.5% of the lowest closing bid price during the ten trading days (the "10 day low closing bid price") immediately preceding the date on which such shares are sold to the Institutional Investors, or (ii) if 82.5% of such 10 day low closing bid price results in a discount of less than twenty cents ($0.20) per share from such 10 day low closing bid price, such 10 day low closing bid price minus twenty cents ($0.20). If the Company does not exercise the full amount of its Put rights, then the Company will issue Commitment Warrants on the first, second, and third anniversary of the Equity Line Agreement. The amount of Commitment Warrants to be issued will be equal to the difference of $6,666,666, $13,333,333 and $20,000,000 (Commitment Amounts), respectively, less the actual cumulative total dollar amount of Puts which have been exercised by the Company to such anniversary date. On each anniversary date, the Company will issue that number of shares equal to ten percent (10%) of the shares of common stock which would be issued by subtracting the actual cumulative dollar amount of Puts for such anniversary date from the Commitment Amounts on such anniversary date and dividing the result by the market price of the Company's common stock.

In accordance with the Emerging Issues Task Force Issue No. 96-13, "Accounting for Derivative Financial Instruments", contracts that require a company to deliver shares as part of a physical settlement should be measured at the estimated fair value on the date of the

initial Put. As such, the Company had an independent appraisal performed to determine the estimated fair market value of the various financial instruments included in the Equity Line Agreement and recorded the related financial instruments as reclassifications between equity categories. Reclassifications were made for the estimated fair market value of the warrants issued and estimated Commitment Warrants to be issued under the Equity Line of $1,140,000 and the estimated fair market value of the Reset Provision of $400,000 as additional consideration and have been included in the accompanying unaudited financial statements. The above recorded amounts were offset by $700,000 related to the restrictive nature of the common stock issued under the initial tranche in June 1998 and the estimated fair market value of the Equity Line Put Option of $840,000.

5) COMMITMENTS. During the quarter ended July 31, 1998, the Company entered into an agreement for the sale and subsequent leaseback of its facilities, which consists of two buildings located in Tustin, California. The sale/leaseback transaction is with an unrelated entity and provides for the leaseback of the Company's facilities for a twelve-year period with two five-year options to renew. Net proceeds from the sale of the Company's facilities will be used for general working capital purposes. As the sale/leaseback agreement is in escrow and subject to completion of normal due diligence procedures by the buyer, there is no assurance that the transaction will be completed on a timely basis or at all.

On February 29, 1996, the Company entered into a Distribution Agreement with Biotechnology Development Limited ("BTD"). Under the terms of the agreement, BTD was granted the right to market and distribute LYM products in Europe and other designated foreign countries in exchange for a nonrefundable fee of $3,000,000 and the performance of certain duties by BTD as outlined in the agreement. The agreement also provides that the Company will retain all manufacturing rights to the LYM antibodies and will supply the LYM antibodies to BTD at preset prices. In conjunction with the agreement, the Company was granted an option to repurchase the marketing rights to the LYM antibodies through August 29, 1998, at its sole discretion. Although the Company did not exercise its rights under the repurchase option as of such date, BTD subsequently agreed to extend the repurchase option through August 30, 1999 in consideration of cash payments to BTD aggregating $431,250 (with $93,750 payable immediately and $112,500 payable each quarter thereafter, beginning December 1, 1998) and the issuance by the Company to BTD of options to purchase 125,000 shares of Common Stock at an exercise price of $3.00 per share with a three-year term. The repurchase option may be canceled by the Company upon 90 days' notice to BTD. The repurchase price under the repurchase option, if exercised by the Company, would include a cash payment of $4,500,000, the issuance of an option to purchase 1,000,000 shares of Common Stock at an exercise price of $5.00 per share with a five-year term and royalties equal to 5% of gross sales of LYM products in designated geographic areas. Alternatively, if the repurchase option is not exercised by the Company and BTD elects to market LYM products itself and requests clinical data from the Company, BTD will make a cash payment of $1,000,000 to the Company and will pay royalties to the Company equal to 5% of gross sales on LYM products in designated geographic areas.

During the quarter ended July 31, 1998, the Company renegotiated a severance agreement with its former Chief Executive Officer (CEO). The Company's former CEO's employment agreement provided that the Company make immediate and substantial cash expenditure upon his termination. The Company did not have sufficient cash resources to fulfill its obligations under the former CEO's employment agreement. Accordingly, at the direction of the Board of Directors, the Company negotiated a new Severance Agreement with its former CEO to conserve cash. The new Severance Agreement provides for its former CEO to be paid $300,000 a year for the period beginning March 1, 1998 through March 1, 2000. Unexercised and unvested outstanding stock options on March 1, 1998, will vest and be paid as follows: one-third of the unexercised, unvested options outstanding on March 1, 1998 will vest immediately and be paid to the former CEO on December 31, 1998; one-third of the unexercised, unvested and outstanding options on March 1, 1998, will vest on March 1, 1999 and be paid on December 31, 1999; and one-third of the unexercised, unvested and outstanding options on March 1, 1998, will vest and be paid on March 1, 2000. In addition, the Company will make appropriate payments, at the bonus rate, to the appropriate taxing authorities. During the employment period, beginning on March 1, 1998 and ending on March 1, 2000, the former CEO will, with certain exceptions, be eligible for Company benefits. Pursuant to the Severance Agreement, the former CEO will be available to work for the Company for a minimum of 25 hours per week. In addition, as part of the former CEO's agreement to modify his existing severance package, the Company agreed that if the former CEO did not compete during the period beginning March 1, 1998 and ending February 29, 2000, the Company will, on March 1, 2000, pay the former CEO an amount equal to his note of $350,000, plus all accrued interest thereon, which will be used to retire the respective note. During the six months ended October 31, 1998, the Company expensed approximately $564,000 for related severance pay which has been included in general and administrative expenses in the accompanying consolidated financial statements.

On October 4, 1998, Mr. William Moding resigned from his position as Vice President, Operations and Administration to pursue other personal and business interests. In connection with Mr. Moding's resignation, the Company entered into a revised severance agreement with Mr. Moding pursuant to which Mr. Moding will provide consulting services to the Company as an independent consultant for a fixed and non-cancelable period of sixteen months continuing until January 31, 2000, in consideration of the payment to Mr. Moding of a monthly consulting fee of $12,500 and the issuance of an aggregate of 320,000 shares of Common Stock during such period for the exercise of outstanding stock options, without the requirement of any payment by Mr. Moding of the exercise price ($.60 per share) therefor. In addition, the Company has agreed to make tax payments totaling $65,280 to federal and state taxing authorities on behalf of Mr. Moding to offset the income to Mr. Moding resulting from the non-payment of the exercise price for such options and to pay Mr. Moding all accrued and unused vacation pay and accrued back pay relating to salary deferral for the period from March 21, 1998 through October 3, 1998. Pursuant to the revised agreement, Mr. Moding will be required to repay the Company the entire outstanding principal balance and accrued interest thereon under two stock option exercise notes by no later than January 31, 2000 and to execute a standard form security agreement relating to the stock option exercise notes to pledge Mr. Moding's interest in the stock options and his personal assets as backup collateral to secure his obligations under the two stock option exercise notes. During the quarter ended October 31, 1998,

the Company expensed approximately $65,000 for related severance pay, which has been included in general and administrative expenses in the accompanying consolidated financial statements.

On November 2, 1998, Elizabeth Gorbett-Frost resigned from her position as Chief Financial Officer of the Company to pursue other personal and business interests. However, Ms. Gorbett-Frost agreed to remain in her position as Corporate Secretary of the Company until November 30, 1998. In connection with Ms. Gorbett-Frost's resignation, the Company entered into a severance agreement with Ms. Gorbett-Frost pursuant to which she will remain as a non-officer employee of the Company through April 30, 1999 in consideration of the payment to Ms. Gorbett-Frost of a bi-weekly salary in the amount of $6,731, with the first such payment to be made on December 11, 1998 and a final payment of $5,609 to be made on April 30, 1999. Ms. Gorbett-Frost will also be entitled to exercise the outstanding options she presently holds to acquire up to 113,334 shares of Common Stock pursuant to the Company's 1996 Stock Incentive Plan until 90 days after April 30, 1999, at the stated exercise price of $.60 per share. In addition, Ms. Gorbett-Frost will be eligible to receive up to an aggregate of 50,000 unrestricted shares of Common Stock upon the accomplishment of certain specified tasks to be substantially completed by November 30, 1998.

On November 2, 1998, Steven C. Burke was appointed to the position of Chief Financial Officer by the Board of Directors of the Company.

EXHIBIT NO. 10.44

July 28, 1998

Lon H. Stone

Re: Severance Agreement

Dear Lon:

This letter will serve to document our agreement on the terms and conditions of your resignation as an executive officer of Techniclone Corporation ("Techniclone" or the "Company") and your continued employment as a non-executive employee. Once this letter is signed by you it will constitute a legally binding contract on the following terms:

1. In consideration of this Severance Agreement ("Severance Agreement"), you confirm that you voluntarily resigned as an executive officer and as Chief Executive Officer and President of Techniclone on March 2, 1998 and as Chairman of the Board on June 3, 1998.

2. Techniclone will employ you as a non-executive employee until March 1, 2000. You agree (i) to be available for a minimum of twenty-five (25) hours per week, (ii) to use your most reasonable business efforts to provide an orderly transition of your duties and responsibilities and to make yourself reasonably available for that purpose, and (iii) to perform all tasks assigned to you for up to twenty-five (25) hours per week as a non-executive employee, provided such tasks are commensurate with your status as the former Chief Executive Officer. For the 4 weeks per year that you are not available, you shall notify the Company of your unavailability.

3. During the period beginning March 1, 1998 until March 1, 2000 you shall not, without the express prior written permission of Techniclone, directly or indirectly participate in the ownership, management, operation, control or financing of, or be connected as an investor, partner, officer, director, principal, agent, representative, consultant or otherwise, nor use or permit your name to be used in connection with any business or other enterprise which uses monoclonal antibodies to diagnose or treat cancer nor shall you participate in the production, sale or distribution of Competitive Products anywhere in the world (including, without limitation, any and all of the counties of the State of California, all of which are listed on Schedule A hereto). As used in this Severance Agreement, the Phase "directly or indirectly participate in" includes any direct or indirect ownership, profit participation or other interest by you, whether as an owner, stockholder, partner, joint venturer, beneficiary or otherwise, in any company, firm, trust or entity. The term "Competitive Products" means any product similar in description to, or competitive with the Company's products, or which is likely to adversely affect the sale of the Company's products. Notwithstanding the provisions of this paragraph you may (i) invest in investment funds or investment partnerships which in turn invest in companies or entities which may be engaged in the production, sale or distribution of Competitive Products so long as you do not exercise control of such investment decisions; and (ii) acquire up to 5% of the outstanding voting securities of any corporation or other entity regularly producing, marketing, selling or distributing Competitive Products and which is listed on a national securities exchange or whose securities are regularly traded in the over-the-counter market.

4. In accordance with its usual pay practices, Techniclone will pay you $300,000 per year commencing on March 1, 1998 and continuing through March 1, 2000.

5. Unexercised and unvested outstanding stock options on March 1, 1998, will vest and be paid as follows: one-third of the unexercised, unvested options outstanding on March 1, 1998 will vest immediately and be paid to you on December 31, 1998; one-third of the unexercised, unvested and outstanding options on March 1, 1998, will vest on March 1, 1999 and be paid to you on December 31, 1999; and one-third of the unexercised, unvested and outstanding options on March 1, 1998, will vest and be paid to you on March 1, 2000. All vested opinions will be paid in accordance with the schedule for the payment of the unvested options, i.e., one-third in December of 1998, one-third in December of 1999 and one-third on March 1, 2000. In addition to the Company vesting and issuing the unvested stock options and issuing the vested stock options on the dates set forth above, the Company will make the appropriate tax payments to the proper taxing authorities at the bonus rate based on the options paid to you.

6. Your car lease will continue through March 1, 2000.

7. You are entitled to attend two (2) antibody and one (1) nuclear medicine conferences each year at the Company's expense. When traveling to a conference or on Company business you will travel in the same style as the Chief Executive Officer.

8. Except for the reimbursement of actual expenses incurred for any Company assigned travel, and for traveling and attending the two (2) antibody and one (1) nuclear medicine conference each year (which expenses shall be reimbursed in accordance with the Company's standard reimbursement policy), you will not be paid any expenses other than a monthly $200.00 nonaccountable expense allowance.

9. Provided that you abide by the terms contained in paragraph 3 of this Agreement and the other terms contained in this Severance Agreement, the $350,000 promissory note which you owe the Corporation together with all accrued interest thereon will, on March 1, 2000, be cancelled and treated by the Corporation for all purposes, as income to you and will be recorded on a Form 1099.

10. You will be entitled to the Five Thousand Dollar Executive health benefit plan until the earlier of March 1, 2000 or your death or disability. You are eligible, at your expense, to participate in the Corporation sponsored group medical insurance plans as well as the 401(k) and dental plans through the earlier of March 1, 2001 or your death or disability. Effective immediately, you will no longer have Life Insurance, Accidental Death and Dismemberment, or Long Term Disability Benefits paid for by Techniclone. Currently, COBRA benefits will be available to you for your discontinued medical and dental coverage (only) for a period of 18 months beginning on the earlier of March 1, 2000 or your death or disability. A letter explaining these benefits will be sent to you from the Company as soon as possible after your become eligible for the benefits.

11. All compensation due to you shall be immediately due and payable in the event there has been a Change in Control of the Company while this Severance Agreement is in effect. For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred if (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have substantially the same proportionate ownership of at least 65% of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company other than to a corporation in which the holders of the Company's Common Stock immediately prior to such transaction have substantially the same proportionate ownership of at least 65% of the common stock of such corporation, or (ii) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the

Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 40% or more of the Company's outstanding shares of Common Stock (other than any such person who had record or beneficial ownership of at least 10% of the Company's outstanding shares of Common Stock on the date hereof), or (iv) during any period of two consecutive years during the term of this Severance Agreement, individuals who at the beginning of the two year period constituted the entire Board of Directors do not for any reason constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

12. If your availability is terminated by reason of death or disability and you have performed your duties under this Severance Agreement, the remaining balances excluding the five thousand dollar executive health insurance plan payment) due you under this Severance Agreement shall be paid to your estate. Such amount shall be paid for the duration of this Severance Agreement and in accordance with this Severance Agreement the Company's normal pay practices. This amount shall be in lieu of any pension, employee benefit plan or life insurance policy presently maintained by the Company on death or disability.

13. You understand and agree that the terms of this Severance Agreement are required to be disclosed by law and that the Severance Agreement will be filed as an Exhibit with the Company's SEC filings.

14. Each of the parties hereto shall "speak well" of the other. Neither you nor any or your representatives shall make any statements that are critical of the Company or its personnel or give any reason for your separation of you from the Company other than those statements contained in the public announcement of your resignation; provided however, that the prohibition contained in this sentence shall not apply to privileged communications between you and your attorneys. No officer or director of the Company shall state to any person, whether an employee of the Company or not, anything critical of you or give any reason for your separation of you from the Company other than those statements contained in the public announcement of your resignation; provided however, that the prohibition contained in this sentence shall not apply to privileged communications with the Company's attorneys or to private meetings attended only by officers and directors of the Company. The Company shall use its best efforts to ensure that no management employee of the Company does anything or states anything which reflects unfavorably upon you or your separation from the Company.

15. This Severance Agreement embodies a mutual compromise that we have made in order to achieve peace, and is not to be construed as an admission of liability or wrongdoing by either party. In consideration of this Severance Agreement and for other valuable consideration, you, on the one hand, and the Company, on the other hand, fully and forever releases and discharges the other, its representatives, agents, successors and assigns, from any and all claims, charges, causes of actions, rights or liabilities that each party now holds or has held, or may hereafter hold, whether known or unknown, relating to your employment by the Company or arising under any laws, statutes or regulations relating to your employment, including, but not limited to, any claims for age discrimination under the Age Discrimination in Employment Act of 1967, as amended, and you agree to not bring any legal or administrative action based on any such claim. The Company and you specifically intend that the above releases shall bar all claims relating to your employment, including those which are currently unknown by either party. Pursuant thereto each party hereby waives the protection of Civil Code ss. 1542 which reads as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

16. The Company and you acknowledge that each party is entering into this Severance Agreement freely and voluntarily, with a full understanding of its terms including the release of claims. We suggest that you confer with your attorney before signing this Severance Agreement. You also agree that all of your employment agreements with Techniclone are terminated and that this Severance Agreement sets forth all the terms of your agreement with the Company regarding your resignation, severance and related benefits and supersedes your Employment Agreement and amendments thereto, and any prior negotiations or dealings in this regard, but that the terms in your Employment Agreement or in any other agreement that you have signed with the Company concerning confidential information or assignment of inventions shall remain in affect in accordance with the terms thereof.

This Severance Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall constitute a single agreement.

Please contact me if you have any questions or comments. I wish you the very best in your future endeavors.

To confirm that you agree to these terms, please sign and date the enclosed copy of this letter and return it to me from the date you received it. In the event you decline to sign this letter, it may not be used as evidence against the Company for any purpose.

Very truly yours,

/s/ Larry O. Bymaster

Larry O. Bymaster
President and Chief Executive Officer

I agree to the terms stated in this letter.

/s/ Lon H. Stone
- ---
Lon H. Stone

Dated: July 28, 1998

EXHIBIT NO. 10.45

October 28, 1998

William V. (Bix) Moding
14282 Franklin Avenue
Tustin, CA 92780

Re: Severance Agreement

Dear Bix:

This letter will serve to document our agreement on the terms and conditions of your resignation as an executive officer and employee of Techniclone Corporation ("Techniclone" or the "Company") and your continued compensation as a consultant to the Company. Once this letter is signed by you it will constitute a legally binding contract on the following terms:

1. In consideration of this Severance Agreement ("Severance Agreement"), you confirm that you will voluntarily resign as an executive officer (Vice President, Operations and Administration) and employee of Techniclone effective on October 4, 1998.

2. Techniclone will engage you as an independent consultant for a fixed and non-cancelable period of sixteen (16) months commencing on October 4, 1998 and continuing until January 31, 2000. You will be paid a fixed and non-cancelable monthly consulting fee of Twelve Thousand and Five Hundred Dollars ($12,500), payable on the last business day of each month (first payment to be made on October 30, 1998) during the sixteen month consulting period. Upon your death or disability during the term of this consultancy, all remaining payments will be made, when due, to your estate. You agree that you will be available for up to ten (10) hours per month by phone or in person to consult with the Company or its employees with the advance approval of the Company's C.E.O. The Company agrees to provide you with at least three days notice of any requirement to render consulting services in person.

3. Pursuant to the Company's 1996 Stock Incentive Plan, you have unexercised and vested stock options amounting to 240,000 shares as of this date; and an additional 80,000 stock options that vest in January 2000, which will now all become immediately vested. The resulting total of 320,000 vested option shares will be distributed to you free of any restrictive legend and free of payment of any exercise price as follows: 240,000 option shares to be exercised and delivered to you as of January 1, 1999, and the remaining 80,000 option shares to be exercised and delivered to you on January 31, 2000. The non-payment by you of the $.60 per share exercise price for these options will result in income to you at the rate of $.60 per share as each group of shares is delivered to you. Upon your death or disability, the stock option shares will be distributed, when due, to your estate.

4. In addition to the Company vesting and issuing the stock option shares to you on the dates set forth above, the Company will make the appropriate tax payments to the proper federal and state taxing authorities at the bonus tax rates (federal- 28%, Calif. State - 6%), applied to the income amount of $.60 per share, as each group of options is delivered to you. Specifically, we will deliver to you as of January 1, 1999, a check in the amount of $40,320 (28%) made payable to the Internal Revenue Service on your behalf, and a check in the amount of $8,640 (6%) made payable to the Franchise Tax Board on your behalf. Additionally, on January 31, 2000, we will deliver to you a check in the amount of $13,440 (28%) made payable to the Internal Revenue Service on your behalf, and a check in the amount of $2,880 (6%) made payable to the Franchise Tax Board on your behalf.

5. Effective on October 4, 1998, your inclusion in Techniclone's employee benefit plans will be terminated. Effective on such date, you will no longer be included in the health and dental insurance, $5,000 executive health benefit program, life insurance, accidental death and dismemberment insurance, or long-term disability insurance benefits paid for by Techniclone. You will be eligible at your expense to participate under the COBRA benefit rules for your discontinued medical and dental insurance coverages for a period of up to 18 months beginning on October 4, 1998, as provided by law. A letter explaining these COBRA benefits will be provided to you separately by the Company.

6. All monthly consulting payments, delivery of stock option shares and related payment of withholding taxes shall be immediately due and payable in the event there has been a Change in Control of the Company while this Severance Agreement is in effect. For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred if: (i) there shall be consummated: (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which the shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have substantially the same proportionate ownership of at least 50% of common stock of the surviving corporation immediately after the merger, or (b) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company other than to a corporation in which the holders of the Company's Common Stock immediately prior to such transaction have substantially the same proportionate ownership of at least 50% of the common stock of such corporation, or (ii) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall become

the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 50% or more of the Company's outstanding shares of Common Stock (other than any such person who had record or beneficial ownership of at least 10% of the Company's outstanding shares of Common Stock on the date hereof).

7. You acknowledge that you owe the Company two stock option exercise notes with a current combined principal balance of $179,379.77. You agree to make the next scheduled payment of $36,671.66 (including principal and interest) on or before April 30, 1999. Additionally, the Company and you agree that the notes will mature in full as to principal and interest on the January 31, 2000, date of the termination of your consulting arrangement with the Company. Accordingly, you agree that a final payment of $160,831.62 (including principal of $153,771.86 and accrued interest of $7,059.76) will be made no later than January 31, 2000. You also agree to execute a standard form security agreement relating to the stock option notes for recording by the Company to formalize your pledge of personal assets as backup collateral for the outstanding notes in addition to the original pledge of 50,875 shares of Techniclone common stock as primary collateral.

8. On October 2, 1998, the Company agrees to pay you all accrued and unused vacation pay (estimated at 80 hours, subject to final calculation) and accrued back pay relating to your 1998 salary deferral for the period from March 21, 1998 through October 3, 1998 (estimated at $14,000, subject to final calculation).

9. Effective immediately, your auto allowance will be terminated.

10. In consideration of consulting services that are contemplated to be rendered under the terms of this Agreement, you will be able to permanently keep the Company-furnished computer and fax machine which are located at your residence.

11. You understand and agree that the terms of this Severance Agreement are required to be disclosed by law and that the Severance Agreement may be filed as an Exhibit with the Company's SEC filings. Additionally, you understand that as a current executive officer of the Company, your resignation will be required to be disclosed in a press release by the Company. We mutually agree to cooperate in developing and approving the content of this press release which will be released to the public on Monday October 5, 1998.

12. Each of the parties hereto shall "speak well" of the other. Neither you nor any of your representatives shall make any statements that are critical of the Company or its personnel or give any reason for your separation from the Company other than,

"You have left to pursue other personal and business interests." The prohibition contained in the previous sentence shall not apply to privileged communications between you and your attorneys. No officer or director of the Company shall state to any person, whether an employee of the Company or not, anything critical of you or give any reason for your separation from the Company other than the quotation noted above. The prohibition contained in the previous sentence shall not apply to privileged communications with the Company's attorneys or to private meetings attended only by officers and directors of the Company or otherwise as required by legal process. The Company shall use its best efforts to ensure that no employee of the Company does anything or states anything which reflects unfavorably upon you or your separation from the Company.

13. This Severance Agreement embodies a mutual compromise that we have made in order to achieve peace, and is not to be construed as an admission of liability or wrongdoing by either party. In consideration of this Severance Agreement and for other valuable consideration, you, on the one hand, and the Company, on the other hand, fully and forever releases and discharges the other, its representatives, agents, successors and assigns, from any and all claims, charges, causes of actions, rights or liabilities that each party now holds or has held, or may hereafter hold, whether known or unknown, relating to your employment, including but not limited to, any claims for age discrimination under the Age Discrimination in Employment Act of 1967, as amended, and you agree not to bring any legal or administrative action based on any such claim. The Company and you specifically intend that the above releases shall bar all claims relating to your employment, including those which are currently unknown by either party. Pursuant thereto each party hereby waives the protection of Civil Codess.1542 which reads as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

A. This Severance Agreement is being given to you on September 25, 1998. You acknowledge that you are entitled to take 21 days to consider whether to accept this Agreement.

B. After signing this Agreement, you shall have a period of seven (7) calendar days to revoke this Severance Agreement by providing the Company with written notice of your revocation. To be effective, such revocation must be in writing,

must specifically revoke this Severance Agreement, and must be received by the Company prior to the eighth calendar day following your execution of this Agreement. This Agreement shall become effective, enforceable, and irrevocable on the eighth calendar day following your execution of this Severance Agreement. Any revocation of this Severance Agreement, however, shall not affect the finality of your voluntary resignation of employment from the Company as of October 4, 1998, and in the event of such revocation you shall receive no compensation or other benefits under this Severance Agreement or under your January 1, 1997 Employment Agreement.

14. The Company and you acknowledge that each party is entering into this Severance Agreement freely and voluntarily, with a full understanding of its terms including the release of claims. We suggest that you confer with your attorney before signing this Severance Agreement. You also agree that all of your employment agreements with Techniclone are terminated and that this Severance Agreement sets forth all the terms of your agreement with the Company regarding your resignation, severance and related benefits and supersedes your Employment Agreement and amendments thereto, and any prior negotiations or dealings in this regard, but that the terms in your Employment Agreement or in any other agreement that you have signed with the Company concerning confidential information or assignment of inventions shall remain in effect in accordance with the terms thereof.

15. Notwithstanding the release of claims outlined in paragraph 13. above, you reserve the right to bring legal or administrative action to enforce the collection of amounts that will become due under your consulting arrangement or the agreement for Techniclone to deliver stock option shares to you and pay withholding taxes related thereto. Also, the Company reserves the right to pursue legal or administrative action to enforce collection of principal and interest due under the stock option notes if scheduled payments are not made by you when due.

Please contact me if you have any questions or comments. I wish you the best in your future endeavors.

To confirm that you agree to these terms, please sign and date the enclosed copy of this letter and return it to me as soon as possible. In the event you decline to sign this letter, it may not be used as evidence against the Company for any purpose.

Very truly yours,

/s/ Larry O. Bymaster

Larry O. Bymaster
President and Chief Executive Officer

I agree to the terms stated in this letter.

/s/ William V. Moding

William V. Moding

/s/ October 2, 1998

Date

EXHIBIT NO. 10.46

OPTION AGREEMENT

THIS OPTION AGREEMENT ("AGREEMENT") is entered into this 23 day of October, 1998, by and between TECHNICLONE CORPORATION, a Delaware corporation ("COMPANY"), and BIOTECHNOLOGY DEVELOPMENT, LTD., a Nevada limited partnership ("OWNER").

R E C I T A L S

A. Company and Owner entered into a Distribution Agreement dated February 29, 1996 ("DISTRIBUTION AGREEMENT") whereby Owner purchased the distribution rights for the Product in the Territory (as those terms are defined in the Distribution Agreement) the ("DISTRIBUTION RIGHTS").

B. Owner purchased the Distribution Rights for $3,000,000 together with an agreement to pay Company the greater of 23% of the Net Selling Price of the Product or $900 per Dose (as those terms are defined in the Distribution Agreement).

C. In the negotiations between the Company and Owner for the Distribution Rights, Owner agreed that the Company would have a thirty (30) month option to purchase the Distribution Rights from Owner (the "ORIGINAL OPTION").

D. Owner is willing to grant Company an extension and modification of such Original Option rights for the consideration set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, the parties hereby represent, warrant, covenant and agree as follows:

ARTICLE 1
TERMS OF OPTION

1.1 GRANT OF OPTION. Owner hereby grants to Company and Company hereby accepts an option (the "OPTION") to purchase the Distribution Rights granted under the Distribution Agreement for the Option Term as set forth in SECTION 1.2 under the terms and conditions provided herein.

1.2 TERM. The term of the option granted herein shall commence on the execution date of this Agreement and below, shall expire at 5:00 p.m. on December 1, 1998 (the "OPTION TERM"). The Option may be extended at the sole election of the Company for up to three (3) additional periods as set forth in SECTION 1.4 (each deemed an extension of the "OPTION TERM") upon the timely payment to Company of the amounts required pursuant to SECTION 1.4. If the last day of any Option Term should be a non-business day (weekend or holiday), the Option Term shall automatically be extended until 5:00 p.m. on the next business day.

1.3 EXERCISE OF OPTION. If the Company elects to exercise the Option granted herein, the Company shall deliver to Owner (a) a written notice of such exercise on or before the tenth (10th) day preceding the expiration of the Option Term ("OPTION NOTICE"), and (b) on or before the expiration of the Option Term, the exercise price set forth on EXHIBIT A to this Agreement and by this reference incorporated herein.

1.4 OPTION CONSIDERATION.

(a) As consideration for the grant of the Option and any extension of the Option Term, the Company shall pay Owner the following:

(i) on the execution date of this Agreement, $93,750 as consideration for the Option with an Option Term running until December 1, 1998;

(ii) on or before December 1, 1998, $112,500 as consideration to extend the Option Term from December 1, 1998 until March 1, 1999;

(iii) on or before March 1, 1999, $112,500 as consideration to extend the Option Term from March 1, 1999 until June 1, 1999; and

(iv) on or before June 1, 1999, $112,500 as consideration to extend the Option Term from June 1, 1999 until August 30, 1999.

(b) In the event that the Company shall elect not to pay any amount due under this SECTION 1.4 on or before its due date, the Option provided herein shall terminate as of 5:00 p.m. Pacific Time on the tenth day following written notice received by the Company from Owner of Company's failure to make such payment by its due date, provided that such payment shall remain unpaid at the end of such ten day period, and the Company shall have no further right to purchase the Distribution Rights hereunder.

(c) Upon execution of this Agreement, Company shall grant to Owner a three year option to purchase up to 125,000 shares of Company's common stock at an exercise price of $3 per share under the terms of that certain Stock Option Agreement attached hereto as EXHIBIT B.

1.5 FAILURE TO EXERCISE OPTION. If this Option is not exercised by Company prior to the expiration of the Option Term (as may be extended from time to time pursuant to Section 1.4), then:

(a) this Option shall terminate and Company shall have no further right to purchase the Distribution Rights;

(b) Owner may elect to market and distribute the Product in the Territory; and

(c) If Owner requests access to Company's U.S. clinical data, then Owner shall pay to Company a five percent (5%) royalty on all future Product gross sales in the Territory and a nonrefundable cash payment on One Million Dollars ($1,000,000) on the date such clinical trial data is provided to Owner. Owner shall have the right to audit the Company's U.S. clinical data to which it seeks access, under a covenant of confidentiality, prior to such clinical data being provided to Owner. If Owner enters into a Subdistribution arrangement (as described in Section 3.4 of the Distribution Agreement, then Company agrees that its fifty percent (50%) share of any Subdistribution fees will be reduced by $1,000,000 if Owner has requested access to the Company's U.S. clinical data and previously paid the $1,000,000 to Company as set forth in this SECTION 1.5(c).

ARTICLE 2
GENERAL PROVISIONS

2.1 PARAGRAPH HEADINGS. The paragraph headings used in this Agreement are for purposes of convenience only. They shall not be construed to limit or extend the meaning of any part of this Agreement.

2.2 NOTICES. Any notice, demand, approval, consent or other communication required or desires to be given under this Agreement shall be in writing and shall be either personally served or mailed in the United States mail, certified, return receipt requested, potage prepaid, addressed to the party to be served with the copies indicated below, as the last address given by that party to the other under the provisions of this section. All such communications shall be deemed delivered at the earlier of actual receipt or five (5) business days following mailing as aforesaid.

Owner: Biotechnology Development, Ltd.
c/o Tom Hartley
222 South Rainbow, Suite 218
Las Vegas, Nevada 89128
Attention: Edward Legere

Techniclone: Techniclone Corporation
14282 Franklin Avenue
Tustin, California 92680
Attention: Chief Executive Officer

2.3 BINDING EFFECT. All the terms, covenants and conditions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors.

2.4 ENTIRE AGREEMENT. This Agreement sets forth the entire understanding and agreement between the parties with respect to the subject matter hereof, and supersedes and replaces any prior understanding, agreement or statement, written or oral, with respect to the same. No provision of the Agreement shall be construed to confer any rights or remedies on any person other than parties hereto.

2.5 CALIFORNIA LAW. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California applicable to agreements made and to be performed entirely within such state.

2.6 TIME OF THE ESSENCE. Time is of the essence in the performance of each and every provision of this Agreement.

2.7 ATTORNEYS' FEES. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this Agreement or any of the documents provided for herein, or the breach thereof, the prevailing party shall be entitled to recover from the losing party reasonable attorneys' fees, expenses and costs.

2.8 ASSIGNMENT. This Agreement shall not be assignable by either party without the consent of the other.

2.9 PARTIES IN INTEREST. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the parties to it and their respective successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third persons to any party to this Agreement, nor shall any provision give any third persons any right of subrogation or action over or against any party to this Agreement.

2.10 MODIFICATION. This Agreement shall not be modified except by a writing signed on behalf of each of the parties hereto.

2.11 SEVERABILITY. If any term, provision, covenant or condition of this Agreement is found by a court of competent jurisdiction to be invalid, void or unenforceable, then such term, provision, covenant or condition shall be deemed to be stricken from this Agreement and the remainder of this Agreement shall remain in full force and effect and shall in no way be effected, impaired or invalidated thereby.

2.12 COUNTERPARTS. This Agreement may be executed in several counterparts and such counterparts together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Option Agreement is executed by the parties hereto on the date first above written.

BIOTECHNOLOGY DEVELOPMENT, LTD.

By: BUEN HERMANOS, INC.,
its General Partner

By: /s/ Edward Legere

Edward Legere, President

TECHNICLONE CORPORATION

By: /s/ Larry O. Bymaster

Larry O. Bymaster, Chief Executive Officer

EXHIBIT A
TO
OPTION AGREEMENT

If Company exercises its Option to purchase the Distribution Rights from Owner it shall: (i) pay Owner Four Million Five Hundred Thousand Dollars ($4,500,000); (ii) grant to Owner a five year option to purchase up to 1,000,000 shares of Company's common stock at an exercise price of $5 per share pursuant to the terms of that certain Stock Option Agreement attached hereto as EXHIBIT C; and (iii) pay to Owner a five percent (5%) royalty on the gross revenue of LYM-1 product in the Territory.

EXHIBIT B
TO
OPTION AGREEMENT

NEITHER THIS OPTION NOR THE UNDERLYING SHARES OF COMMON STOCK (THE "UNDERLYING STOCK") HAVE BEEN REGISTERED PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW. NEITHER THIS OPTION NOR THE UNDERLYING STOCK, NOR ANY PORTION THEREOF OR INTEREST THEREIN, MAY BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THE SAME IS REGISTERED AND QUALIFIED IN ACCORDANCE WITH SAID ACT AND ANY APPLICABLE STATE SECURITIES LAW, OR IN THE OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY AS TO FORM AND SUBSTANCE, SUCH REGISTRATION AND QUALIFICATION ARE NOT REQUIRED.

Number: BTD-02 Option to Purchase 125,000 shares of Common Stock

OPTION TO PURCHASE COMMON STOCK

OF

TECHNICLONE CORPORATION,
A DELAWARE CORPORATION

VOID AFTER OCTOBER 22, 2001

This certifies that Biotechnology Development, Ltd., a Nevada limited partnership, or registered assigns ("HOLDER"), is entitled, subject to the terms set forth below, to purchase from Techniclone Corporation, a Delaware corporation (the "COMPANY"), One Hundred Twenty Five Thousand (125,000) (the "OPTION NUMBER"), fully paid and nonassessable shares of the Company's Common Stock as constituted on October 23, 1998 (the "ISSUE DATE") at Three Dollars ($3.00) per share (the "EXERCISE PRICE"). The Exercise Price and number and character of such shares of Common Stock are subject to adjustment as provided below. The term "COMMON STOCK" shall mean, unless the context otherwise requires, the Company's Common Stock. The term "OPTIONS" as used herein shall include this Option and any Options delivered in substitution or exchange therefor as provided herein.

1. EXERCISE.

Holder may exercise this Option in whole at any time or in part from time to time, on any business day, prior to the time this Option terminates as provided in SECTION 4 below, by delivery at the principal office of the Company, 14282 Franklin Avenue, Tustin, California 92780, of the following:

(a) this Option,

(b) the Subscription Form attached to this Option duly executed and specifying the number of share of Common Stock to be purchased hereunder, and

(c) payment of the sum (the "PURCHASE PRICE") obtained by multiplying (i) the number of shares of Common Stock to be purchased by (ii) the Exercise Price.

The Purchase Price shall be paid in cash or by certified or official bank check, payable to the order of the Company.

This Option may be exercised for less than the full number of shares of Common Stock at the time called for hereby. Upon such partial exercise, this Option shall be surrendered, and a new Option of the same tenor and for purchase of the number of shares not purchased upon such exercise shall be issued by the Company to Holder.

A Option shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and the person entitled to receive the shares of Common Stock issuable upon such exercise shall be treated for all purposes as the holder of such shares of record as of the close of business on such date. As soon as practicable on or after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of full shares of Common Stock issuable upon such exercise, together with cash, in lieu of any fraction of a share, equal to such fraction of the current market value of one full share.

2. ADJUSTMENTS.

(a) ADJUSTMENT FOR STOCK SPLITS AND COMBINATIONS. If the Company at any time or from time to time after the Issue Date effects a subdivision of the outstanding Common Stock pursuant to a stock split or similar event, the Exercise Price of this Option shall be proportionately decreased, and conversely, if the Company at any time or from time to time after the Issue Date combines the outstanding shares of Common Stock into a smaller number of shares in a reverse stock split or similar event, the Exercise Price of this Option shall be proportionately increased. Upon the adjustment of the Exercise Price pursuant to the foregoing provisions, the number of shares of Common Stock issuable upon the exercise of this Option shall be adjusted to the nearest full share by multiplying the number of shares of Common Stock issuable upon exercise of this Option by a fraction, the numerator of which is the Exercise Price immediately prior to such adjustment and the denominator of which is the Exercise Price immediately after such adjustment. Any adjustment under this subsection (a) shall be effective at the close of business on the date the subdivision or combination becomes effective.

(b) ADJUSTMENT FOR CERTAIN DIVIDENDS AND DISTRIBUTIONS. If the Company at any time or from time to time after the Issue Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the number of shares of Common Stock subject to this Option shall be increased and the Exercise Price then in effect shall be decreased as of the date of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by:

(i) multiplying the Exercise Price then in effect by a fraction (1) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; and

(ii) multiplying the number of shares of Common Stock subject to this Option by a fraction (1) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution, and (2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date.

If, however, such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of shares of Common Stock subject to this Option and the Exercise Price thereof shall be recomputed accordingly as of the close of business on such record date and thereafter shall be adjusted pursuant to this subsection (b) as of the time of actual payment of such dividends or distributions.

(c) ADJUSTMENT FOR RECLASSIFICATION, EXCHANGE AND SUBSTITUTION. In the event that at any time or from time to time after the Issue Date any Common Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this SECTION 2), then and in any such event each Holder shall thereafter have the right to receive upon exercise hereof the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change, by holders of the maximum number of shares of Common Stock which Holder could have received upon the exercise of this Option immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein.

(d) REORGANIZATION, MERGERS, CONSOLIDATIONS OR SALES OF ASSETS. If at any time or from time to time after the Issue Date there is a capital reorganization of the Common Stock (other than a recapitalization, subdivision, combination, reclassification or exchange of shares provided for elsewhere in this SECTION 2) or merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then Holder shall be entitled to receive upon the exercise of the Option, in lieu of the Common Stock, the number of shares of stock or other securities or property of the Company, or of the successor corporation, resulting from such merger or consolidation or sale, to which a holder of the number of shares of Common Stock deliverable upon exercise would have been entitled on such capital reorganization, merger, consolidation or sale, provided that this Option is exercised simultaneously with the capital reorganization of the Common Stock (other than a recapitalization, subdivision, combination, reclassification or exchange of shares provided for elsewhere in this SECTION 2) or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person.

(e) NOTICE OF RECORD DATE. In case:

(i) the Company shall make a record of the holders of its Common Stock (or other stock or securities at the time receivable upon the exercise of the Options) for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(ii) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation, or

(iii) of any voluntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company will mail or cause to be mailed to the Holder of this Option at the time outstanding a notice specifying, as the case may be, (a) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (b) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which Holder of this Option (or such stock or securities at the time receivable upon the exercise of the Options) shall be entitled to exchange this Option for shares of Common Stock (or such other stock or securities at the time receivable upon the exercise of the Options).

3. LOSS OR MUTILATION.

Upon receipt by the Company of evidence satisfactory to it (in the exercise of reasonable discretion) of the ownership of this Option by Holder and of the loss, theft, destruction or mutilation of any Option and, in the case of loss, theft, or destruction, of indemnity satisfactory to it (in the exercise of reasonable discretion), and, in the case of mutilation, upon surrender and cancellation thereof, the Company will execute and deliver in lieu thereof a new Option of like tenor.

4. TERM OF OPTION.

The Option shall terminate on October 22, 2001 at 11:59 p.m. California time.

5. RESERVATION OF COMMON STOCK.

The Company shall at all times reserve and keep available for issuance upon the exercise of Options such number of its authorized but unissued shares of Common Stock as will be sufficient to permit the exercise in full of all outstanding Options.

6. RESTRICTION ON TRANSFER.

This Option shall be immediately transferable to Crescent Mortgage Corporation, located at 610 West Rio Road, Charlottesville, Virginia 22901. Except as otherwise provided herein, any attempted alienation, assignment, pledge, hypothecation, attachment, execution or similar process, whether voluntary or involuntary, with respect to all or any part of the Option or any right thereunder, shall be null and void and, at the Company's option, shall cause all of Holder's rights under this Agreement to terminate.

7. SECURITIES LAWS REPRESENTATIONS.

In accepting this Option, Holder hereby represents and warrants to the Company that it is acquiring the Options for investment purposes only, for its own account, and not as nominee or agent for any other person and not with the view to, or for resale in connection with, any distribution thereof or the underlying Common Stock within the meaning of the Securities Act of 1933, as amended (the "SECURITIES ACT"). Holder further represents that (i) it has a preexisting personal or business relationship with the Company and/or its officers and directors and that (ii) Holder is an "accredited investor" as that term is defined in the regulations promulgated under the Securities Act.

8. NOTICES.

All notices and other communications from the Company to Holder shall be mailed by first class registered or certified mail, postage prepaid, to the address furnished to the Company in writing by the last Holder of this Option who shall have furnished an address to the Company in writing.

9. CHANGE; WAIVER.

Neither this Option nor any term hereof may be changed, waived, discharged or terminated orally but only by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought, which, in the case of the Company, shall be the President or other executive officer duly authorized to execute such change, waiver, discharge, or termination.

10. HEADINGS.

The headings in this Option are for purposes of convenience of reference only, and shall not be deemed to constitute a part hereof.

11. LAW GOVERNING AND VENUE.

This Option is delivered in California and shall be construed and enforced in accordance with and governed by the laws of such State, without giving effect to principles of conflict of laws and that any dispute concerning any matter contained herein or relating hereto shall be heard in the Federal and State of California courts located in Orange County, California.

12. ATTORNEYS' FEES.

In the event of any dispute, claim or controversy concerning this Option, the prevailing party shall be entitled to recover all costs and expenses, including without limitation, all attorneys' fees and costs, from the nonprevailing party hereto.

Dated: October 23, 1998

Company:

TECHNICLONE CORPORATION

By:/s/ Larry O. Bymaster

Title: President & Chief Executive Officer

Holder:

BIOTECHNOLOGY DEVELOPMENT, LTD.

By:_____

Title:_____

Address:
_____
_____

EXHIBIT C
TO
OPTION AGREEMENT

(1,000,000 Share Stock Option Agreement - to be agreed upon and attached hereto)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR THE PERIOD ENDED 10/31/98.

1,000

6-MOS	
APR-30-1998	
MAY-01-1998	
Oct-31-1998	
	1,599
	0
	51
	0
	87
	1,991
	11,278
	2,113
	11,687
	3,095
	0
	0
	0
	67
	6,520
	11,687
	0
	161
	0
	6,971
	0
	0
	336
	(6,810)
	0
	(6,810)
	0
	0
	0
	(6,810)
	(.12)
	(.12)