UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 0-17085

PEREGRINE PHARMACEUTICALS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**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)*

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

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

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No o

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

Large Accelerated Filer o
Accelerated Filer ý
Non- Accelerated Filer o
Smaller reporting company o
(Do not check if a smaller reporting company)

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

Yes o No ý

As of September 5, 2014, there were 179,505,424 shares of common stock, $0.001 par value, outstanding.

PEREGRINE PHARMACEUTICALS, INC.

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

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

PEREGRINE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	JULY 31, 2014	APRIL 30, 2014
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 73,256,000	$ 77,490,000
Trade and other receivables, net	1,391,000	1,332,000
Inventories	5,998,000	5,530,000
Prepaid expenses and other current assets, net	883,000	1,419,000
Total current assets	81,528,000	85,771,000
Property and equipment, net	3,647,000	2,447,000
Other assets	2,432,000	2,327,000
TOTAL ASSETS	$ 87,607,000	$ 90,545,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 5,080,000	$ 2,434,000
Accrued clinical trial and related fees	1,887,000	4,433,000
Accrued payroll and related costs	2,654,000	3,837,000
Deferred revenue, current portion	4,670,000	5,241,000
Customer deposits	6,226,000	5,760,000
Other current liabilities	606,000	502,000
Total current liabilities	21,123,000	22,207,000
Deferred revenue, less current portion	–	292,000
Other long-term liabilities	892,000	347,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock - $0.001 par value; authorized 5,000,000 shares; issued and outstanding – 1,175,000 and 775,000, respectively	1,000	1,000
Common stock-$0.001 par value; authorized 325,000,000 shares; issued and outstanding – 179,216,032 and 178,871,164, respectively	179,000	179,000
Additional paid-in capital	481,807,000	470,785,000
Accumulated deficit	(416,395,000)	(403,266,000)
Total stockholders' equity	65,592,000	67,699,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 87,607,000	$ 90,545,000

See accompanying notes to condensed consolidated financial statements.

PEREGRINE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	THREE MONTHS ENDED	
	July 31, 2014	**July 31, 2013**
	Unaudited	*Unaudited*
REVENUES:		
Contract manufacturing revenue	$ 5,496,000	$ 4,581,000
License revenue	–	107,000
Total revenues	5,496,000	4,688,000
COSTS AND EXPENSES:		
Cost of contract manufacturing	3,583,000	2,670,000
Research and development	10,201,000	5,304,000
Selling, general and administrative	4,883,000	4,334,000
Total costs and expenses	18,667,000	12,308,000
LOSS FROM OPERATIONS	(13,171,000)	(7,620,000)
OTHER INCOME (EXPENSE):		
Interest and other income	42,000	21,000
Interest and other expense	–	(1,000)
NET LOSS	$ (13,129,000)	$ (7,600,000)
COMPREHENSIVE LOSS	$ (13,129,000)	$ (7,600,000)
Series E preferred stock accumulated dividends	(1,028,000)	–
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (14,157,000)	$ (7,600,000)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic and diluted	179,118,255	149,393,630
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.08)	$ (0.05)

See accompanying notes to condensed consolidated financial statements.

PEREGRINE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED JULY 31,	
	2014	2013
	Unaudited	*Unaudited*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (13,129,000)	$ (7,600,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	1,776,000	1,593,000
Depreciation and amortization	277,000	257,000
Changes in operating assets and liabilities:		
Trade and other receivables, net	(59,000)	(610,000)
Inventories	(468,000)	(1,340,000)
Prepaid expenses and other current assets, net	536,000	74,000
Other non-current assets	(29,000)	–
Accounts payable	2,518,000	(661,000)
Accrued clinical trial and related fees	(2,546,000)	(322,000)
Accrued payroll and related expenses	(1,183,000)	(311,000)
Deferred revenue	(863,000)	(7,000)
Customer deposits	466,000	469,000
Other accrued expenses and current liabilities	108,000	357,000
Other long-term liabilities	(47,000)	(23,000)
Net cash used in operating activities	(12,643,000)	(8,124,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment acquisitions	(1,349,000)	(27,000)
Decrease (increase) in other assets	516,000	(223,000)
Net cash used in investing activities	(833,000)	(250,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of issuance costs of $14,000 and $491,000, respectively	421,000	14,706,000
Proceeds from issuance of Series E preferred stock, net of issuance costs of $516,000	9,484,000	–
Proceeds from exercise of stock options, net of issuance costs of $3,000 and nil, respectively	112,000	84,000
Dividends paid on preferred stock	(771,000)	–
Principal payments on capital leases	(4,000)	(20,000)
Net cash provided by financing activities	9,242,000	14,770,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,234,000)	6,396,000
CASH AND CASH EQUIVALENTS, beginning of period	77,490,000	35,204,000
CASH AND CASH EQUIVALENTS, end of period	$ 73,256,000	$ 41,600,000
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable for purchase of property and equipment	$ 128,000	$ –
Lease incentives	$ 592,000	$ –

See accompanying notes to condensed consolidated financial statements.

1. ORGANIZATION AND BUSINESS

Peregrine Pharmaceuticals, Inc. ("Peregrine" or "Company") is a biopharmaceutical company with a portfolio of novel drug candidates in clinical trials focused on the treatment and diagnosis of cancer. Our lead immunotherapy candidate, bavituximab, is in Phase III development for the treatment of second-line non-small cell lung cancer (the "SUNRISE trial") along with several investigator-sponsored trials evaluating other treatment combinations and additional oncology indications. In addition, we are also evaluating our lead molecular imaging agent, 124I-PGN650, in an exploratory clinical trial for the imaging of multiple solid tumor types. Peregrine also has in-house manufacturing capabilities through its wholly-owned subsidiary Avid Bioservices, Inc. ("Avid"), a Contract Manufacturing Organization ("CMO") that provides development and biomanufacturing services for Peregrine and its third-party clients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to quarterly reports on Form 10-Q. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for a complete set of financial statements. These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 30, 2014. The condensed consolidated balance sheet at April 30, 2014, has been derived from audited financial statements at that date. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this quarterly report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year.

The interim unaudited condensed consolidated financial statements include the accounts of Peregrine and Avid. All intercompany accounts and transactions have been eliminated in the interim unaudited condensed consolidated financial statements.

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

Adoption of Recent Accounting Pronouncements

Effective May 1, 2014, we adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires entities to present in the financial statements an unrecognized tax benefit, or a portion of an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except to the extent such items are not available or not intended to be used at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position. In such instances, the unrecognized tax benefit is required to be presented in the financial statements as a liability and not be combined with deferred tax assets. The adoption ASU No. 2013-11 did not have a material impact on our consolidated financial statements

Pending Adoption of Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606): *Revenue from Contracts with Customers*, which guidance in this update will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance when it becomes effective. ASU No. 2014-09 affects any entity that enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principal of ASU No. 2014-09 is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, which will be our fiscal year 2018 (or May 1, 2017), and entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Early adoption is prohibited. We are currently in the process of evaluating the impact of adoption of ASU No. 2014-09 on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-14 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). ASU No. 2014-14 provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. ASU No. 2014-14 is effective for annual reporting periods ending after December 15, 2016, which will be our fiscal year ending April 30, 2017, and to annual and interim periods thereafter. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption of ASU No. 2014-15 on our consolidated financial statements and related disclosures.

Liquidity and Financial Condition

At July 31, 2014, we had $73,256,000 in cash and cash equivalents. We have expended substantial funds on the research and development of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect negative cash flows from operations to continue for the foreseeable future. Therefore, unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our product candidates under development, we expect such negative cash flows to continue in the foreseeable future.

Our ability to continue to fund our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, raising additional capital in the equity markets, securing debt financing, licensing or partnering our product candidates in development, or generating additional revenue from Avid.

Historically, we have funded a significant portion of our operations through the issuance of equity. During the three months ended July 31, 2014, we raised $10,000,000 in aggregate gross proceeds from the sale of our 10.50% Series E Convertible Preferred Stock (the "Series E Preferred Stock") under an At Market Issuance Sales Agreement (Note 6) and raised an additional $435,000 in aggregate gross proceeds from the sale of shares of our common stock under a separate At Market Sales Issuance Agreement (Note 6). With these proceeds, we currently estimate that we have sufficient cash resources to meet our anticipated cash needs to fund our operations through at least the next twelve months based on our current projections, which include projected costs associated with our Phase III SUNRISE trial, projected cash outflows for the payment of dividends on our Series E Preferred Stock, projected cash inflows under signed contracts with existing customers of Avid and assuming we raise no additional capital from the capital markets or other potential sources.

Our ability to raise additional capital in the equity markets to fund our clinical trials and development efforts in future years is dependent on a number of factors, including, but not limited to, the market demand for our common stock and/or Series E Preferred Stock. The market demand or liquidity of our common stock and/or Series E Preferred Stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse clinical trial results and significant delays in one or more clinical trials. If our ability to access the capital markets becomes severely restricted, it could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

While we will continue to explore these potential opportunities, we may not be successful in (i) raising additional capital in the equity markets, (ii) securing debt financing, (iii) licensing or partnering our products in development, or (iv) generating additional revenue from Avid, to complete the research, development, and clinical testing of our product candidates.

Concentrations of Credit Risk and Customer Base

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

Our trade receivables from amounts billed for contract manufacturing services provided by Avid have historically been derived from a small customer base. Most contracts require up-front payments and installment payments during the service period. We perform periodic evaluations of the financial condition of our ongoing customers and generally do not require collateral, but we can terminate any contract if a material default occurs. As of July 31, 2014 and April 30, 2014, approximately 100% and 99% of our trade receivables, respectively, represent amounts due from two customers.

In addition, contract manufacturing revenue generated by Avid has historically been derived from a small customer base (Note 9). These customers typically do not enter into long-term contracts because their need for drug supply depends on a variety of factors, including the drug's stage of development, their financial resources, and, with respect to commercial drugs, demand for the drug in the market. Our future results of operations could be adversely affected if revenue from any one of our primary customers is significantly reduced or eliminated

Revenue Recognition

We currently derive revenue from two sources: (i) contract manufacturing services provided by Avid, and (ii) licensing revenue related to agreements associated with Peregrine's technologies under development.

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

Contract Manufacturing Revenue

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

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

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

License Revenue

Revenue associated with licensing agreements primarily consists of non-refundable upfront license fees, non-refundable annual license fees and milestone payments. Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology. If a licensing agreement has multiple elements, we analyze each element of our licensing agreements and consider a variety of factors in determining the appropriate method of revenue recognition of each element.

Multiple Element Arrangements. Prior to the adoption of ASU No. 2009-13 on May 1, 2011, if a license agreement has multiple element arrangements, we analyze and determine whether the deliverables, which often include performance obligations, can be separated or whether they must be accounted for as a single unit of accounting in accordance with the authoritative guidance. Under multiple element arrangements, we recognize revenue for delivered elements only when the delivered element has stand-alone value and we have objective and reliable evidence of fair value for each undelivered element. If the fair value of any undelivered element included in a multiple element arrangement cannot be objectively determined, the arrangement would then be accounted for as a single unit of accounting, and revenue is recognized over the estimated period of when the performance obligation(s) are performed.

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

For new licensing agreements or material modifications of existing licensing agreements entered into after May 1, 2011, we follow the provisions of ASU No. 2009-13. If a licensing agreement includes multiple elements, we identify which deliverables represent separate units of accounting, and then determine how the arrangement consideration should be allocated among the separate units of accounting, which may require the use of significant judgment.

If a licensing agreement includes multiple elements, a delivered item is considered a separate unit of accounting if both of the following criteria are met:

1. The delivered item has value to the licensing partner on a standalone basis based on the consideration of the relevant facts and circumstances for each agreement;

2. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the Company's control.

Arrangement consideration is allocated at the inception of the agreement to all identified units of accounting based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence ("VSOE") of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, we use our best estimate of the selling price for the deliverable. The amount of allocable arrangement consideration is limited to amounts that are fixed or determinable. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units. Changes in the allocation of the sales price between delivered and undelivered elements can impact revenue recognition but do not change the total revenue recognized under any agreement.

Milestone Payments. Effective May 1, 2011, we adopted on a prospective basis the Milestone Method under ASU No. 2010-17 for new licensing agreements or material modifications of existing licensing agreements entered into after May 1, 2011. Under the Milestone Method, we recognize consideration that is contingent upon the achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone is substantive in its entirety. A milestone is considered substantive when it meets all of the following criteria:

1. The consideration is commensurate with either the entity's performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone;
2. The consideration relates solely to past performance; and
3. The consideration is reasonable relative to all of the deliverables and payment terms within the arrangement.

A milestone is defined as an event (i) that can only be achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (iii) that would result in additional payments being due to the Company.

The provisions of ASU No. 2010-17 do not apply to contingent consideration for which payment is either contingent solely upon the passage of time or the result of a counterparty's performance. We will assess the nature of, and appropriate accounting for, these payments on a case-by-case basis in accordance with the applicable authoritative guidance for revenue recognition.

Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue in the accompanying interim unaudited condensed consolidated financial statements.

Fair Value Measurements

We determine fair value measurements in accordance with the authoritative guidance for fair value measurements and disclosures for all assets and liabilities within the scope of this guidance. This guidance, which among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance prioritizes the inputs used in measuring fair value into the following hierarchy:

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

As of July 31, 2014 and April 30, 2014, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash and cash equivalents, which are primarily invested in money market funds with one major commercial bank, are carried at fair value based on quoted market prices for identical securities (Level 1 input).

Customer Deposits

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

Research and Development Expenses

Research and development expenses primarily include (i) payroll and related costs, including share-based compensation, associated with research and development personnel, (ii) costs related to clinical trials and preclinical testing of our technologies under development, (iii) costs to develop and manufacture the product candidates, including raw materials and supplies, product testing, depreciation, and facility related expenses, (iv) expenses for research services provided by universities and contract laboratories, including sponsored research funding, and (v) other research and development expenses. Research and development expenses are charged to expense as incurred when these expenditures relate to our research and development efforts and have no alternative future uses.

Clinical trial costs are a significant component of our research and development expenses. We have a history of contracting with third parties that perform various clinical trial activities on our behalf in the ongoing development of our product candidates. The financial terms of these contracts are subject to negotiations and may vary from contract to contract and may result in uneven payment flow. Expenses related to clinical trials are accrued based on our estimates and/or representations from third parties (including clinical research organizations) regarding services performed. If the contracted amounts are modified (for instance, as a result of changes in the clinical trial protocol or scope of work to be performed), we modify our accruals accordingly on a prospective basis. Revisions in the scope of a contract are charged to expense in the period in which the facts that give rise to the revision become reasonably certain. There were no material adjustments for a change in estimate to research and development expenses in the accompanying interim unaudited condensed consolidated financial statements for the three months ended July 31, 2014 and 2013.

Under certain research and development agreements, we are obligated to make certain advance payments, including nonrefundable amounts, for goods or services that will be used or rendered for future research and development activities and are deferred and capitalized as prepaid research and development expenses. These advance payments are recognized as an expense in the period the related goods are delivered or the related services are performed. We assess our prepaid research and development expenses for impairment when events or changes in circumstances indicate that the carrying amount of the prepaid expense may not be recoverable or provide future economic benefit.

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

Share-based Compensation

We account for stock options and other share-based awards granted under our equity compensation plans in accordance with the authoritative guidance for share-based compensation. The estimated fair value of share-based payments to employees in exchange for services is measured at the grant date, using a fair value based method, and is recognized as expense on a straight-line basis over the requisite service periods. Share-based compensation expense recognized during the period is based on the value of the portion of the share-based payment that is ultimately expected to vest during the period.

In addition, we periodically grant stock options and other share-based awards to non-employee consultants, which we account for in accordance with the authoritative guidance for share-based compensation. The cost of non-employee services received in exchange for share-based awards are measured based on either the fair value of the consideration received or the fair value of the share-based award issued, whichever is more reliably measurable. In addition, guidance requires share-based compensation related to unvested options and awards issued to non-employees to be recalculated at the end of each reporting period based upon the fair market value on that date until the share-based award has vested, and any cumulative catch-up adjustment to share-based compensation resulting from the re-measurement is recognized in the current period. See Note 7 for further discussion regarding share-based compensation.

Basic and Dilutive Net Loss Per Common Share

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

The potential dilutive effect of stock options, common shares expected to be issued under our employee stock purchase plan, and warrants outstanding during the period was calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. The potential dilutive effect of Series E Preferred Stock outstanding during the period was calculated using the if-converted method assuming the conversion of Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. Because the impact of stock options, common shares expected to be issued under our employee stock purchase plan, warrants, and Series E Preferred Stock are anti-dilutive during periods of net loss, there was no difference between basic and diluted loss per common share amounts for the three months ended July 31, 2014 and 2013.

The calculation of weighted average diluted shares outstanding excludes the dilutive effect of outstanding stock options, common shares expected to be issued under our employee stock purchase plan, and warrants, to purchase up to an aggregate of 5,026,166 and 4,426,459 shares of common stock for the three months ended July 31, 2014 and 2013, respectively, since their impact are anti-dilutive during periods of net loss.

The calculation of weighted average diluted shares outstanding also excludes weighted average outstanding stock options and warrants to purchase up to an aggregate of 4,885,058 and 5,933,036 shares of common stock for the three months ended July 31, 2014 and 2013, respectively, as their exercise prices were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect. In addition, weighted average shares of 8,159,545, assuming the issuance of common stock upon conversion of outstanding Series E Preferred Stock for the three months ended July 31, 2014, were also excluded from the calculation of weighted average diluted shares outstanding as the conversion price was greater than the average market price during the period, resulting in an anti-dilutive effect. There were no shares of Series E Preferred Stock outstanding during the three months ended July 31, 2013.

3. TRADE AND OTHER RECEIVABLES

Trade and other receivables, net, consists of the following at July 31, 2014 and April 30, 2014:

	July 31, 2014	April 30, 2014
Trade receivables[(1)]	$ 1,324,000	$ 1,219,000
Other receivables, net	67,000	113,000
Trade and other receivables, net	$ 1,391,000	$ 1,332,000

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

We continually monitor our allowance for doubtful accounts for all receivables. We apply judgment in assessing the ultimate realization of our receivables and we estimate an allowance for doubtful accounts based on various factors, such as, the aging of accounts receivable balances, historical experience, and the financial condition of our customers. Based on our analysis of our receivables as of July 31, 2014 and April 30, 2014, we determined an allowance for doubtful accounts of $6,000 and $13,000, respectively, was necessary with respect to our other receivables, and no allowance was necessary with respect to our trade receivables.

4. PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following at July 31, 2014 and April 30, 2014:

	July 31, 2014	April 30, 2014
Leasehold improvements	$ 1,538,000	$ 1,538,000
Laboratory equipment	5,913,000	5,646,000
Furniture, fixtures, office equipment and software	3,889,000	2,679,000
	11,340,000	9,863,000
Less accumulated depreciation and amortization	(7,693,000)	(7,416,000)
Property and equipment, net	$ 3,647,000	$ 2,447,000

Depreciation and amortization expense for three months ended July 31, 2014 and 2013 was $277,000 and $257,000, respectively.

5. INVENTORIES

Inventories are stated at the lower of cost or market and primarily include raw materials, direct labor and overhead costs (work-in-process) associated with our wholly-owned subsidiary, Avid. Cost is determined by the first-in, first-out method. Inventories consist of the following at July 31, 2014 and April 30, 2014:

	July 31, 2014	April 30, 2014
Raw materials	$ 2,725,000	$ 2,370,000
Work-in-process	3,273,000	3,160,000
Total inventories	$ 5,998,000	$ 5,530,000

6. STOCKHOLDERS' EQUITY

Sales of Common and Preferred Stock

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

With respect to financing our operations through the issuance of equity, the following is a summary of our financing activity during the three months ended July 31, 2014.

Common Stock

On December 27, 2012, we entered into an At Market Sales Issuance Agreement ("December 2012 AMI Agreement") with MLV & Co. LLC ("MLV"), pursuant to which we may sell shares of our common stock through MLV, as agent, for aggregate gross proceeds of up to $75,000,000, in registered transactions from our shelf registration statement on Form S-3 (File No. 333-180028), which was declared effective by the SEC on April 12, 2012. During the three months ended July 31, 2014, we sold 226,700 shares of common stock at market prices under the December 2012 AMI Agreement for aggregate gross proceeds of $435,000 before deducting commissions and other issuance costs of $14,000. As of July 31, 2014, aggregate gross proceeds of up to $5,769,000 remained available under the December 2012 AMI Agreement.

On June 13, 2014, we entered into an At Market Issuance Sales Agreement ("June 2014 AMI Agreement"), with MLV, pursuant to which we may sell shares of our common stock through MLV, as agent, for aggregate gross proceeds of up to $25,000,000, in registered transactions from our shelf registration statement on Form S-3 (File No. 333-180028). As of July 31, 2014, we had not sold any shares of common stock under the June 2014 AMI Agreement.

Preferred Stock

On June 13, 2014, we entered into a separate At Market Issuance Sales Agreement ("Series E AMI Agreement") with MLV, pursuant to which we may issue and sell shares of our Series E Preferred Stock through MLV, as agent, for aggregate gross proceeds of up to $30,000,000, in registered transactions from our shelf registration statement on Form S-3 (File No. 333-193113), which was declared effective by the SEC on January 16, 2014. During the three months ended July 31, 2014, we sold 400,000 shares of our Series E Preferred Stock at market prices under the Series E AMI Agreement for aggregate gross proceeds of $10,000,000 before deducting commission and other issuance costs of $516,000. As of July 31, 2014, aggregate gross proceeds of up to $20,000,000 remained available under the Series E AMI Agreement.

In addition, the Series E Preferred Stock is classified as permanent equity in accordance with FASB Accounting Standards Codification Topic 480, *Distinguishing Liabilities from Equity*.

Series E Preferred Stock Rights and Preferences

The rights and preferences of the Series E Preferred Stock include:

(i) The holders are entitled to receive a 10.50% per annum cumulative quarterly dividend, payable in cash, on or about the 1st day of each of January, April, July, and October;

(ii) The dividend may increase to a penalty rate of 12.50% if: (a) we fail to pay dividends for any four consecutive or nonconsecutive quarterly dividend periods, or (b) once the Series E Preferred Stock becomes initially eligible for listing on a national securities exchange, we fail, for 180 or more consecutive days, to maintain such listing;

(iii) Following a change of control of the Company (as defined in the Certificate of Designations) by a person or entity, we (or the acquiring entity) may, at our option, redeem the Series E Preferred Stock, in whole but not in part, within 120 days after the date on which the change of control has occurred for cash, at the redemption price;

(iv) We may not redeem the Series E Preferred Stock prior to February 11, 2017 (except following a change of control) and, on and after February 11, 2017, we may redeem the Series E Preferred Stock for cash at our option, from time to time, in whole or in part, at the redemption price;

(v) The redemption price is $25.00 per share, plus any accrued and unpaid dividends (whether or not earned or declared) to, but excluding, the redemption date;

(vi) The liquidation preference is $25.00 per share, plus any accrued and unpaid dividends (whether or not earned or declared);

(vii) The Series E Preferred Stock has no stated maturity date or mandatory redemption and is senior to all of the Company's other securities;

(viii) There is a general conversion right with respect to the Series E Preferred Stock with an initial conversion price of $3.00, a special conversion right upon a change of control, and a market trigger conversion at our option in the event of Market Trigger (as defined in the Certificate of Designations); and

(ix) The holders of the Series E Preferred Stock have no voting rights, except as defined in the Certificate of Designations.

The foregoing description does not purport to be complete and is qualified in its entirety by reference to the Certificate of Designations which was filed as Exhibit 3.11 to the Company's Form 8-A filed with the SEC on February 12, 2014 and is incorporated herein by reference.

Series E Preferred Stock Dividend

On June 10, 2014, our Board of Directors declared a quarterly cash dividend of $0.65625 per share on our Series E Preferred Stock. The dividend payment is equivalent to an annualized 10.50% per share, based on the $25.00 per share stated liquidation preference, accruing from April 1, 2014 through June 30, 2014. The cash dividend of $771,000 was paid on July 1, 2014 to holders of the Series E Preferred Stock of record on June 20, 2014.

Shares of Common Stock Authorized and Reserved for Future Issuance

We are authorized to issue up to 325,000,000 shares of our common stock. As of July 31, 2014, 179,216,032 shares of our common stock were issued and outstanding. In addition, our common stock outstanding as of July 31, 2014 excluded the following shares of common stock reserved for future issuance:

- 25,297,851 shares of common stock reserved for issuance under outstanding option grants and available for issuance under our stock incentive plans;
- 2,940,509 shares of common stock reserved for and available for issuance under our Employee Stock Purchase Plan;
- 273,280 shares of common stock issuable upon exercise of outstanding warrants; and
- 34,075,000 shares of common stock issuable upon conversion of our outstanding Series E Preferred Stock [(1)].

(1) The Series E Preferred Stock is convertible into shares of common stock at a conversion price of $3.00 per share. If all outstanding Series E Preferred Stock were converted at the $3.00 per share conversion price, the holders of Series E Preferred Stock would receive an aggregate of 9,791,666 shares of our common stock. However, we have reserved the maximum number of shares of our common stock that could be issued upon a change of control event assuming our shares of common stock are acquired for consideration of $0.855 per share or less. In this scenario, each outstanding share of Series E Preferred Stock could be converted into 29 shares of common stock, as further described in the Certificate of Designations, filed as Exhibit 3.11 to the Company's Form 8-A filed with the SEC on February 12, 2014.

7. EQUITY COMPENSATION PLANS

Stock Incentive Plans

As of July 31, 2014, we had an aggregate of 25,297,851 shares of common stock reserved for issuance under our stock incentive plans, of which, 21,069,179 shares were subject to outstanding options and 4,228,672 shares were available for future grants of share-based awards.

The following summarizes our stock option transaction activity for the three months ended July 31, 2014:

Stock Options	Shares	Weighted Average Exercisable Price
Outstanding, May 1, 2014	17,165,333	$ 1.58
Granted	4,187,470	$ 1.75
Exercised	(118,168)	$ 0.97
Canceled or expired	(165,456)	$ 3.72
Outstanding, July 31, 2014	21,069,179	$ 1.60

Employee Stock Purchase Plan

We have reserved a total of 5,000,000 shares of common stock to be purchased under our 2010 Employee Stock Purchase Plan (the "ESPP"), of which 2,940,509 shares of common stock remain available for purchase as of July 31, 2014. The ESPP allows eligible employees on a voluntary basis to purchase shares of our common stock directly from the Company. Under the ESPP, we will sell shares to participants at a price equal to the lesser of 85% of the fair market value of our common stock at the (i) beginning of a six-month offering period or (ii) at the end of the six-month offering period. The ESPP provides for two six-month offering periods each year; the first offering period will begin on the first trading day on or after each November 1; the second offering period will begin on the first trading day on or after each May 1. No shares were purchased under the ESPP during the three months ended July 31, 2014 as the current six-month offering period ends on October 31, 2014.

Share-Based Compensation

Total share-based compensation expense is included in the accompanying interim unaudited condensed consolidated statements of operations as follows:

	Three Months Ended July 31,	
	2014	2013
Cost of contract manufacturing	$ 24,000	$ 24,000
Research and development	743,000	741,000
Selling, general and administrative	1,009,000	828,000
Total share-based compensation expense	$ 1,776,000	$ 1,593,000
Share-based compensation from:		
Stock options	$ 1,697,000	$ 1,503,000
Employee stock purchase plan	79,000	90,000
	$ 1,776,000	$ 1,593,000

As of July 31, 2014, the total estimated unrecognized compensation cost related to non-vested stock options was $7,786,000. This cost is expected to be recognized over a weighted average vesting period of 1.43 years based on current assumptions.

8. WARRANTS

No warrants were issued or exercised during the three months ended July 31, 2014. As of July 31, 2014, warrants to purchase 273,280 shares of our common stock at an exercise price of $2.47 were outstanding and are exercisable through August 30, 2018.

9. SEGMENT REPORTING

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

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

Segment information is summarized as follows:

	Three Months Ended July 31,	
	2014	**2013**
Contract manufacturing services revenue	$ 5,496,000	$ 4,581,000
Cost of contract manufacturing services	3,583,000	2,670,000
Gross profit	1,913,000	1,911,000
Revenue from products in research and development	–	107,000
Research and development expense	(10,201,000)	(5,304,000)
Selling, general and administrative expense	(4,883,000)	(4,334,000)
Other income, net	42,000	20,000
Net loss	$ (13,129,000)	$ (7,600,000)

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

	Three Months Ended July 31,	
	2014	**2013**
United States (one customer)	100%	93%
Other customers	–	7
Total	100%	100%

Revenue generated from our products in our research and development segment during the three months ended July 31, 2013 was directly related to license revenue recognized under licensing agreements with an unrelated entity.

10. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our consolidated results of operations, cash flows, or financial condition.

Securities Related Class Action Lawsuit

On September 28, 2012, three complaints were filed in the U.S. District Court for the Central District of California against us and certain of our executive officers and one consultant (collectively, the "Defendants") on behalf of certain purchasers of our common stock. The complaints have been brought as purported stockholder class actions, and, in general, include allegations that Defendants violated (i) Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder and (ii) Section 20(a) of the Exchange Act, by making materially false and misleading statements regarding the interim results of our bavituximab Phase II second-line NSCLC trial, thereby artificially inflating the price of our common stock. The plaintiffs are seeking unspecified monetary damages and other relief. On February 5, 2013, the court consolidated the related actions with the low-numbered case (captioned *Anderson v. Peregrine Pharmaceuticals, Inc., et al.*, Case No. 12-cv-1647-PSG (FMOx)). After the court issued two separate orders granting the Defendants' two separate motions to dismiss, on May 1, 2014, the court issued a third order granting Defendants' motion to dismiss the plaintiff's amended complaint with prejudice. On May 29, 2014, the plaintiff filed a notice of appeal with respect to the court's order granting Defendants' motion to dismiss. Lead plaintiff's opening brief with respect to the appeal is due on November 10, 2014 and the Defendants' answering brief is due on December 10, 2014. We believe that the class action lawsuit is without merit and intend to vigorously defend the action, including seeking dismissal of any amended complaint.

Derivative Litigation

On May 9, 2013, an alleged shareholder filed, purportedly on behalf of the Company, a derivative lawsuit, captioned *Roy v. Steven W. King, et al.*, Case No. 13-cv-0741-PSG (RNBx), in the U.S. District Court for the Central District of California against certain of our executive officers and directors. The complaint asserts claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment arising from substantially similar factual allegations as those asserted in the consolidated securities class action lawsuit, described above (the "Securities Class Action"). This case was subsequently transferred to the same court and judge handling the Securities Class Action lawsuit. On May 31, 2013, the judge issued an order administratively closing the case and inviting the parties to move to re-open after the final resolution of defendants' motions to dismiss in the Securities Class Action.

On October 10, 2013, a derivative and class action complaint, captioned *Michaeli v. Steven W. King, et al.*, C.A. No. 8994-VCL, was filed in the Court of Chancery of the State of Delaware against certain of our executive officers and directors. The complaint alleges that the Company's directors and executives breached their respective fiduciary duties in connection with certain purportedly improper compensation decisions made by the Company's Board of Directors during the past three fiscal years, including: (i) the grant of a stock option to Mr. King on May 4, 2012; (ii) the non-routine broad-based stock option grant to the Company's directors, executives, all other employees and certain consultants on December 27, 2012; and (iii) the payment, during the past three fiscal years, of compensation to the Company's non-employee directors. In addition, the complaint alleges that the Company's directors breached their fiduciary duty of candor by filing and seeking stockholder action on the basis of an allegedly materially false and misleading proxy statement for the Company's 2013 annual meeting of stockholders. The defendants filed their answer to the complaint on February 5, 2014. We believe that the derivative and class action complaint are without merit and intend to vigorously defend the action.

Other Legal Matters

On September 24, 2012, we filed a lawsuit, captioned *Peregrine Pharmaceuticals, Inc. v. Clinical Supplies Management, Inc.,* Case No. 8:12-cv-01608 JST(AN) (C.D. Cal), against Clinical Supplies Management, Inc. ("CSM"), in the U.S. District Court for the Central District of California. In 2010, we had contracted with CSM as our third-party vendor responsible for distribution of the blinded investigational product used in our bavituximab Phase IIb second-line NSCLC trial. As part of the routine collection of data in advance of an end-of-Phase II meeting with regulatory authorities, we discovered major discrepancies between some patient sample test results and patient treatment code assignments. Consequently, we filed this lawsuit against CSM alleging breach of contract, negligence and negligence per se arising from CSM's performance of its contracted services. We are seeking monetary damages. On March 7, 2013, we and CSM submitted to the court a proposed stipulation pursuant to which the lawsuit would be stayed for up to 120 days during which time we and CSM would participate in an alternative dispute resolution process, pursuant to our contract with CSM. The proposed stipulation was approved by the court on March 8, 2013. On June 26, 2013, we and CSM engaged in an alternative dispute resolution session that did not result in any resolution of our dispute. The aforementioned stay expired on July 6, 2013. We granted CSM until July 19, 2013 to file an answer to our complaint, which CSM did on July 11, 2013. The parties appeared in court in February 2014 for a scheduling conference at which the court scheduled the trial to commence in April 2015. On June 5, 2014, CSM filed with the court a Notice of Motion and Motion for Partial Summary Judgment seeking partial summary judgment on our claims for damages on the grounds that the limitation of liability clauses contained in our master services agreement with CSM are valid and enforceable. Our opposition to CSM's motion was filed with the court on June 23, 2104, and the hearing on the motion was held on July 28, 2014. On July 30, 2014, the court issued its order holding that the limitation of liability clause did not apply to our claims for active negligence, negligent misrepresentation and constructive fraud, but did apply to our causes of action for breach of contract, passive negligence and negligence per se.

11. SUBSEQUENT EVENT

On September 8, 2014, our Board of Directors declared a quarterly cash dividend of $0.65625 per share on our Series E Preferred Stock. The dividend payment is equivalent to an annualized 10.50% per share, based on the $25.00 per share stated liquidation preference, accruing from July 1, 2014 through September 30, 2014. The cash dividend is payable on October 1, 2014 to holders of the Series E Preferred Stock of record on September 19, 2014.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which represent our projections, estimates, expectations or beliefs concerning among other things, financial items that relate to management's future plans or objectives or to our future economic and financial performance. In some cases, you can identify these statements by terminology such as "may", "should", "plans", "believe", "will", "anticipate", "estimate", "expect" "project", or "intend", including their opposites or similar phrases or expressions. You should be aware that these statements are projections or estimates as to future events and are subject to a number of factors that may tend to influence the accuracy of the statements. These forward-looking statements should not be regarded as a representation by the Company or any other person that the events or plans of the Company will be achieved. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in Part II, Section 1A of this Quarterly Report on Form 10-Q, Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended April 30, 2014, and the reports we file from time to time with the Securities and Exchange Commission ("SEC") after the date of this Quarterly Report. Actual results may differ materially from any forward looking statement.

Overview

We are a biopharmaceutical company with a pipeline of novel drug candidates in clinical trials focused on the treatment and diagnosis of cancer. Our lead immunotherapy candidate, bavituximab, is in Phase III development for the treatment of second-line non-small cell lung cancer (the "SUNRISE trial") along with several investigator-sponsored trials evaluating other treatment combinations and additional oncology indications. In addition, we are evaluating our lead molecular imaging agent, 124I-PGN650 ("PGN650"), in an exploratory clinical trial for the imaging of multiple solid tumor types.

Our pipeline of novel drug candidates in clinical trials is based on our first-in-class phosphatidylserine ("PS")-targeting technology platform. The PS-targeting platform includes monoclonal antibodies that target and bind to PS, a highly immunosuppressive molecule usually located inside the membrane of healthy cells, but "flips" and becomes exposed on the outside of cells that line tumor blood vessels, causing the tumor to evade immune detection. PS-targeting antibodies target and bind to PS and block this immunosuppressive signal, thereby enabling the immune system to recognize and fight the tumor. Bavituximab is our lead immunotherapeutic PS-targeting antibody, which has demonstrated broad therapeutic potential and represents a new approach to treating cancer. In addition to the potential for our PS-targeting antibodies to treat cancer, we believe these antibodies may have broad potential for the imaging and diagnosis of multiple diseases, including cancer. PGN650 is our lead PS-targeting imaging agent that represents a potential new approach to imaging cancer.

The following represents a summary of our company and investigator-sponsored clinical trials under our first-in-class PS-targeting technology platform with respect to our oncology and imaging programs in clinical-stage development. Additional information pertaining to each clinical trial is further discussed below.

Product Candidate	Indication; Trial Design	Phase	Status
Bavituximab PS-Targeting Monoclonal Antibody (oncology)	Second-line non-small cell lung cancer ("NSCLC"); randomized, double blind, placebo-controlled, combined with docetaxel (SUNRISE trial)	III	Trial initiated in December 2013; patient enrollment ongoing.
	Front-line NSCLC; randomized, open-label, combined with carboplatin and pemetrexed	Ib	Patient enrollment complete; Interim data described below.
	HER2-negative metastatic breast cancer (MBC); single arm, open-label, combined with paclitaxel	I	Patient enrollment complete; Interim data described below.
	Advanced liver cancer (hepatocellular carcinoma or HCC); single arm, open-label, combined with sorafenib	I/II	Patient enrollment complete; Interim safety data described below.
	Front-line rectal adenocarcinoma; single arm, open-label, combined with capecitabine and radiation therapy	I	Patient enrollment ongoing.
	Advanced melanoma; randomized, open label, combined with ipilimumab	Ib	Trial initiated in April 2014; Patient enrollment ongoing.
PGN650 PS-targeting F(ab')2 fully human monoclonal antibody (imaging)	Imaging agent	I*	Patient enrollment ongoing.

* *Filed under an exploratory Investigational New Drug Application ("IND").*

Bavituximab for the Treatment of Solid Tumors

We believe our novel immunotherapy candidate bavituximab may have broad potential for the treatment of multiple types of cancer. In December 2013, we initiated our SUNRISE trial, a randomized Phase III trial for bavituximab in combination with docetaxel in second-line NSCLC. In addition, we have investigator-sponsored trials evaluating different treatment combinations and additional oncology indications for bavituximab.

The following represents an overview of our company and investigator-sponsored bavituximab clinical trials by indication:

Bavituximab in Second-Line NSCLC

Bavituximab is our lead immunotherapy investigational candidate in Phase III development for the treatment of second-line NSCLC. The design of the SUNRISE (**S**timulating Imm**U**ne Respo**N**se th**R**ough Bav**I**tuximab in a Pha**SE** III Lung Cancer Study) trial was supported by promising data from our prior Phase IIb second-line NSCLC trial in the same indication, which final data was presented at the 2013 American Society of Clinical Oncology Annual Meeting. In December 2013, we initiated the Phase III SUNRISE trial and patient enrollment is ongoing. In addition, in January 2014, we announced that bavituximab received Fast Track designation by the U.S. Food and Drug Administration ("FDA") for combination with docetaxel in patients with previously-treated non-squamous NSCLC.

The Phase III SUNRISE trial is a randomized, double-blind, placebo-controlled trial evaluating bavituximab plus docetaxel versus docetaxel plus placebo in approximately 600 patients at clinical sites worldwide. The trial is enrolling patients with stage IIIb/IV non-squamous NSCLC who have progressed after standard front-line treatment. Patients are randomized into one of two treatment arms. One treatment arm receives docetaxel (75 mg/m^2), up to six 21-day cycles, in combination with bavituximab (3 mg/kg) weekly until progression or toxicity. The other treatment arm receives docetaxel (75 mg/m^2), up to six 21-day cycles, in combination with placebo weekly until progression or toxicity. The primary endpoint of the trial is overall survival.

Bavituximab in Front-Line NSCLC

This investigator-sponsored Phase Ib trial is designed to assess bavituximab with pemetrexed and carboplatin in up to 25 patients with locally advanced or metastatic NSCLC. Interim data conducted on a small number of patients showed encouraging response rates with the combination of carboplatin, pemetrexed and bavituximab. Patient enrollment is complete and additional data is expected during fiscal year 2015.

Bavituximab in HER2-negative Metastatic Breast Cancer (MBC)

This investigator-sponsored Phase I trial was designed to assess bavituximab combined with paclitaxel in up to 14 patients with HER2-negative metastatic breast cancer. Interim data presented at ASCO in June 2013, reported that, from 13 evaluable patients, 85% of patients achieved an objective tumor response, including 15% of patients achieving a complete response measured in accordance with RECIST criteria. Patient enrollment is complete and final data from this trial is anticipated during fiscal year 2015.

Bavituximab in Advanced Liver Cancer

This ongoing investigator-sponsored Phase I/II trial is designed to assess bavituximab combined with sorafenib in up to 48 patients with advanced liver cancer ("hepatocellular carcinoma" or "HCC"). Data presented at AACR in April 2012 showed that of the nine patients enrolled in the Phase I portion of the study, no dose-limiting toxicities or serious adverse events were observed. In addition, patient enrollment was recently completed in the Phase II portion of the trial and interim data is anticipated during fiscal year 2015.

Bavituximab in Rectal Adenocarcinoma

This ongoing investigator-sponsored Phase I trial is designed to assess bavituximab in combination with capecitabine and radiation therapy in up to 18 patients with Stage II or III rectal adenocarcinoma. The primary endpoint is to determine the safety, feasibility and tolerability with a standard platform of capecitabine and radiation therapy. Secondary endpoints include overall response rate and histopathological response in patients. This trial continues to enroll and dose patients.

Bavituximab in Advanced Melanoma

In April 2014, we announced the opening of an investigator-sponsored Phase Ib trial designed to assess bavituximab in combination with ipilimumab in up to 24 patients with advanced melanoma. The primary endpoint is to determine safety, feasibility and tolerability. Secondary endpoints include measurements of disease control rate and overall survival. This trial continues to enroll and dose patients.

PS-Targeting Molecular Imaging Program (PGN650)

In addition to the potential for our PS-targeting antibodies to treat cancer, we believe these antibodies may have broad potential for the imaging and diagnosis of multiple diseases, including cancer. PS-targeting antibodies are able to target diseases that present PS on the surface of distressed cells, which we believe is present in multiple disease settings. In oncology, PS is a molecule usually located inside the membrane of healthy cells, but “flips” and becomes exposed on the outside of cells in the tumor microenvironment, creating a specific target for the imaging of multiple solid tumor types.

Our initial clinical candidate is PGN650, a first-in-class PS-targeting F(ab’)2 fully human monoclonal antibody fragment joined to the positron emission tomography (“PET”) imaging radio-isotope iodine-124 that represents a potential new approach to imaging cancer. In preclinical studies, PGN650 accumulates in tumors and provides exceedingly clear in vivo tumor images.

The initial goal for the PGN650 program is to further validate the broad nature of the PS-targeting platform in the clinic. Our current PGN650 clinical trial evaluating PGN650 imaging in multiple solid tumor types in up to 12 patients was filed under an exploratory IND with the FDA. The primary goal of the trial is to estimate radiation dosimetry in critical and non-critical organs and secondary trial objectives include tumor imaging and safety. Results from this study may open the door for multiple applications including the development of antibody drug conjugates, the use of PGN650 to monitor the effectiveness of current standard cancer treatments, and the ability to potentially select patients that may benefit from bavituximab-based treatment. Patients receive an imaging dose followed by three PET images. Successful results from this trial could support several promising new areas of research in the imaging and diagnostic fields. This trial continues to enroll and dose patients.

Integrated Biomanufacturing Subsidiary

In addition to our clinical research and development efforts, we operate a wholly-owned (current Good Manufacturing Practices (“cGMP”)) contract manufacturing subsidiary, Avid Bioservices, Inc. (“Avid”). Avid is a Contract Manufacturing Organization that provides fully integrated services from cell line development to commercial cGMP biomanufacturing for us and its third-party clients. In addition to generating revenue from providing a broad range of biomanufacturing services to third-party clients, Avid is strategically integrated with us to manufacture all clinical products to support our company-sponsored and investigator-sponsored clinical trials while also preparing for potential commercial launch of bavituximab.

Results of Operations

The following table compares the interim unaudited condensed consolidated statements of operations for the three-month periods ended July 31, 2014 and 2013. This table provides you with an overview of the changes in the condensed consolidated statements of operations for the comparative periods, which are further discussed below.

	Three Months Ended July 31,			
	2014	**2013**	**$ Change**	**% Change**
REVENUES:				
Contract manufacturing revenue	$ 5,496,000	$ 4,581,000	$ 915,000	20%
License revenue	–	107,000	(107,000)	(100%)
Total revenues	5,496,000	4,688,000	808,000	17%
COSTS AND EXPENSES:				
Cost of contract manufacturing	3,583,000	2,670,000	913,000	34%
Research and development	10,201,000	5,304,000	4,897,000	92%
Selling, general and administrative	4,883,000	4,334,000	549,000	13%
Total costs and expenses	18,667,000	12,308,000	6,359,000	52%
LOSS FROM OPERATIONS	(13,171,000)	(7,620,000)	(5,551,000)	73%
OTHER INCOME (EXPENSE):				
Interest and other income	42,000	21,000	21,000	100%
Interest and other expense	–	(1,000)	1,000	(100%)
NET LOSS	$ (13,129,000)	$ (7,600,000)	$ (5,529,000)	73%

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

Total Revenues

The increase in total revenues of $808,000 (or 17%) during the three months ended July 31, 2014 compared to the same period in the prior year was due to an increase in contract manufacturing revenue of $915,000 offset by a $107,000 decrease in license revenue. The increase in contract manufacturing revenue was primarily due to the completion of an additional manufacturing run in the current year period compared to the prior year period; offset by a decrease in process development related services, which can primarily be attributed to the timing of services provided to Avid third-party customers. The decrease in license revenue was directly related to revenue recognized in the prior year period in accordance with the terms of our existing license agreements.

Based on the current commitments for manufacturing services from Avid's third-party customers and the anticipated completion of in-process third-party customer manufacturing runs, we expect contract manufacturing revenue for the current fiscal year to be in-line with fiscal year 2014. In addition, based on our existing licensing agreements, we do not expect license revenue to be a significant source of revenue for the current fiscal year.

Cost of Contract Manufacturing

The increase in cost of contract manufacturing of $913,000 (or 34%) during the three months ended July 31, 2014 compared to the same period in the prior year was primarily due to the current year three-month period increase in contract manufacturing revenue combined with a current period write-off of unusable work-in-process inventory. As a result of the write-off of unusable work-in-process inventory in the current year period, our gross margin decreased to 35% compared to 42% in the same prior year period.

Research and Development Expenses

Research and development ("R&D") expenses primarily include (i) payroll and related costs, including share-based compensation, associated with R&D personnel, (ii) costs related to clinical trials and preclinical testing of our technologies under development, (iii) costs to develop and manufacture the product candidates, including raw materials and supplies, product testing, depreciation, and facility related expenses, (iv) expenses for research services provided by universities and contract laboratories, including sponsored research funding, and (v) other R&D expenses. R&D expenses are charged to expense as incurred when these expenditures relate to our R&D efforts and have no alternative future uses.

The increase in R&D expenses of $4,897,000 (or 92%) during the three months ended July 31, 2014 compared to the same period in the prior year was due to the following changes associated with each of the following technologies under development:

Technology Platform	R&D Expenses-Quarter Ended July 31, 2014	R&D Expenses-Quarter Ended July 31, 2013	$ Change
PS-Targeting	$ 9,800,000	$ 3,989,000	$ 5,811,000
Cotara® and Other Technologies	401,000	1,315,000	(914,000)
Total R&D Expenses	$ 10,201,000	$ 5,304,000	$ 4,897,000

- *PS-Targeting* – The increase in PS-targeting program expenses of $5,811,000 during the three months ended July 31, 2014 compared to the same period in the prior year was primarily due to an increase of $4,705,000 in costs associated with advancing our Phase III SUNRISE trial (initiated in December 2013). During the current quarter, we saw increases in clinical research organization (or "CRO") fees, investigator meeting fees, clinical site initiation fees (as we increased the number of sites open for enrollment), patient fees, chemotherapy drug costs, laboratory testing fees, product packaging, labeling and distribution costs, and other costs associated with advancing this later stage trial. The current year period increase in PS-targeting program expenses was also due to increases in manufacturing costs associated with our bavituximab clinical program, share-based compensation expense (non-cash) and preclinical study expenses.

- *Cotara and Other Technologies*– The decrease in Cotara and other program expenses of $914,000 during the three months ended July 31, 2014 compared to the same period in the prior year was primarily attributed to decreases in payroll and related expenses, manufacturing costs and share-based compensation expense associated with our Cotara program as our current year period R&D efforts were primarily focused on advancing our Phase III SUNRISE trial. Further development of our Cotara program is dependent on our finding a partner.

Based on our current projections, we expect R&D expenses in fiscal year 2015 to continue to increase in comparison to fiscal year 2014 as we advance our Phase III SUNRISE trial and continue to evaluate bavituximab's broad potential in the treatment and diagnosis of cancer in other indications and combinations. These projections include a number of uncertainties, including but not limited to (i) the uncertainty of the rate at which patients will be enrolled in any current or future clinical trials, including our Phase III SUNRISE trial, (ii) the uncertainty of future clinical and preclinical studies, which are dependent upon the results of current clinical and preclinical studies, (iii) the uncertainty of obtaining regulatory approval to advance our current exploratory IND clinical program to Phase I or to commence any future trials, and (iv) the uncertainty of terms related to any potential future partnering or licensing arrangement. During fiscal year 2015, we expect to continue to direct the majority of our research and development expenses towards our PS-targeting technology platform as we are seeking potential partners to further advance the Cotara clinical program.

Looking beyond fiscal year 2015, we expect to continue to direct the majority of our R&D expenses towards our PS-targeting technology platform although it is extremely difficult for us to reasonably estimate all future R&D costs associated with each of our technologies due to the number of unknowns and uncertainties associated with preclinical and clinical trial development. These unknown variables and uncertainties include, but are not limited to:

- the uncertainty of the progress and results of our ongoing preclinical and clinical studies, and any additional preclinical and clinical studies we may initiate in the future based on their results;

- the uncertainty of the ultimate number of patients to be treated in any current or future clinical study;

- the uncertainty of the FDA allowing our non-lead indication oncology studies to move forward from Phase I clinical studies to Phase II clinical studies or Phase II clinical studies to Phase III clinical studies;

- the uncertainty of the FDA allowing our lead molecular imaging agent, PGN650, to move forward from an exploratory study to a Phase I or Phase II clinical study;

- the uncertainty of the rate at which patients are enrolled into any current or future study. Any delays in clinical trials could significantly increase the cost of the study and would extend the estimated completion dates;

- the uncertainty of terms related to potential future partnering or licensing arrangements;

- the uncertainty of protocol changes and modifications in the design of our clinical trial studies, which may increase or decrease our future costs; and

- the uncertainty of our ability to raise additional capital to support our future research and development efforts beyond the next twelve months.

Selling, General and Administrative Expenses

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

The increase in SG&A expenses of $549,000 (or 13%) during the three months ended July 31, 2014 compared to the same period in the prior year was primarily due to increases in share-based compensation expense of $181,000 (non-cash), legal fees of $180,000, payroll and related expenses of $111,000, and incremental increases in patent fees and other general corporate related expenses. The increase in share-based compensation expense (non-cash) was primarily related to the amortization of the fair value of stock options granted to employees and non-employee directors under our routine annual broad-based grants of stock option awards. The increase in legal fees is primarily attributable to general corporate legal matters, including legal fees associated with certain lawsuits described in this Quarterly Report on Form 10-Q under Part II, Item 1, "Legal Proceedings". The increase in payroll and related expenses is primarily attributed to compensation increases associated with annual merit increases and increased employee headcount to support our clinical development activities and our contract manufacturing business.

Critical Accounting Policies and Estimates

Our discussion and analysis of our consolidated financial position and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We review our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. During the three months ended July 31, 2014, there were no significant changes in our critical accounting policies as previously disclosed by us in Part II, Item 7 of our Annual Report for the fiscal year ended April 30, 2014.

Liquidity and Capital Resources

At July 31, 2014, we had $73,256,000 in cash and cash equivalents. We have expended substantial funds on the research and development of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect negative cash flows from operations to continue for the foreseeable future. Therefore, unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our product candidates under development, we expect such negative cash flows to continue in the foreseeable future.

Our ability to continue to fund our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, raising additional capital in the equity markets, securing debt financing, licensing or partnering our product candidates in development, or generating additional revenue from Avid.

Historically, we have funded a significant portion of our operations through the issuance of equity. During the three months ended July 31, 2014, we raised $10,000,000 in aggregate gross proceeds from the sale of our 10.50% Series E Convertible Preferred Stock (the "Series E Preferred Stock") under an At Market Issuance Sales Agreement (as described in Note 6 to the accompanying interim unaudited condensed consolidated financial statements) and raised an additional $435,000 in aggregate gross proceeds from the sale of shares of our common stock under a separate At Market Sales Issuance Agreement (as described in Note 6 to the accompanying interim unaudited condensed consolidated financial statements). With these proceeds, we currently estimate that we have sufficient cash resources to meet our anticipated cash needs to fund our operations through at least the next twelve months based on our current projections, which include projected costs associated with our Phase III SUNRISE trial, projected cash outflows for the payment of dividends on our Series E Preferred Stock, projected cash inflows under signed contracts with existing customers of Avid and assuming we raise no additional capital from the capital markets or other potential sources.

Our ability to raise additional capital in the equity markets to fund our clinical trials and development efforts in future years is dependent on a number of factors, including, but not limited to, the market demand for our common stock and/or Series E Preferred Stock. The market demand or liquidity of our common stock and/or Series E Preferred Stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse clinical trial results and significant delays in one or more clinical trials. If our ability to access the capital markets becomes severely restricted, it could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

While we will continue to explore these potential opportunities, we may not be successful in (i) raising additional capital in the equity markets, (ii) securing debt financing, (iii) licensing or partnering our products in development, or (iv) generating additional revenue from Avid, to complete the research, development, and clinical testing of our product candidates.

Significant components of the changes in cash flows from operating, investing, and financing activities for the three months ended July 31, 2014 compared to the same prior year period are as follows:

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

	Three Months Ended July 31,	
	2014	**2013**
Net loss, as reported	$ (13,129,000)	$ (7,600,000)
Less non-cash operating expenses:		
Share-based compensation	1,776,000	1,593,000
Depreciation and amortization	277,000	257,000
Net cash used in operating activities before changes in operating assets and liabilities	$ (11,076,000)	$ (5,750,000)
Net change in operating assets and liabilities	$ (1,567,000)	$ (2,374,000)
Net cash used in operating activities	$ (12,643,000)	$ (8,124,000)

Net cash used in operating activities increased $4,519,000 to $12,643,000 for the three months ended July 31, 2014 compared to net cash used in operating activities of $8,124,000 for the three months ended July 31, 2013. This increase in net cash used in operating activities was due to an increase of $5,326,000 in net loss reported during the current three-month period after deducting non-cash operating expenses offset by a net change in operating assets and liabilities of $807,000. The increase in our current three-month period reported net loss can primarily be attributed to the current period increase in research and development expenses associated with advancing our Phase III SUNRISE trial.

Cash Used In Investing Activities. Net cash used in investing activities increased $583,000 to $833,000 for the three months ended July 31, 2014 compared to net cash used in investing activities of $250,000 for the three months ended July 31, 2013. Net cash used in investing activities of $833,000 for the three months ended July 31, 2014 is due to an increase in property and equipment acquisitions of $1,349,000 related to the implementation of an enterprise resource planning or ERP system and the acquisition of laboratory equipment offset by a decrease in other assets of $516,000. The current period decrease in other assets was primarily due to the transfer of progress payments incurred during fiscal year 2014 to property and equipment associated with the aforementioned current quarter property and equipment acquisitions.

Net cash used in investing activities of $250,000 for the three months ended July 31, 2013 is related to property acquisitions of $27,000 combined with an increase in other assets of $223,000 related to progress payments to support internal product development efforts and business opportunities at Avid.

Cash Provided By Financing Activities. Net cash provided by financing activities decreased $5,528,000 to $9,242,000 for the three months ended July 31, 2014 compared to net cash provided by financing activities of $14,770,000 for the three months ended July 31, 2013. Net cash provided by financing activities during the three months ended July 31, 2014 consisted of (i) $9,484,000 in net proceeds from the sale of shares of our Series E Preferred Stock under an At Market Issuance Sales Agreement, (ii) $421,000 in net proceeds from the sale of shares of our common stock under a separate At Market Issuance Sales Agreement, and (iii) $112,000 in net proceeds from stock option exercises, which amounts were offset by dividends paid on our Series E Preferred Stock of $771,000 and principal payments on a capital lease of $4,000.

Net cash provided by financing activities during the three months ended July 31, 2013 consisted of $14,706,000 in net proceeds from the sale of shares of our common stock under an At Market Issuance Sales Agreement combined with $84,000 in net proceeds from stock option exercises, which amounts were offset by principal payments on capital leases of $20,000.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our cash and cash equivalents are primarily invested in money market funds with one major commercial bank with the primary objective to preserve our principal balance. Our deposits held with this bank exceed the amount of government insurance limits provided on our deposits and, therefore, we are exposed to credit risk in the event of default by the major commercial bank holding our cash balances. However, these deposits may be redeemed upon demand and, therefore, bear minimal risk. In addition, while changes in U. S. interest rates would affect the interest earned on our cash and cash equivalents balance at July 31, 2014, such changes would not have a material adverse effect on our financial position or results of operations based on historical movements in interest rates.

ITEM 4. CONTROLS AND PROCEDURES.

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

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2014, the end of the period covered by this Quarterly Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 31, 2014.

There were no significant changes in our internal control over financial reporting, during the quarter ended July 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our consolidated results of operations, cash flows, or financial condition.

Securities Class Action Lawsuit

On September 28, 2012, three complaints were filed in the U.S. District Court for the Central District of California against us and certain of our executive officers and one consultant (collectively, the "Defendants") on behalf of certain purchasers of our common stock. The complaints have been brought as purported stockholder class actions, and, in general, include allegations that Defendants violated (i) Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder and (ii) Section 20(a) of the Exchange Act, by making materially false and misleading statements regarding the interim results of our bavituximab Phase II second-line NSCLC trial, thereby artificially inflating the price of our common stock. The plaintiffs are seeking unspecified monetary damages and other relief. On November 27, 2012, four prospective lead plaintiffs filed motions to consolidate, appoint a lead plaintiff and appoint lead counsel. On February 5, 2013, the court consolidated the related actions with the low-numbered case (captioned *Anderson v. Peregrine Pharmaceuticals, Inc., et al.*, Case No. 12-cv-1647-PSG (FMOx)), appointed James T. Fahey as lead plaintiff, and appointed Mr. Fahey's counsel as lead counsel. Lead plaintiff filed an amended consolidated complaint on April 15, 2013. On June 14, 2013, Defendants moved to dismiss the amended consolidated complaint. On July 15, 2013, lead plaintiff filed an opposition to Defendants' motion to dismiss and separately moved to strike certain exhibits attached to Defendants' motion. On August 19, 2013 the court held a hearing on Defendants' motion to dismiss and on lead plaintiff's motion to strike. On August 23, 2013, the court issued its order granting Defendants' motion to dismiss and denying lead plaintiff's motion to strike. In its order, the court gave lead plaintiff leave to amend his complaint on or before September 16, 2013. On September 16, 2013, lead plaintiff filed his first amended complaint. On October 3, 2013, Defendants' filed a motion to dismiss the first amended complaint. Briefing on that motion concluded in early November 2013 and, on November 22, 2013, the court issued an order granting Defendants' motion to dismiss the first amended complaint. The court again granted lead plaintiff leave to file a second amended complaint, which lead plaintiff did on January 22, 2014. On February 24, 2014, Defendants filed a motion to dismiss the second amended complaint. On May 1, 2014, the court issued an order granting the Defendants' motion to dismiss the second amended complaint with prejudice. On May 29, 2014, the plaintiff filed a notice of appeal with respect to the court's order granting the Defendant's motion to dismiss. Lead plaintiff's opening brief with respect to the appeal is due on November 10, 2014 and Defendants' answering brief is due on December 10, 2014. We believe that the class action lawsuit is without merit and intend to vigorously defend the action, including seeking dismissal of any amended complaint.

Derivative Litigation

On May 9, 2013, an alleged shareholder filed, purportedly on behalf of the Company, a derivative lawsuit, captioned *Roy v. Steven W. King, et al.*, Case No. 13-cv-0741-PSG (RNBx), in the U.S. District Court for the Central District of California against certain of our executive officers and directors. The complaint asserts claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment arising from substantially similar factual allegations as those asserted in the consolidated securities class action lawsuit, described above (the "Securities Class Action"). This case was subsequently transferred to the same court and judge handling the Securities Class Action lawsuit. On May 31, 2013, the judge issued an order administratively closing the case and inviting the parties to move to re-open after the final resolution of defendants' motions to dismiss in the Securities Class Action.

On October 10, 2013, a derivative and class action complaint, captioned *Michaeli v. Steven W. King, et al.*, C.A. No. 8994-VCL, was filed in the Court of Chancery of the State of Delaware against certain of our executive officers and directors. The complaint alleges that the Company's directors and executives breached their respective fiduciary duties in connection with certain purportedly improper compensation decisions made by the Company's Board of Directors during the past three fiscal years, including: (i) the grant of a stock option to Mr. King on May 4, 2012; (ii) the non-routine broad-based stock option grant to the Company's directors, executives, all other employees and certain consultants on December 27, 2012; and (iii) the payment, during the past three fiscal years, of compensation to the Company's non-employee directors. In addition, the complaint alleges that the Company's directors breached their fiduciary duty of candor by filing and seeking stockholder action on the basis of an allegedly materially false and misleading proxy statement for the Company's 2013 annual meeting of stockholders. The defendants filed their answer to the complaint on February 5, 2014. We believe that the derivative and class action complaint are without merit and intend to vigorously defend the action.

Other Legal Matters

On September 24, 2012, we filed a lawsuit, captioned *Peregrine Pharmaceuticals, Inc. v. Clinical Supplies Management, Inc.*, Case No. 8:12-cv-01608 JST(AN) (C.D. Cal), against Clinical Supplies Management, Inc. ("CSM"), in the U.S. District Court for the Central District of California. In 2010, we had contracted with CSM as our third-party vendor responsible for distribution of the blinded investigational product used in our bavituximab Phase IIb second-line NSCLC trial. As part of the routine collection of data in advance of an end-of-Phase II meeting with regulatory authorities, we discovered major discrepancies between some patient sample test results and patient treatment code assignments. Consequently, we filed this lawsuit against CSM alleging breach of contract, negligence and negligence per se arising from CSM's performance of its contracted services. We are seeking monetary damages. On March 7, 2013, we and CSM submitted to the court a proposed stipulation pursuant to which the lawsuit would be stayed for up to 120 days during which time we and CSM would participate in an alternative dispute resolution process, pursuant to our contract with CSM. The proposed stipulation was approved by the court on March 8, 2013. On June 26, 2013, we and CSM engaged in an alternative dispute resolution session that did not result in any resolution of our dispute. The aforementioned stay expired on July 6, 2013. We granted CSM until July 19, 2013 to file an answer to our complaint, which CSM did on July 11, 2013. The parties appeared in court in February 2014 for a scheduling conference at which the court scheduled the trial to commence in April 2015. On June 5, 2014, CSM filed with the court a Notice of Motion and Motion for Partial Summary Judgment seeking partial summary judgment on our claims for damages on the grounds that the limitation of liability clauses contained in our master services agreement with CSM are valid and enforceable. Our opposition to CSM's motion as filed with the court on June 23, 2104, and the hearing on the motion was held on July 28, 2014. On July 30, 2014, the court issued its order holding that the limitation of liability clause did not apply to our claims for active negligence, negligent misrepresentation and constructive fraud, but did apply to our causes of action for breach of contract, passive negligence and negligence per se.

ITEM 1A. RISK FACTORS.

The following risk factors below update, and should be considered in addition to, the risk factors previously disclosed by us in Part 1, Item 1A of our Annual Report for the fiscal year ended April 30, 2014.

RISKS RELATED TO OUR BUSINESS

IF WE CANNOT OBTAIN ADDITIONAL FUNDING, OUR PRODUCT DEVELOPMENT AND COMMERCIALIZATION EFFORTS MAY BE REDUCED OR DISCONTINUED AND WE MAY NOT BE ABLE TO CONTINUE OPERATIONS OR TIMELY COMPLETE OUR PHASE III SUNRISE TRIAL.

At July 31, 2014, we had $73,256,000 in cash and cash equivalents. We have expended substantial funds on the research and development of our product candidates, and funding the operations of Avid. As a result, we have historically experienced negative cash flows from operations since our inception and we expect negative cash flows from operations to continue for the foreseeable future. Therefore, unless and until we are able to generate sufficient revenues from Avid's contract manufacturing services and/or from the sale and/or licensing of our product candidates under development, we expect such negative cash flows to continue in the foreseeable future.

Our ability to continue to fund our clinical trials and development efforts is highly dependent on the amount of cash and cash equivalents on hand combined with our ability to raise additional capital to support our future operations through one or more methods, including but not limited to, raising additional capital in the equity markets, securing debt financing, licensing or partnering our product candidates in development, or generating additional revenue from Avid.

Historically, we have funded a significant portion of our operations through the issuance of equity. During the three months ended July 31, 2014, we raised $10,000,000 in aggregate gross proceeds from the sale of our 10.50% Series E Convertible Preferred Stock (the "Series E Preferred Stock") under an At Market Issuance Sales Agreement (as described in Note 6 to the accompanying interim unaudited condensed consolidated financial statements) and raised an additional $435,000 in aggregate gross proceeds from the sale of shares of our common stock under a separate At Market Sales Issuance Agreement (as described in Note 6 to the accompanying interim unaudited condensed consolidated financial statements). With these proceeds, we currently estimate that we have sufficient cash resources to meet our anticipated cash needs to fund our operations through at least the next twelve months based on our current projections, which include projected costs associated with our Phase III SUNRISE trial, projected cash outflows for the payment of dividends on our Series E Preferred Stock, projected cash inflows under signed contracts with existing customers of Avid and assuming we raise no additional capital from the capital markets or other potential sources.

Our ability to raise additional capital in the equity markets to fund our clinical trials and development efforts in future years is dependent on a number of factors, including, but not limited to, the market demand for our common stock and/or Series E Preferred Stock. The market demand or liquidity of our common stock and/or Series E Preferred Stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, adverse clinical trial results and significant delays in one or more clinical trials. If our ability to access the capital markets becomes severely restricted, it could have a negative impact on our business plans, including our clinical trial programs and other research and development activities. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

While we will continue to explore these potential opportunities, we may not be successful in (i) raising additional capital in the equity markets, (ii) securing debt financing, (iii) licensing or partnering our products in development, or (iv) generating additional revenue from Avid, to complete the research, development, and clinical testing of our product candidates.

WE HAVE HAD SIGNIFICANT LOSSES AND WE ANTICIPATE FUTURE LOSSES.

We have incurred net losses in most fiscal years since we began operations in 1981. The following table represents net losses incurred for the three months ended July 31, 2014 and for each of the past three fiscal years:

	Net Loss	
Three months ended July 31, 2014 (unaudited)	$	13,129,000
Fiscal Year 2014	$	35,362,000
Fiscal Year 2013	$	29,780,000
Fiscal Year 2012	$	42,119,000

As of July 31, 2014, we had an accumulated deficit of $416,395,000. While we expect to continue to generate revenue from Avid's contract manufacturing services, in order to achieve and sustain profitable operations, we must successfully develop and obtain regulatory approval for our product candidates, either alone or with others, and following any such approval, must also manufacture, introduce, market and sell our product candidates. The costs associated with clinical trials and product manufacturing is very expensive and the time frame necessary to achieve market success for our product candidates is long and uncertain. Furthermore, the costs associated with advanced stage clinical trials can significantly increase due, in part, to expanded patient populations and the cost to prepare for potential commercialization. In addition, we initiated our Phase III SUNRISE trial in December 2013, and therefore expect our net loss for fiscal year 2015 to exceed our net loss for fiscal year 2014. We do not expect to generate product or royalty revenues for at least the next two years, and we may never generate product and/or royalty revenues sufficient to become profitable or to sustain profitability.

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

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

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

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

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

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

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

Our product development efforts may not be successful.

Our product candidates have not received regulatory approval and are in research, preclinical and various clinical stages of development. If the results from any of the clinical trials are not positive, those results may adversely affect our ability to raise additional capital or obtain regulatory approval to conduct additional clinical trials, which will affect our ability to continue full-scale research and development for our antibody technologies. In addition, our product candidates may take longer than anticipated to progress through clinical trials, or patient enrollment in the clinical trials may be delayed or prolonged significantly, thus delaying the clinical trials. Patient enrollment is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to the clinical sites, competing studies of other investigational products, and the inclusion and exclusion eligibility criteria for the study.

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

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

- obtaining regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective contract research organizations ("CROs") and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- slower than expected rates of patient recruitment due to narrow screening requirements;
- the inability of patients to meet FDA or other regulatory authorities imposed protocol requirements;
- the inability to retain patients who have initiated a clinical trial but may be prone to withdraw due to various clinical or personal reasons, or who are lost to further follow-up;
- the inability to manufacture sufficient quantities of qualified materials under current good manufacturing practices, or cGMPs, for use in clinical trials;
- shortages of chemotherapy or other drugs used in clinical trials in combination with bavituximab;
- the need or desire to modify our manufacturing processes;

- the inability to adequately observe patients after treatment;
- changes in regulatory requirements for clinical trials;
- the lack of effectiveness during the clinical trials;
- unforeseen safety issues;
- delays, suspension, or termination of the clinical trials due to the institutional review board responsible for overseeing the study at a particular study site;
- insufficient financial resources; and
- government or regulatory delays or "clinical holds" requiring suspension or termination of the trials.

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

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

WE RELY ON THIRD-PARTIES TO CONDUCT OUR CLINICAL TRIALS AND MANY OF OUR PRECLINICAL STUDIES. IF THOSE PARTIES DO NOT SUCCESSFULLY CARRY OUT THEIR CONTRACTUAL DUTIES OR MEET EXPECTED DEADLINES, OUR DRUG CANDIDATES MAY NOT ADVANCE IN A TIMELY MANNER OR AT ALL.

In the course of our discovery, preclinical testing and clinical trials, we rely on third parties, including universities, investigators and CROs, to perform critical services for us. For example, we rely on third parties to conduct our clinical trials and many of our preclinical studies. CROs and investigators are responsible for many aspects of the trials, including finding and enrolling patients for testing and administering the trials. Certain of our clinical trials are blind or double-blind, including our Phase III SUNRISE trial. If the trial is blind, management does not have access to information regarding the trial's administration and progress. We therefore must rely on third parties to conduct our clinical trials, but their failure to comply with all regulatory and contractual requirements, or to perform their services in a timely and acceptable manner, may compromise our clinical trials in particular or our business in general. Although we rely on these third parties to conduct our clinical trials, we are responsible for ensuring that each of our clinical trials is conducted in accordance with its investigational plan and protocol. Moreover, the FDA and foreign regulatory authorities require us to comply with regulations and standards, commonly referred to as good clinical practices ("GCPs") for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate and that the trial patients are adequately informed of the potential risks of participating in clinical trials. Our reliance on third parties does not relieve us of these responsibilities and requirements. These third parties may not be available when we need them or, if they are available, may not comply with all regulatory and contractual requirements or may not otherwise perform their services in a timely or acceptable manner. Any failings by these third parties may compromise our clinical trials in particular or our business in general. Similarly, we may need to enter into new arrangements with alternative third parties and our clinical trials may be extended, delayed or terminated. These independent third parties may also have relationships with other commercial entities, some of which may compete with us. For example, if such third parties fail to perform their obligations in compliance with our clinical trial protocols, our clinical trials may not meet regulatory requirements or may need to be repeated. As a result of our dependence on third parties, we may face delays or failures outside of our direct control, as evidenced by the major discrepancies in treatment group coding by an independent third-party vendor responsible for distribution of blinded investigational product used in our bavituximab Phase II NSCLC trial. These risks also apply to the development activities of our collaborators, and we do not control our collaborators' research and development, clinical trials or regulatory activities. We do not expect any drugs resulting from our collaborators' research and development efforts to be commercially available for many years, if ever.

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

We have limited experience as a company conducting large-scale clinical trials and in other areas required for the successful commercialization and marketing of our product candidates.

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

We have limited experience as a company in conducting large-scale, late-stage clinical trials, and our experience with early-stage clinical trials with small numbers of patients is limited. In part because of this limited experience, we cannot be certain that planned clinical trials will begin or be completed on time, if at all. Large-scale trials require significant additional financial and management resources, and reliance on third-party clinical investigators, CROs or consultants. Relying on third-party clinical investigators or CROs may force us to encounter delays that are outside of our control. Any such delays could have a material adverse effect on our business.

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

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

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

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

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

Patient enrollment and patient care provided at international clinical sites may be delayed or otherwise adversely impacted by social, political and economic factors affecting the particular foreign country.

In the past, we have conducted, and are presently conducting in connection with our Phase III SUNRISE trial, clinical trials globally including clinical sites in Western and Eastern Europe, Asia-Pacific and other regions and/or countries. Our ability to successfully initiate, enroll and complete a clinical trial in any foreign country is subject to numerous risks unique to conducting business in foreign countries, including:

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

Because we are conducting our Phase III SUNRISE trial in several foreign counties, any disruption to our international clinical trial sites could significantly delay or jeopardize our product development efforts.

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

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

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

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

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

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

- our ability to provide acceptable evidence of safety and efficacy;
- changes in the standard of care for the targeted indication;
- relative convenience and ease of administration;
- the prevalence and severity of any adverse side effects;
- availability, cost and potential advantages of alternative treatments;
- pricing and cost effectiveness, which may be subject to regulatory control;
- effectiveness of our or our partners' sales and marketing strategy;
- the product labeling or product insert required by the FDA or regulatory authority in other countries; and
- our ability to obtain sufficient third-party insurance coverage or reimbursement.

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

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

IF WE DO NOT ESTABLISH ADDITIONAL COLLABORATIONS, WE MAY HAVE TO ALTER OUR DEVELOPMENT PLANS.

Our drug development programs and potential commercialization of our drug candidates will require substantial additional cash to fund expenses. We either own or we in-licensed all rights to our two lead drug candidates, bavituximab and Cotara, and are fully responsible for the associated development costs. Our strategy continues to include the potential of selectively collaborating with leading pharmaceutical and biotechnology companies to assist us in furthering development and potential commercialization of some of our product candidates and research programs. We may enter into one or more of such collaborations in the future, especially for target indications in which the potential collaborator has particular therapeutic expertise or that involve a large, primary care market that must be served by large sales and marketing organizations or for markets outside of North America. We face significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. We may not be able to negotiate collaborations on acceptable terms, or at all. Even if we successfully enter into a collaboration, our partner may not perform its contractual obligations or may terminate the agreement. If that were to occur, we may have to curtail the development of a particular product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring our product candidates to market and generate product revenue.

HEALTHCARE REFORM MEASURES AND OTHER STATUTORY OR REGULATORY CHANGES COULD ADVERSELY AFFECT OUR BUSINESS.

In both the U.S. and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could impact our business. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 (collectively, the “ACA”), enacted in March 2010, substantially changes the way healthcare is financed by both governmental and private insurers, and significantly impacts the pharmaceutical industry. With regard to pharmaceutical products, among other things, the ACA is expected to expand and increase industry rebates for drugs covered under Medicaid programs and make changes to the coverage requirements under the Medicare D program.

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

THE COVERAGE AND REIMBURSEMENT STATUS OF NEWLY APPROVED DRUGS IS UNCERTAIN, AND FAILURE TO OBTAIN ADEQUATE COVERAGE AND REIMBURSEMENT COULD LIMIT OUR ABILITY TO MARKET BAVITUXIMAB AND MAY DECREASE OUR ABILITY TO GENERATE REVENUE.

There is significant uncertainty related to the third-party coverage and reimbursement of newly approved drugs. The commercial success of our product candidates, including bavituximab, in both domestic and international markets will depend in part on the availability of coverage and adequate reimbursement from third-party payors, including government payors, such as the Medicare and Medicaid programs, and managed care organizations. Government and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new drugs and, as a result, they may not cover or provide adequate payment for our product candidates. These payors may conclude that our product candidates are less safe, less effective or less cost-effective than existing or later introduced products, and third-party payors may not approve our product candidates for coverage and reimbursement or may cease providing coverage and reimbursement for these product candidates. Because each country has one or more payment systems, obtaining reimbursement in the United States and internationally may take significant time and cause us to spend significant resources. The failure to obtain coverage and adequate reimbursement for our product candidates or healthcare cost containment initiatives that limit or deny reimbursement for our product candidates may significantly reduce any future product revenue.

In the United States and in other countries, there have been and we expect there will continue to be a number of legislative and regulatory proposals to change the healthcare system in ways that could significantly affect our business. International, federal and state lawmakers regularly propose and, at times, enact legislation that would result in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. The U.S. government and other governments have shown significant interest in pursuing healthcare reform, as evidenced by the ACA. Such government-adopted reform measures may adversely impact the pricing of healthcare products and services in the United States or internationally and the amount of reimbursement available from governmental agencies or other third-party payors. In addition, in some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. The continuing efforts of U.S. and other governments, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce healthcare costs may adversely affect our ability to set satisfactory prices for our products, to generate revenues, and to achieve and maintain profitability.

In some countries, particularly in the European Union, prescription drug pricing is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product candidate. To obtain reimbursement or pricing approval in some countries, we may be required to conduct additional clinical trials that compare the cost-effectiveness of our product candidates to other available therapies. If reimbursement of our product candidates is unavailable or limited in scope or amount in a particular country, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability of our products in such country.

Failure to obtain regulatory approval in foreign jurisdictions will prevent us from marketing bavituximab abroad.

We intend to market bavituximab in international markets either directly or through a potential future collaboration partner, if any. In order to market bavituximab in the European Union, Canada, Japan and many other foreign jurisdictions, we or a potential future collaboration partner must obtain separate regulatory approvals. We have, and potential future collaboration partners may have, had limited interactions with foreign regulatory authorities, and the approval procedures vary among countries and can involve additional testing at significant cost. The time required to obtain approval may differ from that required to obtain FDA approval. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. The foreign regulatory approval processes may include all of the risks associated with obtaining FDA approval. In addition, in some foreign countries where we may not have conducted clinical studies (or treated a sufficient number of patients), the applicable foreign regulatory agency may require us to conduct additional studies in its country to establish the safety of our drug in that patient population, which could delay the approval process in that foreign country. We or a potential future collaboration partner may not obtain foreign regulatory approvals on a timely basis, if at all. We or a potential future collaboration partner may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize bavituximab or any other future products in any market.

Foreign governments often impose strict price controls, which may adversely affect our future profitability.

We intend to seek approval to market bavituximab in both the U.S. and foreign jurisdictions either directly or through a potential future collaboration partner. If we or a potential future collaboration partner obtain approval in one or more foreign jurisdictions, we or a potential future collaboration partner will be subject to rules and regulations in those jurisdictions relating to bavituximab. In some foreign countries, particularly in the European Union, prescription drug pricing is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a drug candidate. To obtain reimbursement or pricing approval in some countries, we or a potential future collaboration partner may be required to conduct a clinical trial that compares the cost-effectiveness of bavituximab to other available therapies. If reimbursement of bavituximab is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability.

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

We have completed a single-arm Phase II study with Cotara for the treatment of brain cancer. In our most recent Phase II open-label, multicenter trial, 41 patients with recurrent glioblastoma multiforme (“GBM” or brain cancer) at first relapse were enrolled and received a single-treatment with Cotara. Median overall survival for patients treated with Cotara was 9.3 months. Based on these data and data from earlier clinical studies, in December 2012 we reached an agreement with the FDA on the design of a single pivotal trial to potentially support product registration for Cotara. With this clear clinical path forward, since December 2012, we have been pursuing a licensing or funding partner to further advance the program. In the event we are not able to secure a partnership for the program in the U.S., we may not be able to advance the project past its current stage of development. Because there are a limited number of companies, that have the financial resources, the internal infrastructure, the technical capability and the marketing infrastructure to develop and market a radiopharmaceutical-based oncology drug, we may not secure a suitable partner for Cotara. Furthermore, if we do secure a suitable licensing partner for the program, the financial terms that they propose may not be acceptable to us.

Obtaining Fast Track designation from the FDA for our product candidate bavituximab does not guarantee faster approval.

We received Fast Track designation for our product candidate bavituximab in combination with docetaxel in patients with previously-treated non-squamous NSCLC. Fast Track designation is a process designed to facilitate the development and expedite the review of new drugs intended to treat serious or life-threatening diseases or conditions and that have the potential to address an unmet medical need for such disease or condition. Fast Track designation applies to the product and the specific indication for which it is being studied. Once a Fast Track designation is obtained, the FDA may consider for review on a rolling basis sections of the NDA before the complete application is submitted if the applicant provides and the FDA approves a schedule for the submission of the sections of the NDA and the applicant pays applicable user fees upon submission of the first section of the NDA. However, the time period specified in the Prescription Drug User Fee Act, which governs the time period goals the FDA has committed to reviewing an application, does not begin until the complete application is accepted for filing. Although we received Fast Track designation for bavituximab, the FDA may later decide that bavituximab no longer meets the conditions for qualification. In addition, Fast Track designation may not provide us with a material commercial advantage.

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

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

In order to prepare for commercialization, if it is approved for sale, we or a potential partner will need to manufacture bavituximab in larger quantities beyond our current capacity. We may not be able to successfully increase the manufacturing capacity for bavituximab, whether at Avid or in collaboration with third-party manufacturers, in a timely or cost-effective manner or at all. Significant scale-up of manufacturing is a lengthy process and may require additional validation studies, which are costly and which the FDA must review and approve. In addition, quality issues may arise during those scale-up activities because of the inherent properties of monoclonal antibodies, like bavituximab. If we are unable to successfully scale-up manufacture of bavituximab in sufficient quality and quantity, whether at Avid or a third-party manufacturer, the development of bavituximab and its regulatory approval or commercial launch may be delayed or there may be a shortage in supply, which could significantly harm our business. If we engage a third-party manufacturer, we would need to transfer our technology to that third-party manufacturer and gain FDA approval, potentially causing delays in product delivery. In addition, if we use a third-party manufacturer, it may not perform as agreed or may terminate its agreement with us.

We may also encounter problems with the following:

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

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

IF WE USE HAZARDOUS AND BIOLOGICAL MATERIALS IN A MANNER THAT CAUSES INJURY OR VIOLATES APPLICABLE LAW, WE MAY BE LIABLE FOR DAMAGES.

Our clinical trials, research and development activities and manufacturing operations involve the controlled use of hazardous materials and chemicals. We are subject to federal, state and local laws and regulations in the U.S. governing the use, manufacture, storage, handling and disposal of hazardous materials and chemicals. Although we believe that our procedures for using, handling, storing and disposing of these materials comply with legally prescribed standards, we may incur significant additional costs to comply with applicable laws in the future. Also, even if we are in compliance with applicable laws, we cannot completely eliminate the risk of contamination or injury resulting from hazardous materials or chemicals. As a result of any such contamination or injury, we may incur liability or local, city, state or federal authorities may curtail the use of these materials and interrupt our business operations. In the event of an accident, we could be held liable for damages or penalized with fines, and the liability could exceed our resources. Compliance with applicable environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development and production efforts, which could harm our business, prospects, financial condition or results of operations.

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

We face an inherent business risk of exposure to product liability claims in the event that the administration of one of our product candidates during a clinical trial adversely affects or causes the death of a patient. Although we maintain product liability insurance for clinical studies in the amount of $5,000,000 per occurrence or $5,000,000 in the aggregate on a claims-made basis, as well as various country specific coverages where required for clinical sites located in foreign countries, our coverage may not be adequate. Product liability insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms, if at all. Our inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims in excess of our insurance coverage, if any, or a product recall, could negatively impact our financial position and results of operations.

In addition, the contract manufacturing services that we offer through Avid expose us to an inherent risk of liability as the antibodies or other substances manufactured by Avid, at the request and to the specifications of our customers, could possibly cause adverse effects or have product defects. We obtain agreements from our customers indemnifying and defending us from any potential liability arising from such risk. However, these indemnification agreements may not adequately protect us against potential claims relating to such contract manufacturing services or protect us from being named in a possible lawsuit. Although Avid has procured insurance coverage, we may not be able to maintain our existing coverage or obtain additional coverage on commercially reasonable terms, or at all, or such insurance may not provide adequate coverage against all potential claims to which we might be exposed. A partially successful or completely uninsured claim against Avid would have a material adverse effect on our consolidated operations.

OUR RESEARCH AND DEVELOPMENT ACTIVITIES RELY ON TECHNOLOGY LICENSED FROM THIRD PARTIES, AND TERMINATION OF ANY OF THOSE LICENSES WOULD RESULT IN LOSS OF SIGNIFICANT RIGHTS TO DEVELOP AND MARKET OUR PRODUCTS, WHICH WOULD IMPAIR OUR BUSINESS, PROSPECTS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We have been granted rights to a variety of technologies necessary for our research and development activities from third parties through license agreements. Each license generally may be terminated by the licensor if we fail to perform our obligations under the agreement, including obligations to develop the product candidates or technologies under license. If terminated, we would lose the right to develop the product candidates, which could adversely affect our business, prospects, financial condition and results of operations. The license agreements also generally require us to meet specified milestones or show reasonable diligence in development of the technology. If disputes arise over the definition of these requirements or whether we have satisfied the requirements in a timely manner, or if any other obligations in the license agreements are disputed by the other party, the other party could terminate the agreement, and we could lose our rights to develop the licensed technology.

In addition, if new technology is developed from these licenses, we may be required to negotiate certain key financial and other terms, such as milestone and royalty payments, for the licensing of this future technology with the third party licensors, and it might not be possible to obtain any such license on terms that are satisfactory to us, or at all.

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

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

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

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

If we are unable to adequately protect our intellectual property rights, our business may be adversely impacted.

THE PATENT PROTECTION FOR OUR PRODUCT CANDIDATES MAY EXPIRE BEFORE WE ARE ABLE TO MAXIMIZE THEIR COMMERCIAL VALUE, WHICH MAY SUBJECT US TO INCREASED COMPETITION AND REDUCE OR ELIMINATE OUR OPPORTUNITY TO GENERATE PRODUCT REVENUE.

The patents for our product candidates have varying expiration dates and, if these patents expire, we may be subject to increased competition and we may not be able to recover our development costs or market any of our approved products profitably. For example, one of our U.S. patents claims compounds encompassing bavituximab and is due to expire in 2024, and two of our other U.S. patents claim treatment methods encompassing bavituximab and are due to expire in 2025. In some of the larger potential market territories, such as the United States and Europe, patent term extension or restoration may be available to compensate for time taken during aspects of the product's development and regulatory review. However, such an extension may not be granted, or if granted, the applicable time period or the scope of patent protection afforded during any extension period may not be sufficient. In addition, even though some regulatory authorities may provide some other exclusivity for a product under their own laws and regulations, we may not be able to qualify the product or obtain the exclusive time period. If we are unable to obtain patent term extension/restoration or some other exclusivity, we could be subject to increased competition and our opportunity to establish or maintain product revenue could be substantially reduced or eliminated. Furthermore, we may not have sufficient time to recover our development costs prior to the expiration of our U.S. and non-U.S. patents.

WE MAY BECOME INVOLVED IN LAWSUITS TO PROTECT OR ENFORCE OUR PATENTS THAT WOULD BE EXPENSIVE, TIME CONSUMING AND MAY LEAD TO DISCLOSURE OF OUR CONFIDENTIAL INFORMATION.

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

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

Business disruptions could seriously harm our future revenues and financial condition and increase our costs and expenses.

Our operations could be subject to earthquakes, power shortages, telecommunications failures, water shortages, floods, fires, extreme weather conditions, medical epidemics and other natural or manmade disasters or business interruptions, for which we have limited insurance or are predominantly self-insured. The occurrence of any of these business disruptions could seriously harm our operations and financial condition and increase our costs and expenses. Our ability to obtain raw materials for the manufacture of our clinical supplies and for our third party customers' products, for which we act as a contract manufacturer, could be disrupted, if the operations of these suppliers is affected by a man-made or natural disaster or other business interruption. Our corporate headquarters and manufacturing facility is located in California near major earthquake faults. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown, but our operations and financial condition could suffer in the event of a major earthquake or other natural disaster.

We may not be able to compete with our competitors in the biotechnology industry because many of them have greater resources than we do and they are further along in their development efforts.

The pharmaceutical and biotechnology industry is intensely competitive and any product candidate developed by us would compete with existing drugs and therapies. There are many pharmaceutical companies, biotechnology companies, public and private universities, government agencies and research organizations that compete with us in developing various approaches to cancer therapy.

In addition, we are aware of several pharmaceutical and biotechnology companies actively engaged in research and development of immunotherapy-based products that have commenced clinical trials with, or have successfully commercialized, these products. Some or all of these companies may have greater financial resources, larger technical staffs and larger research budgets than we have, as well as greater experience in developing products and running clinical trials. We expect to continue to experience significant and increasing levels of competition in the future. In addition, there may be other companies which are currently developing competitive technologies and products or which may in the future develop technologies and products that are comparable or superior to our technologies and products.

Our lead immunotherapy product bavituximab is currently in a Phase III clinical trial for the treatment second-line NSCLC. Most common drugs currently used in the treatment of second-line NSCLC include docetaxel, a chemotherapeutic agent from Sanofi-Aventis, erlotinib, a targeted small molecule from Genentech, Inc., a member of the Roche Group and pemetrexed, a chemotherapeutic agent from Eli Lilly & Company. In addition, although we are not aware of any other PS-targeting immunotherapies in clinical development, there are a number of investigational products in development for the treatment of second-line NSCLC, including but not limited to Imprime PGG by Biothera, pembrolizumab by Merck & Co., MEDI-4736 by AstraZeneca plc, ramucirumab by Eli Lilly & Company, RG7446 by Roche, and nivolumab by Bristol-Myers Squibb Company.

Our contract manufacturing business is exposed to risks resulting from its small customer base.

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

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

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

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

WE HAVE FEDERAL AND STATE NET OPERATING LOSS ("NOL") CARRYFORWARDS WHICH, IF WE WERE TO BECOME PROFITABLE, COULD BE USED TO OFFSET/DEFER FEDERAL AND STATE INCOME TAXES. OUR ABILITY TO USE SUCH CARRY FORWARDS TO OFFSET FUTURE TAXABLE INCOME MAY BE SUBJECT TO CERTAIN LIMITATIONS RELATED TO CHANGES IN OWNERSHIP OF OUR STOCK.

As of April 30, 2014, we had federal and state NOL carryforwards of approximately $295 million and $223 million (excluding losses incurred during the current quarter ended July 31, 2014), respectively, expiring from 2015 to 2034. These NOL carryforwards could potentially be used to offset certain future federal and state income tax liabilities. However, utilization of NOL carry forwards may be subject to a substantial annual limitation pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions due to ownership changes that have occurred previously or that could occur in the future. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. During the fiscal year ended April 30, 2013, we performed a detailed analysis of our NOL carryforwards and it was determined that no change in ownership had occurred through April 30, 2013. However, no Section 382 analysis has been performed subsequent to April 30, 2013, and therefore, our NOL carryforwards may be subject to limitation based on events occurring during the fiscal year ended April 30, 2014, including any effect of our Series E Preferred Stock offering. Any limitation may result in expiration of a portion of the carryforwards before utilization. If we were not able to utilize our carryforwards, we would be required to use our cash resources to pay taxes that would otherwise have been offset, thereby reducing our liquidity.

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

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

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

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

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

WE AND CERTAIN OF OUR CURRENT AND FORMER EXECUTIVE OFFICERS AND ONE CONSULTANT HAVE BEEN NAMED AS DEFENDANTS IN LITIGATION THAT COULD RESULT IN SUBSTANTIAL COSTS AND DIVERT MANAGEMENT'S ATTENTION.

Beginning in September 2012, several lawsuits were filed against us and certain of our executive officers, consultants and directors on behalf of certain purchasers of our common stock. The lawsuits in general include allegations that we and certain of our executive officer, consultants and directors violated federal securities laws by making materially false and misleading statements regarding the interim results of our bavituximab Phase II second-line NSCLC trial, thereby artificially inflating the price of our common stock. The plaintiffs are seeking unspecified monetary damages and other relief.

We may not be successful in defending these lawsuits. Also, our insurance coverage may be insufficient, our assets may be insufficient to cover any amounts that exceed our insurance coverage, and we may have to pay damage awards or otherwise may enter into settlement arrangements in connection with such claims. A settlement of the lawsuit could involve the issuance of common stock or other equity, which may dilute your ownership interest. Any payments or settlement arrangements could have material adverse effects on our business, operating results, financial condition or your ownership interest. Even if lead plaintiff's claims are not successful, this litigation could result in substantial costs and significantly and adversely impact our reputation and divert management's attention and resources, which could have a material adverse effect on our business, operating results, financial condition or partnering efforts. In addition, such consolidated lawsuit may make it more difficult to finance our operations, obtain certain types of insurance (including directors' and officers' liability insurance), and attract and retain qualified executive officers, other employees and directors.

RISKS RELATED TO THE OWNERSHIP OF OUR COMMON STOCK

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

As of July 31, 2014, there were 179,216,032 shares of our common stock outstanding. Substantially all of these shares are eligible for trading in the public market, subject in some cases to volume and other limitations. The market price of our common stock may decline if our common stockholders sell a large number of shares of our common stock in the public market, or the market perceives that such sales may occur.

In addition, our common stock outstanding as of July 31, 2014 excludes the following common shares reserved for future issuance:

- 25,297,851 common shares reserved for issuance under outstanding option grants and available for issuance under our stock incentive plans;
- 2,940,509 common shares reserved for and available for issuance under our Employee Stock Purchase Plan;
- 273,280 common shares issuable upon exercise of outstanding warrants; and
- 34,075,000 common shares issuable upon conversion of our outstanding Series E Preferred Stock

Of the total options and warrants outstanding as of July 31, 2014, 12,403,715 would be considered dilutive to stockholders because we would receive an amount per share, which is less than the market price of our common stock at July 31, 2014.

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

OUR HIGHLY VOLATILE STOCK PRICE MAY ADVERSELY AFFECT THE LIQUIDITY OF OUR COMMON STOCK.

The market price of our common stock and the market prices of securities of companies in the biotechnology sector have generally been highly volatile and are likely to continue to be highly volatile. For instance, the market price of our common stock has ranged from $0.39 to $5.50 per share over the three years ended July 31, 2014.

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

- the success or failure of our internal drug development efforts;
- positive or negative data reported on programs in clinical trials we or our investigators are conducting;
- announcements of technological innovations or new commercial products by us or our competitors;
- uncertainties about our ability to continue to fund our operations beyond the next twelve months, including our Phase III SUNRISE trial;
- significant changes in our financial results or that of our competitors, including our ability to continue as a going concern;
- the offering and sale of shares of our common stock, either sold at market prices or at a discount under an equity transaction;
- significant changes in our capital structure;
- published reports by securities analysts;
- announcements of partnering transactions, licensing agreements, joint ventures, strategic alliances, and any other transaction that involves the development, sale or use of our technologies or competitive technologies;
- developments and/or disputes concerning our patent or other proprietary rights;
- regulatory developments, including possible delays, and product safety concerns;
- outcomes of significant litigation, disputes and other legal or regulatory proceedings;
- general stock trends in the biotechnology and pharmaceutical industry sectors;
- public concerns as to the safety and effectiveness of our products;
- economic trends and other external factors, including but not limited to, interest rate fluctuations, economic recession, inflation, foreign market trends, national crisis, and disasters; and
- healthcare reimbursement reform and cost-containment measures implemented by government agencies.

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

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

Our common stock is currently traded on The NASDAQ Capital Market. The NASDAQ Stock Market LLC has requirements that a company must meet in order to remain listed on NASDAQ. In particular, NASDAQ rules require us to maintain a minimum bid price of $1.00 per share of our common stock. If the closing bid price of our common stock were to fall below $1.00 per share for 30 consecutive trading days or we do not meet other listing requirements, we would fail to be in compliance with NASDAQ's listing standards. There can be no assurance that we will continue to meet the minimum bid price requirement, or any other requirement in the future. If we fail to meet the minimum bid price requirement, The NASDAQ Stock Market LLC may initiate the delisting process with a notification letter. If we were to receive such a notification, we would be afforded a grace period of 180 calendar days to regain compliance with the minimum bid price requirement. In order to regain compliance, shares of our common stock would need to maintain a minimum closing bid price of at least $1.00 per share for a minimum of 10 consecutive trading days. If our common stock were to be delisted, the liquidity of our common stock would be adversely affected and the market price of our common stock could decrease.

WE DO NOT INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK SO ANY RETURNS WILL BE LIMITED TO THE VALUE OF OUR STOCK.

We have never declared or paid any cash dividend on our common stock. We currently anticipate that we will retain future earnings, if any, for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to stockholders will therefore be limited to the appreciation of their stock.

ADDITIONAL RISKS RELATED TO THE OWNERSHIP OF OUR SERIES E PREFERRED STOCK

We may not be able to pay dividends on the series e preferred stock.

We are incorporated in Delaware and governed by the Delaware General Corporation Law. Delaware law allows a corporation to pay dividends only out of surplus, as determined under Delaware law, or if there is no surplus, out of net profits for the fiscal year in which the dividend was declared and for the preceding fiscal year. Under Delaware law, however, we cannot pay dividends out of net profits if, after we pay the dividend, our capital would be less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets. In addition, payment of our dividends depends upon our financial condition and other factors as our Board of Directors may deem relevant from time to time. Our business may not generate sufficient cash flow from operations or future borrowings may not be available to us in an amount sufficient to enable us to make distributions on our Series E Preferred Stock.

The market price of the series e preferred stock could be substantially affected by various factors.

The market price of the Series E Preferred Stock will depend on many factors, which may change from time to time, including:

- prevailing interest rates, increases in which may have an adverse effect on the market price of the Series E Preferred Stock;
- trading prices of common and preferred equity securities issued by other biopharmaceutical companies;
- the annual yield from distributions on the Series E Preferred Stock as compared to yields on other financial instruments;
- announcements of technological innovations or new commercial products by us or our competitors;
- publicity regarding actual or potential company-sponsored clinical trial and investigator-sponsored clinical trial results relating to products under development by us or our competitors;
- announcements of licensing agreements, joint ventures, strategic alliances, and any other transaction that involves the development, sale or use of our technologies;
- regulatory developments and product safety concerns;
- general economic and financial market conditions;
- government action or regulation;
- significant changes in the financial condition, performance and prospects of us and our competitors;
- changes in financial estimates or recommendations by securities analysts with respect to us, our competitors in our industry;
- our issuance of additional preferred equity or debt securities; and
- actual or anticipated variations in quarterly operating results of us and our competitors.

As a result of these and other factors, holders of our Series E Preferred Stock may experience a decrease, which could be substantial and rapid, in the market price of the Series E Preferred Stock, including decreases unrelated to our operating performance or prospects

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

(a) Exhibits:

10.25	At Market Issuance Sales Agreement, dated June 13, 2014, by and between Peregrine Pharmaceuticals, Inc. and MLV & Co. LLC (Incorporated by reference to Exhibit 10.28 to Registrant's Current Report on Form 8-K as filed with the SEC on June 16, 2014).
10.26	At Market Issuance Sales Agreement, dated June 13, 2014, by and between Peregrine Pharmaceuticals, Inc. and MLV & Co. LLC (Incorporated by reference to Exhibit 10.29 to Registrant's Current Report on Form 8-K as filed with the SEC on June 16, 2014).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. *
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. *
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350. *
101.INS	XBRL Taxonomy Extension Instance Document. (*) (#)
101.SCH	XBRL Taxonomy Extension Schema Document. (*) (#)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. (*) (#)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. (*) (#)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. (*) (#)
101.PRE	XBRL Presentation Extension Linkbase Document. (*) (#)

* Filed herewith

\# Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

PEREGRINE PHARMACEUTICALS, INC.

Date: September 9, 2014

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

Date: September 9, 2014

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

Exhibit 31.1

Certification of Chief Executive Officer

I, Steven W. King, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: September 9, 2014

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

Exhibit 31.2

Certification of Chief Financial Officer

I, Paul J. Lytle, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: September 9, 2014

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

Exhibit 32

CERTIFICATION

I, Steven W. King, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, that the Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q for the quarter ended July 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Peregrine Pharmaceuticals, Inc.

By:	/s/ Steven W. King
Name:	Steven W. King
Title:	President and Chief Executive Officer
Date:	September 9, 2014

I, Paul J. Lytle, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, that the Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q for the quarter ended July 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Peregrine Pharmaceuticals, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Peregrine Pharmaceuticals, Inc.

By:	/s/ Paul J. Lytle
Name:	Paul J. Lytle
Title:	Chief Financial Officer
Date:	September 9, 2014

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

This Certification is being furnished pursuant to Rule 15(d) and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. This Certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.