ADVENTRX PHARMACEUTICALS INC
Form 424B5
November 14, 2011
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Filed pursuant to Rule 424(b)(5)
Registration Statement No. 333-165691

PROSPECTUS SUPPLEMENT NO. 4

(To Prospectus dated April 1, 2010)

ADVENTRX Pharmaceuticals, Inc.

21,250,000 Shares of Common Stock

Warrants to Purchase 10,625,000 Shares of Common Stock

10,625,000 Shares of Common Stock Underlying the Warrants

We are offering 21,250,000 shares of our common stock, par value $0.001 per share, and warrants to purchase up to 10,625,000 shares of our common stock to investors in this offering. We are also offering an aggregate of 10,625,000 shares of our common stock issuable upon exercise of the warrants. The securities will be sold in multiples of a fixed combination consisting of one share of common stock and a warrant to purchase up to 0.5 of a share of common stock. These common stock warrants are exercisable at any time on or after their date of issuance, which will be the closing date of this offering, and on or before the five-year anniversary of their date of issuance at an exercise price of $1.10 per share. The shares of common stock and the warrants being offered will be issued separately, but can only be purchased together in the fixed combination described above. Each fixed combination will be sold at a price of $0.80.

Our common stock is listed on the NYSE Amex equities market under the symbol ANX. The last reported sale price of our common stock on November 10, 2011 was $0.93 per share. We do not intend to list the warrants on any national securities exchange.

This investment involves a high degree of risk. You should carefully review the risks and uncertainties described under the heading Risk Factors.

	Per Fixed Combination of One Share and a Warrant to Purchase 0.5 of a Share	Total
Public offering price	$ 0.80	$ 17,000,000
Underwriting discounts and/or commissions (1)	$ 0.052	$ 1,105,000
Proceeds, before expenses, to ADVENTRX Pharmaceuticals, Inc. (2)	$ 0.748	$ 15,895,000

(1) In connection with the offering of our securities under this prospectus supplement, in consideration for its services, we have also agreed to issue to the underwriter and/or its designees warrants to purchase up to an aggregate of 1,062,500 shares of our common stock at an exercise price of $1.00 per share. Neither these warrants nor the common stock issuable upon exercise of these warrants are covered by this prospectus supplement. We have also agreed to pay to the underwriter an expense reimbursement of 0.5% of the gross proceeds of the securities sold hereunder.

(2) Excludes potential proceeds from the exercise of the warrants offered hereby.

Delivery of the shares and warrants being sold in this offering will take place on or about November 16, 2011, against payment of immediately available funds.

The underwriter may also exercise its option to purchase up to an additional 3,187,500 shares of our common stock and warrants to purchase up to 1,593,750 shares of our common stock at the public offering price per fixed combination, less the underwriting discounts and commissions, to cover over-allotments, if any, within 45 days of the date of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Rodman & Renshaw, LLC

The date of this prospectus supplement is November 11, 2011.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a shelf registration statement on Form S-3 that we filed with the U.S. Securities and Exchange Commission, or the SEC, using a shelf registration process. This prospectus supplement describes the specific terms of this offering. The accompanying prospectus, including the documents incorporated by reference, provides general information about us, some of which, such as the section therein entitled Plan of Distribution, may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both parts of this document, this prospectus supplement and the accompanying prospectus, combined.

We urge you to carefully read this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein, before buying any of the securities being offered under this prospectus supplement. These documents contain information you should consider when making your investment decision.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement may add, update or change information contained in the accompanying prospectus. To the extent any information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on the information in this prospectus supplement. The information in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and the documents incorporated by reference therein, except for those documents incorporated by reference therein which we file with the SEC after the date hereof.

You should not assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate on any date subsequent to the date set forth on the front cover of this prospectus supplement and the accompanying prospectus or on any date subsequent to the date of the document incorporated by reference, as applicable. Our business, financial condition, results of operations and prospects may have changed since those dates.

We are offering to sell, and seeking offers to buy, the securities described in this prospectus supplement only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the offering of the securities in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement must inform themselves about, and observe any restrictions relating to, the offering of the securities and the distribution of this prospectus supplement outside the United States. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

We are not making any representation to you regarding the legality of an investment in our securities by you under applicable law. You should consult with your own legal advisors as to the legal, tax, business, financial and related aspect of a purchase of these securities.

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SUMMARY

This summary highlights selected information about us and this offering and does not contain all of the information that you need to consider in making your investment decision. You should carefully read this entire prospectus supplement and the accompanying prospectus, including the risks and uncertainties discussed under the heading Risk Factors beginning on page S-3 of this prospectus supplement, and the information incorporated by reference, including our financial statements, before making an investment decision. When used in this prospectus supplement, the terms ADVENTRX, we, us, our and our company refer to ADVENTRX Pharmaceuticals, Inc. and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires.

About ADVENTRX Pharmaceuticals, Inc.

We are a specialty pharmaceutical company focused on developing proprietary product candidates. Our current lead product candidates are ANX-188, a novel, purified, rheologic and antithrombotic compound, which we initially are developing as a first-in-class treatment for pediatric patients with sickle cell disease in acute crisis, and ANX-514, a detergent-free formulation of the chemotherapy drug Taxotere®.

We have devoted substantially all of our resources to research and development and to acquisition of our product candidates. We have not yet marketed or sold any products or generated any significant revenue and have incurred significant losses since inception. We had a loss from operations of $11.0 million for the nine months ended September 30, 2011 and cash, cash equivalents and short-term investments of approximately $38.3 million at September 30, 2011.

Our company was incorporated in Delaware in December 1995. In October 2000, we merged our wholly owned subsidiary, Biokeys Acquisition Corp., with and into Biokeys, Inc. and changed our name to Biokeys Pharmaceuticals, Inc. In May 2003, we merged Biokeys, Inc., our wholly owned subsidiary, with and into us and changed our name to ADVENTRX Pharmaceuticals, Inc. In April 2006, we acquired SD Pharmaceuticals, Inc., a Delaware corporation, as a wholly owned subsidiary, and, in April 2011, we acquired SynthRx, Inc., a Delaware corporation, as a wholly owned subsidiary.

Our executive offices are located at 12390 El Camino Real, Suite 150, San Diego, California 92130, and our telephone number is (858) 552-0866. Our corporate website is located at www.adventrx.com. We make available free of charge through our corporate Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained in, or that can be accessed through, our website does not constitute part of this prospectus supplement or any other prospectus supplement.

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The Offering

Securities offered by us:	21,250,000 shares of common stock; Warrants to purchase up to 10,625,000 shares of common stock; and Up to 10,625,000 shares of common stock issuable upon exercise of the warrants.
Description of warrants:	Each investor will receive a warrant to purchase up to 0.5 of a share shares of common stock. These common stock warrants are exercisable at any time on or after their date of issuance, which will be the closing date of this offering, and on or before the five-year anniversary of their date of issuance at an exercise price of $1.10 per share.
Common stock to be outstanding after this offering (excluding over-allotment option):	47,715,709 shares, or 58,340,709 shares if the warrants offered hereby are exercised in full
Common stock to be outstanding after this offering if over-allotment option exercised in full:	50,903,209 shares, or 63,121,959 shares if the warrants offered hereby are exercised in full
Use of proceeds:	We currently intend to use the net proceeds from this offering to fund continued development of our current lead product candidates, including activities necessary to initiate and conduct our planned phase 3 clinical trials of ANX-188 and ANX-514, and for general corporate purposes. Please see Use of Proceeds below.
NYSE Amex Symbol:	ANX
No market for the warrants:	There is no established public trading market for the warrants and we do not intend to apply to list the warrants on any national securities exchange.
Risk Factors:	See Risk Factors below for a discussion of factors that you should carefully read and consider before investing in our securities.

The number of shares of our common stock that will be outstanding immediately after the offering is based on 26,465,709 shares outstanding as of September 30, 2011, and excludes:

- 1,553,692 shares of common stock issuable upon the exercise of stock options issued under our equity incentive plans prior to this offering and outstanding as of September 30, 2011, at a weighted average exercise price of $4.75 per share;
- 3,256,014 shares of common stock available as of September 30, 2011 for future issuance under our Amended and Restated 2008 Omnibus Incentive Plan;

7,777,988 shares of common stock issuable upon the exercise of warrants issued prior to this offering and outstanding as of September 30, 2011, at a weighted average exercise price of $6.58 per share;

13,478,050 shares of common stock that may be issued to the former stockholders of SynthRx, subject to the achievement of performance milestones pursuant to the terms of our merger agreement with SynthRx dated February 12, 2011;

10,625,000 shares of common stock issuable upon the exercise of the warrants to be issued to the investors in this offering, at an exercise price of $1.10 per share; and

1,062,500 shares of common stock issuable upon exercise of warrants to be issued to the underwriter for this offering and/or its designees, which are not covered by this prospectus supplement, at an exercise price of $1.00 per share.

All share and per share information in in this prospectus supplement related to dates or periods prior to April 23, 2010 reflects the 1-for-25 reverse split of our outstanding common stock that took place on that date. The information contained in documents incorporated herein by reference that we filed with the SEC before April 23, 2010 has not been revised to reflect retroactive application of the 1-for-25 reverse stock split. However, the information in documents that we filed after April 23, 2010 and information in documents that we will file in the future does and will reflect the 1-for-25 reverse stock split.

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RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the risk factors discussed below, together with all the other information contained in any of our filings with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding whether to purchase any of the securities being offered by this prospectus supplement. Each of the risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our securities, and the occurrence of any of these risks might cause you to lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

Risks Related to Our Capital Requirements, Finances and Operations

We have incurred losses since our inception, we expect our operating expenses to continue to exceed our revenues for the foreseeable future and we may never generate revenues sufficient to achieve profitability.

We are a development stage company and have not generated sustainable revenues from operations or been profitable since inception, and it is possible we will never achieve profitability. We have devoted our resources to acquiring and developing proprietary product candidates, but such product candidates cannot be marketed until the regulatory process is completed and governmental approvals have been obtained. Accordingly, there is no current source of revenues from operations, much less profits, to sustain our present activities, and no revenues from operations will likely be available until, and unless, our product candidates are approved by the FDA or other regulatory agencies and successfully marketed, either by us or a partner, an outcome which we may not achieve.

The success of our business currently is dependent primarily on the success of our two lead product candidates and these product candidates may not receive regulatory approval or be successfully commercialized.

We currently have no products for sale and only two product candidates, ANX-188 and ANX-514, for which we actively are pursuing regulatory approval on an independent basis. Accordingly, the success of our business currently depends primarily on our ability, ourselves or with a future partner of ours, to obtain regulatory approval for and successfully market and sell these product candidates and our efforts in this regard may prove unsuccessful. Until recently, we were also pursuing FDA approval of Exelbine, our novel emulsion formulation of the chemotherapy drug vinorelbine. In November 2010, we submitted a new drug application, or NDA, for Exelbine (vinorelbine injectable emulsion) to the U.S. Food and Drug Administration, or FDA, and in August 2011, we received a complete response letter from the FDA stating that it could not approve the Exelbine NDA in its present form. In particular, the letter stated that, based on inspections at clinical sites, the authenticity of the drug products used in the pivotal bioequivalence trial could not be verified and that the bioequivalence trial would need to be repeated to address this deficiency. During a meeting with the FDA in September 2011, FDA staff indicated that the failure of the clinical sites to randomly select and retain reserve samples of the test article (Exelbine) and reference standard (Navelbine) could not be overcome by alternative methods of verifying authenticity and reiterated that the bioequivalence study would need to be repeated. Failure to obtain approval of the Exelbine NDA, in particular, as a result of logistical matters that investors may perceive as within our control, and our subsequent discontinuation of the Exelbine program may be viewed negatively and adversely affect investor confidence in our company, which could have a material adverse effect on our stock price and our ability to raise additional capital to pursue development and regulatory approval of our other product candidates.

With respect to ANX-514, following our meeting with the FDA in February 2011, we announced that the FDA determined ANX-514 could not be approved based on the findings from our bioequivalence study of ANX-514, which we refer to as Study 514-01, because the Cmax for total docetaxel was higher in patients who received ANX-514 relative to those who received Taxotere in Study 514-01. In October 2011, we met with the FDA to discuss our clinical development plans for ANX-514 and the FDA agreed that our proposed clinical trial, a non-inferiority study with a primary objective of comparing fluid retention following treatment with ANX-514, administered without corticosteroid premedication, and Taxotere, administered with corticosteroid premedication, which would enroll approximately 400 patients, which we refer to as Study 514-02, would generate sufficient clinical data to support approval of ANX-514 without requiring corticosteroid premedication. Despite reaching agreement with the FDA that the results of Study 514-02, together with those of Study 514-01, could support approval of ANX-514 without requiring corticosteroid premedication, the FDA may, in the future, require additional clinical and/or nonclinical studies to support approval of ANX-514, which would increase development expense and may delay regulatory approval. For example, the FDA may determine that it cannot verify the authenticity of the study drugs used in Study 514-01 and require that the bioequivalence study be repeated prior to approval of ANX-514.

If any of our current or future product candidates is approved by the FDA or any foreign regulatory agency, our ability to generate revenues from these products will depend in substantial part on the extent to which they are accepted by the medical community and reimbursed by

third-party payors and our ability to ensure that our third-party manufacturer or manufacturers produce sufficient quantities of the products to meet commercial demand, if any.

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Our financial resources are limited, we will need to obtain additional funding to pursue our current business strategy and we may not be able to obtain such funding on a timely basis or on commercially reasonable terms, if at all.

We have experienced significant losses in acquiring and funding the development of our product candidates, accumulating net losses totaling approximately $169.2 million as of September 30, 2011, and we expect to continue to incur substantial operating losses for the foreseeable future, even if we or a future partner of ours is successful in advancing our product candidates to market. We do not expect to generate cash flows from sales of our products unless and until our products are approved for marketing, the timing of which we cannot predict accurately.

Our future expenditures on our programs are subject to many uncertainties, including whether our product candidates will be developed or commercialized with a partner or independently. Our future capital requirements will depend on, and could increase significantly as a result of, many factors, including:

- the costs of seeking regulatory approval for our product candidates, including any nonclinical testing or clinical studies, process development, scale-up and other manufacturing and stability activities, or other work required to achieve such approval, as well as the timing of such activities and approval;
- the extent to which we invest in or acquire new technologies, product candidates, products or businesses and the development requirements with respect to any acquired programs;
- the scope, prioritization and number of development programs we pursue and the rate of progress and costs with respect to such programs;
- the costs related to developing, acquiring and/or contracting for sales, marketing and distribution capabilities and regulatory compliance capabilities, if we commercialize any of our product candidates for which we obtain regulatory approval without a partner;
- the timing and terms of any collaborative, licensing and other strategic arrangements that we may establish;
- the extent to which we will need to rebuild our workforce, which currently consists of 12 employees, and the costs involved in recruiting, training and incentivizing new employees;
- the effect of competing technological and market developments; and
- the cost involved in establishing, enforcing or defending patent claims and other intellectual property rights.

We anticipate that our cash, cash equivalents and short-term investments as of September 30, 2011, which were approximately $38.3 million, will be sufficient to fund our currently planned level of operations at least the next 12 months. However, we may determine to grow our organization and/or pursue development and/or commercialization activities for our current or future product candidates at levels or on timelines, or we may incur unexpected expenses, that shorten the period through which our current operating funds will sustain us. We may also acquire new technologies, product candidates and/or products and the cost to acquire, develop and/or commercialize such new technologies, product candidates and/or products may shorten the period through which our current operating funds will sustain us. We may seek additional funding through public or private sales of our equity securities, debt financings, collaborations, licensing arrangements or other strategic or partnering transactions. However, we may not be able to obtain sufficient additional funding on satisfactory terms, if at all. We believe global economic conditions, including the continued volatility of U.S. and international equity markets, may adversely impact our ability to raise additional capital.

We may incur substantial costs in connection with evaluating and negotiating future strategic or partnering and/or capital-raising transactions, the effect of which may be to shorten the period through which our current operating funds will sustain us. Even if we incur costs in pursuing, evaluating and negotiating particular strategic or partnering and/or capital-raising transactions, our efforts may not prove successful.

Our ability to raise capital may be limited by applicable laws and regulations.

Historically, we have raised capital through the sale and issuance of our equity securities. Our ability to raise additional capital through the sale and issuance of our equity securities may be limited by, among other things, current SEC and NYSE Amex rules and regulations. Since June 2009, we completed six equity financings under shelf registration statements on Form S-3. Use of a shelf registration statement for primary offerings typically enables an issuer to raise additional capital on a more timely and cost effective basis than through other means, such as registration of a securities offering under a Form S-1 registration statement. Under current SEC rules and regulations, to be eligible to use a Form S-3 registration statement for primary offerings without restriction as to the amount of securities to be sold and issued, an issuer must, among other requirements, have outstanding common equity with a market value of at least $75.0 million held by non-affiliates. If we file a shelf Form S-3 registration statement at a time when the aggregate market value of our common stock held by non-affiliates, or public float, is less than $75.0 million (calculated as set forth in

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Form S-3 and SEC rules and regulations), the amount we could raise through primary offerings of our securities in any 12-month period using the Form S-3 registration statement may be limited to an aggregate of one-third of our public float. Moreover, the market value of all securities sold by us under a Form S-3 registration statement during the prior 12 months may be subtracted from that amount to determine the amount we can then raise under the Form S-3 registration statement. Even if we file a shelf Form S-3 registration statement at a time when our public float is $75.0 million or more (calculated as set forth in Form S-3 and SEC rules and regulations), we may become subject to the one-third of public float limitation described above in the future. The SEC s rules and regulations require that we periodically re-evaluate the value of our public float. If, at a re-evaluation date, our public float is less than $75.0 million (calculated as set forth in Form S-3 and SEC rules and regulations), the amount we could raise through primary offerings of our securities in any 12-month period using a Form S-3 registration statement would be subject to the one-third of public float limitation described above.

In addition, under current SEC rules and regulations, if our public float is less than $75.0 million or if we seek to register a resale offering (i.e., an offering of securities of ours by persons other than us), we must, among other requirements, maintain our listing with the NYSE Amex or have our common stock listed and registered on another national securities exchange in order to be eligible to use a Form S-3 registration statement for any primary or resale offering. Alternative means of raising capital through sales of our securities, including through the use of a Form S-1 registration statement, may be more costly and time-consuming.

Currently, our common stock is listed on the NYSE Amex equities market. The NYSE Amex will review the appropriateness of continued listing of any issuer that falls below the exchange s continued listing standards. Previously, including during part of 2010, we were not in compliance with certain NYSE Amex continued listing standards and were at risk of being delisted from the NYSE Amex equities market. For additional information regarding this risk, see the risk factor below titled If we are unable to maintain compliance with NYSE Amex continued listing standards, we may be delisted from the NYSE Amex equities market, which would likely cause the liquidity and market price of our common stock to decline. If our common stock were delisted from the NYSE Amex, our ability to raise capital on terms and conditions we deem acceptable, if at all, may be materially impaired.

Our ability to timely raise sufficient additional capital also may be limited by the NYSE Amex s requirements relating to stockholder approval for transactions involving the issuance of our common stock or securities convertible into our common stock. For instance, the NYSE Amex requires that we obtain stockholder approval of any transaction involving the sale, issuance or potential issuance by us of our common stock (or securities convertible into our common stock) at a price less than the greater of book or market value, which (together with sales by our officers, directors and principal stockholders) equals 20% or more of our presently outstanding common stock, unless the transaction is considered a public offering by the NYSE Amex staff. Based on our outstanding common stock as of September 30, 2011 and a closing price of $0.98, which was the closing price of our common stock on November 9, 2011, we could not raise more than approximately $5.2 million without stockholder approval, unless the transaction is deemed a public offering or does not involve the sale, issuance or potential issuance by us of our common stock (or securities convertible into our common stock) at a price less than the greater of book or market value. However, certain prior sales by us may be aggregated with any offering we may propose in the near-term, further limiting the amount we could raise in any future offering that is not considered a public offering by the NYSE Amex staff and would involve the sale, issuance or potential issuance by us of our common stock (or securities convertible into our common stock) at a price less than the greater of book or market value. The NYSE Amex will also require stockholder approval if the issuance or potential issuance of additional shares will be considered by the exchange staff to result in a change of control of us.

Obtaining stockholder approval is a costly and time-consuming process. If we are required to obtain stockholder approval, we would expect to spend substantial additional money and resources. In addition, seeking stockholder approval would delay our receipt of otherwise available capital, which may materially and adversely affect our ability to execute our current business strategy, and there is no guarantee our stockholders ultimately would approve a proposed transaction. A public offering under the NYSE Amex rules typically involves broadly announcing the proposed transaction, which often times has the effect of depressing the issuer s stock price. Accordingly, the price at which we could sell our securities in a public offering may be less and the dilution existing stockholders experience may in turn be greater than if we were able to raise capital through other means.

Our ability to raise capital may be limited by contractual restrictions.

In the past, in connection with raising capital through the sale and issuance of our equity securities, we have agreed to certain restrictions on our ability to raise additional capital through additional equity financing transactions. For example, in connection with an equity financing we completed in July 2005, we entered into a rights agreement with certain of the purchasers of our securities, including entities affiliated with Carl C. Icahn. Pursuant to the Rights Agreement, dated July 27, 2005, as amended, or the Rights Agreement, we agreed to, among other things, grant the investors that were party to the Rights Agreement, or the Rights Investors, the right to participate in sales of our securities for up to seven years (with certain enumerated exceptions as set forth in the Rights Agreement). Pursuant to the Rights Agreement, we must notify the Rights Investors of certain proposed transactions on the timeline specified in the Rights Agreement. In many of our prior financing transactions, we have requested and received waivers from the Rights Investors with respect to their participation rights, but if we are unable to obtain such

waivers in a timely manner, or at all, with respect to future financing transactions, we may be unable to consummate a financing that otherwise may be available to us and in the best interest of our company and stockholders.

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Raising additional capital may cause dilution to our existing stockholders, require us to relinquish proprietary rights or restrict our operations.

We may raise additional capital at any time and may do so through one or more financing alternatives, including public or private sales of our equity securities, debt financings, collaborations, licensing arrangements or other strategic transactions. Each of these financing alternatives carries certain risks. Raising capital through the issuance of common stock may depress the market price of our stock and may substantially dilute our existing stockholders. If we instead seek to raise capital through strategic transactions, such as licensing arrangements or sales of one or more of our technologies or product candidates, we may be required to relinquish valuable rights and dilute the current and future value of our assets. For example, any licensing arrangement would likely require us to share a significant portion of any revenues generated by our licensed technologies with our licensees. Additionally, our control over the development and/or marketing of any products or product candidates licensed or sold to third parties may be reduced and thus we may not realize the full value of any such products or product candidates. Debt financings could involve covenants that restrict our operations. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens or make investments and may, among other things, preclude us from making distributions to stockholders (either by paying dividends or redeeming stock) and taking other actions beneficial to our stockholders. In addition, investors could impose more one-sided investment terms and conditions on companies that have or are perceived to have limited remaining funds or limited ability to raise additional funds. The lower our cash balance, the more difficult it is likely to be for us to raise additional capital on commercially reasonable terms, or at all.

Our business may suffer if we are unable to retain and attract key personnel and manage internal growth.

We are highly dependent on the expertise and deep background in our product candidates of our chief executive officer and our president and chief operating officer. If we lose one or both of these key employees, our ability to successfully implement our current business strategy could be seriously harmed. Replacing these key employees may be difficult and take an extended period of time, particularly due to the fact that we currently do not have other executive officers or personnel to assume all of the responsibilities of these key employees and the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses, particularly in the San Diego, California area. Our chief executive officer and our president and chief operating officer may terminate their employment with us at any time with or without notice.

In addition, we may seek to increase the size of our organization in connection with initiating clinical activities with respect to ANX-188 and ANX-514, should we reach agreement with the FDA regarding clinical studies for those product candidates. Currently, we have only 12 employees and we rely on third parties to perform many essential services for us. The success of our business will depend, in part, on our ability to attract and retain highly qualified personnel, and on our ability to develop and maintain important relationships with respected service providers and industry-leading consultants and advisors. Competition for these types of personnel and relationships is intense from numerous pharmaceutical and biotechnology companies, universities and other research organizations, particularly in the San Diego, California area. Recruiting and retaining employees, including senior-level personnel, with relevant product development and regulatory experience may be costly and time-consuming. Our ability to provide competitive compensation to our management and other employees may also be adversely affected by our capital resources and our highly volatile stock price. If we cannot attract and retain additional skilled personnel, we may not achieve our development and other goals.

If we are unable to raise sufficient additional capital as needed, we may be forced to reduce our current and/or planned development activities, partner our product candidates or products at inopportune times or pursue less expensive but higher-risk development paths, which we have done in the past.

Although we anticipate that our cash, cash equivalents and short-term investments as of September 30, 2011 will be sufficient to fund our operations at their current levels for at least the next 12 months, we expect to need to raise additional capital in order to execute our current business plan. If we are not able to raise sufficient additional capital, we may be required to reduce our development activities or attempt to continue them by entering into arrangements with partners or others that may not be available on favorable terms, or at all, and may require us to relinquish some or all of our rights to our product candidates or products or the financial benefits thereof. For example, in late 2008, due to an immediate need for additional capital, we discontinued all of our development programs other than with respect to Exelbine and ANX-514 and limited our activities with respect to Exelbine and ANX-514 to those we believed necessary to preparing and submitting NDAs for Exelbine and ANX-514. Going forward, if we do not have sufficient capital, we may determine, for example, not to conduct any nonclinical testing and/or clinical studies in addition to our planned phase 3 clinical trials that may be required by the FDA to support approval of our lead product candidates or any post-approval clinical studies to support uses of our product candidates in new indications or other label changes intended to expand the scale and scope of their market potential.

Our failure to successfully acquire, develop and commercialize additional technologies, product candidates and/or products may impair our ability to grow.

During 2010 and the first half of 2011, our business strategy involved a particular focus on expanding our product pipeline through one or more in-license, asset acquisition or merger transactions. Although, currently, we are focused on developing our two lead product candidates, from time to time we evaluate pipeline expansion opportunities that we believe may increase the value of our

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company. Because we neither have, nor currently intend to establish, internal research capabilities, we are dependent upon pharmaceutical and biotechnology companies, universities and other research organizations to sell or license technologies, product candidates, products or businesses to us. The process of identifying, evaluating, negotiating and implementing the purchase or license of new assets is lengthy and complex and may disrupt other development programs and distract our personnel. We have limited experience and resources with respect to identifying, evaluating, negotiating and implementing the acquisition of new assets or rights thereto and integrating them into our current infrastructure. Supplementing our current resources to complete one or more transactions may be costly. In addition, given our recent market capitalization and our desire to preserve our cash for development activities, any merger or other business combination transaction pursuant to which we acquire additional technologies, product candidates and/or products primarily will involve the issuance of shares of our common stock, or securities convertible into our common stock, and the amount of new securities issuable in connection with any such transaction may be substantial. For example, in addition to the 2,800,851 shares we issued upon the completion of our acquisition of SynthRx, we could issue up to an aggregate of 13,478,050 additional shares of our common stock to SythRx s former stockholders upon achievement of milestones related to the development and regulatory approval of ANX-188 for the treatment of sickle cell crisis in children. If all milestones are achieved without reduction, the number of shares we issue in connection with the SynthRx acquisition would, in the aggregate, represent an approximately 41% ownership stake in our company (based on shares outstanding as of the date of this prospectus supplement plus shares issued in connection with achievement of the milestones). The issuance of shares in connection with other future strategic transactions, if any, may result in the stockholders who own the majority of our voting securities prior to one or more of such transactions owning less than a majority after such transactions.

Our success in acquiring or acquiring rights to new technologies, product candidates and/or products may also be adversely affected by competition for the same assets by other companies, including some with substantially greater development and commercialization resources and with a proven record of successfully developing and/or commercializing product candidates. In addition, we may not be able to identify, acquire or acquire the rights to additional technologies, product candidates and/or products on terms that we find acceptable, or at all.

Any technology and/or product candidate that we acquire or to which we acquire rights likely will require additional development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are subject to risks of failure typical of pharmaceutical product development, including the possibility that a product candidate will not be shown to be sufficiently safe or effective for approval by regulatory authorities and other risks described under the section titled Risks Related to Drug Development and Commercialization.

If we acquire or acquire rights to new technologies, product candidates and/or products and fail to integrate them successfully into our operations, we may incur unexpected costs and disruptions to our business.

We may evaluate new technologies, product candidates and/or products that we believe have a strategic fit with our current or future business strategy. However, any future strategic transaction, including any in-license, asset acquisition and merger transaction, may entail numerous operational and financial risks, including:

- exposure to unknown liabilities;
- disruption of our business and diversion of our management s time and attention to develop and/or commercialize acquired technologies, products candidates and/or products;
- incurrence of substantial debt or dilutive issuances of securities to pay for acquisitions;
- higher than expected acquisition and integration costs;
- increased amortization expenses;

difficulty and cost in combining the operations and personnel of any acquired businesses with our operations and personnel;

impairment of relationships with key suppliers and/or customers of any acquired businesses due to changes in management and ownership; and

inability to retain key employees of any acquired businesses.

We may devote resources to potential acquisition or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts.

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The use of our net operating loss carry forwards and research and development tax credits has been and may be limited further by changes in ownership within the meaning of IRC Section 382.

Our net operating loss carry forwards and research and development tax credits may expire and not be used. As of December 31, 2010, we had generated federal and state net operating loss carry forwards of approximately $31.5 million and $34.4 million, respectively, and federal and state research and development tax credit carry forwards of approximately $145,000 and $87,000, respectively. Federal net operating loss carry forwards and research and development tax credits have a 20-year carry forward period and California net operating losses have a carry forward period that varies depending on the year such net operating losses are generated. California research and development tax credits carry forward indefinitely. Our federal net operating loss carry forwards will begin to expire in 2016 and our California net operating loss carry forwards will begin to expire in 2013 if we have not used them prior to that time. Our federal research and development tax credits will begin to expire in 2029.

Pursuant to Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or IRC, our ability to use any net operating loss carry forwards and research and development credits to offset taxable income in the future is limited if we experience a cumulative change in ownership of more than 50% within a three-year period. During 2010, we completed an analysis to determine whether any such change in ownership had occurred during the period from January 1, 2008 through January 7, 2010, and identified several changes in ownership within the meaning of IRC Section 382. Upon application of limitations prescribed by IRC Section 382, we determined that our net operating loss carry forwards and research and development credits were significantly adversely affected by the identified changes in control, and we adjusted our deferred tax assets accordingly. We have not completed an analysis to determine whether any change in ownership within the meaning of IRC Section 382 has occurred since January 7, 2010, but we believe a change in ownership may have occurred as a result of our equity securities financings in May 2010 and January 2011. If any such change in ownership has occurred since January 7, 2010 or were to occur in the future, the amount of our net operating loss carry forwards and research and development tax credits we could utilize annually in the future to offset taxable income could be further significantly restricted or eliminated. Inability to fully utilize our net operating loss carry forwards and research and development tax credits could have an adverse impact on our financial position and results of operations.

If we fail to maintain an effective system of internal control over financial reporting and disclosure controls and procedures, we may not be able to accurately report our financial results. As a result, current and potential investors could lose confidence in our financial reporting, which could harm our business and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to annually furnish a report by our management on our internal control over financial reporting. Such report must contain, among other matters, an assessment by our principal executive officer and our principal financial officer on the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective as of the end of our fiscal year. This assessment must include disclosure of any material weakness in our internal control over financial reporting identified by management. Performing the system and process documentation and evaluation needed to comply with Section 404 is both costly and challenging. In addition, because our public float was more than $75 million as of June 30, 2011, we will be required, for the first time in several years, to obtain an attestation report from our independent registered public accounting firm as to our year-end assessment of the effectiveness of our internal control over financial reporting, which likely will consume significant additional financial and managerial resources.

We have in the past discovered, and may in the future discover, areas of internal controls that need improvement. For example, during the fourth quarter of 2008, we discovered that we did not correctly apply generally accepted accounting principles relating to accounting for warrant liability because our accounting staff did not have adequate training or expertise, and determined that we had a material weakness in our internal control over financial reporting as of December 31, 2007. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. For a detailed description of this material weakness and our remediation of this material weakness, see Part II Item 9A(T) Controls and Procedures of our annual report on Form 10-K for the year ended December 31, 2008. If we identify a material weakness in our internal control over financial reporting in the future, we may not be able to conclude that our internal control over financial reporting is effective, and we may need to implement expensive and time-consuming remedial measures. As a result of reductions in our workforce and other personnel departures that occurred in 2008 and 2009, we have experienced substantial turnover in our personnel responsible for performing activities related to our internal control over financial reporting. From July 2009 to March 2011, our president and chief operating officer, who has no formal education in finance or accounting, served as our principal financial and principal accounting officer. He continues to serve as our principal financial officer. We have used third-party contractors in an effort to maintain effective internal control over financial reporting during and since that turn-over period. However, we cannot be certain that a material weakness will not be identified in the future and, if we fail to maintain effective internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on our stock price.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

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Our operations might be interrupted by the occurrence of a natural disaster or other catastrophic event.

Our corporate headquarters are located in a single commercial facility in San Diego, California. Important documents and records, including copies of our regulatory documents and other records for our product candidates, are located at our facilities and we depend on our facilities for the continued operation of our business. Natural disasters and other catastrophic events, such as wildfires and other fires, earthquakes and extended power interruptions, which have impacted San Diego businesses in the past, and terrorist attacks or severe weather conditions, could significantly disrupt our operations and result in additional, unplanned expense. As a small company, we have limited capability to establish and maintain a comprehensive disaster recovery program and, accordingly, we do not have a formal business continuity or disaster recovery plan, and any natural disaster or catastrophic event could disrupt our business operations and result in setbacks to our development programs. Even though we believe we carry commercially reasonable insurance, we might suffer losses that exceed the coverage available under these insurance policies. In addition, we are not insured against terrorist attacks or earthquakes.

Risks Related to Drug Development and Commercialization

Further testing and/or validation of our product candidates and related manufacturing processes may be required and regulatory approval may be delayed or denied, which would limit or prevent us from marketing our product candidates and significantly impair our ability to generate revenues.

Human pharmaceutical products generally are subject to rigorous nonclinical testing and clinical trials and other approval procedures mandated by the FDA and foreign regulatory authorities. Various federal and foreign statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of pharmaceutical products. The process of obtaining these approvals and the subsequent compliance with appropriate U.S. and foreign statutes and regulations is time-consuming and requires the expenditure of substantial resources. In addition, these requirements and processes vary widely from country to country.

To varying degrees based on the regulatory plan for each of our product candidates, the effect of government regulation and the need for FDA and other regulatory agency approval will delay commercialization of our product candidates, impose costly procedures upon our activities, and put us at a disadvantage relative to larger companies with which we compete. There can be no assurance that FDA or other regulatory approval for any product candidates developed by us, alone or with a future partner, will be granted on a timely basis, or at all. For example, in August 2011, we received a complete response letter from the FDA stating that it could not approve the Exelbine NDA in its present form. In particular, the letter stated that, based on inspections at clinical sites, the authenticity of the drug products used in the pivotal bioequivalence trial could not be verified and that the bioequivalence trial would need to be repeated to address this deficiency. As a result, we discontinued making significant additional capital investments into the Exelbine program and are seeking a partner or outside investor for the program.

In connection with any NDA that we file under Section 505(b)(2) of the U.S. Federal Food, Drug and Cosmetic Act, or FDCA, including an NDA for ANX-514, we may be required to notify third parties that we have certified to the FDA that any patents listed for the reference product in the FDA s Orange Book publication are invalid or will not be infringed by the manufacture, use or sale of our product. If the third party files a patent infringement lawsuit against us within 45 days of its receipt of notice of our certification, the FDA is automatically prevented from approving our NDA until, subject to certain adjustments, the earliest of 30 months, expiration of the patent, settlement of the lawsuit or a decision in the infringement case that is favorable to us. Accordingly, we may invest significant time and expense in the development of our product candidates, including ANX-514, only to be subject to significant delay and patent litigation before our products may be commercialized.

We may not achieve our projected development, commercialization and other goals in the time frames we announce. Delays in the commencement or completion of nonclinical testing, clinical trials or manufacturing, regulatory or other activities could result in increased costs to us and delay or limit our ability to generate revenues.

We set goals for and make public statements regarding our estimates of the timing of the accomplishment of objectives material to successful development, approval and future commercialization of our product candidates. The actual timing of these events can vary dramatically due to any number of factors, including delays or failures in our nonclinical testing, clinical trials and manufacturing, regulatory and commercial launch activities and the uncertainties inherent in the regulatory approval process. For example, while our regulatory strategy for ANX-514 previously had been to demonstrate its bioequivalence to Taxotere in a small, bioequivalence trial in humans, in February 2011, we announced that the FDA determined ANX-514 could not be approved based on the findings from Study 514-01. Although we have met with the FDA and reached agreement that our proposed 400-patient, non-inferiority study of ANX-514 would generate sufficient additional clinical data to support approval of ANX-514 without requiring corticosteroid premedication, the requirement for this additional clinical study has increased significantly the development time and cost associated with seeking regulatory approval of ANX-514 relative to our previously planned regulatory approval pathway for ANX-514. In addition, if the FDA determines that the authenticity of the study drugs used in Study 514-01 cannot be verified,

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including because of the manner in which reserve samples were selected and maintained, we may be required to repeat the bioequivalence study prior to regulatory approval of ANX-514, and the results of a repeat study may cause the FDA to require clinical studies in addition to the planned non-inferiority study. Further, even though the FDA has confirmed the appropriateness of a Section 505(b)(2) regulatory path for ANX-514, the FDA s views may change and the FDA may not allow us to rely on data regarding the safety and efficacy of Taxotere in its evaluation of an NDA for ANX-514 or the FDA may allow us to rely only on certain subsets of the efficacy data related to Taxotere, in which case we likely would need to conduct substantial, additional clinical and nonclinical work prior to regulatory approval. Furthermore, we may determine to conduct clinical studies with respect to ANX-514 to support uses in new indications or other label changes or for other reasons. With respect to ANX-188, we plan to meet with the FDA to reach agreement on a phase 3 clinical trial protocol for the treatment of pediatric patients with sickle cell disease in acute crisis. Although we believe that a properly designed and executed phase 3 clinical trial will demonstrate that ANX-188 is a safe and effective treatment for patients with sickle cell disease in acute crisis, the FDA may require additional nonclinical testing and/or clinical studies for regulatory approval. In the event our regulatory plan for any of our product candidates becomes more extensive and costly than anticipated, we may determine that the associated time and cost are not financially justifiable and, as a result, discontinue the program. If we discontinue either of our current lead product candidate programs, our business and stock price may suffer.

We conduct nonclinical activities in the course of our development programs, including in connection with the manufacture of our product candidates, and in response to requests by regulatory authorities, as well as for other reasons. Delays in our nonclinical activities could occur for a number of reasons, including:

- delays in reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and contract manufacturing organizations, or CMOs, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and CMOs;
- failures on the part of our CROs and CMOs in developing procedures and protocols or otherwise conducting activities on timeframes requested by us;
- delays in identifying and hiring or engaging, as applicable, additional employees or consultants to assist us in managing CRO and/or CMO activities;
- changes in regulatory requirements or other standards or guidance relating to nonclinical testing, including testing of pharmaceutical products in animals;
- a lack of availability of capacity at our CMOs, or of the component materials, including the active pharmaceutical ingredient, or API, or related materials, including vials and stoppers, necessary to manufacture our product candidates or products; and
- unforeseen results of nonclinical testing that require us to amend study or test designs or delay future testing or clinical trials and related regulatory filings.

In addition, planned clinical trials may not commence on time or be completed on schedule, if at all. The commencement and completion of trials can be delayed for a variety of reasons, including delays related to:

- obtaining regulatory approval to commence a trial;
- identifying appropriate trial sites and reaching agreement on acceptable terms with prospective CROs, trial sites and investigators, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs, trial sites and investigators;

identifying and hiring or engaging, as applicable, additional employees or consultants to assist us in managing a trial and analyzing the data resulting from a trial;

manufacturing sufficient quantities of a product candidate;

obtaining institutional review board, or IRB, approval to conduct a trial at a prospective site;

recruiting and enrolling patients to participate in trials for a variety of reasons, including competition from other clinical trials for the same indication as our product candidates and the perception that the design of a trial or the proposed treatment regimen is less beneficial to patients than available alternatives; and

retaining patients who have initiated a trial but may be prone to withdraw due to side effects from the therapy, lack of efficacy, improvement in condition before treatment has been completed or personal issues, or who are lost to further follow-up.

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Even if we complete a planned clinical trial with successful results, we may not achieve our projected development, approval, commercialization or other goals in the time frames we initially anticipate or announce. For example, in August 2011, we received a complete response letter from the FDA stating that the pivotal bioequivalence study of Exelbine would need to be repeated because the authenticity of the drug products used in the trial could not be verified. Thereafter, we discontinued making significant additional capital investments into the Exelbine program and are seeking a partner or outside investor for the program.

In addition to the potential for delays in commencing and completing a clinical trial described above, a trial may be suspended or terminated by us, an IRB, the FDA or other regulatory authorities due to a number of factors, including:

- failure to conduct the trial in accordance with regulatory requirements or the trial s protocol;
- inspection of trial operations or trial sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- unforeseen safety issues; or
- lack of adequate funding to continue the trial.

Additionally, changes in regulatory requirements and guidance relating to clinical trials may occur and we may need to amend trial protocols to reflect these changes. Amendments may require us to resubmit protocols to IRBs for reexamination or renegotiate terms with CROs, trial sites and trial investigators, all of which may impact the costs, timing or successful completion of a trial. Changes may also occur in regulatory requirements or policy during the period of product development and/or regulatory review of a submitted NDA relating to the data required to be included in marketing applications. For example, despite including in our initial Exelbine NDA submission in December 2009 data that we believe met the filing requirements for a new drug promulgated by the International Conference on Harmonization, or ICH, as well as site-specific stability data from lots manufactured at the intended commercial manufacturing site, we received a refusal-to-file letter from the FDA indicating that the data included in that submission was insufficient to support a commercially-viable expiration dating period. Consequently, we had to wait for 12 months of site-specific stability data from the intended commercial manufacturing site to be generated before resubmitting an NDA for Exelbine, which we did in November 2010. A change in regulatory policy, which may not have been formalized or publicly disseminated, may have been a factor underlying the FDA s refusal to file our December 2009 submission.

There can be no assurance that our nonclinical testing and clinical trials will commence or be completed, that we will make regulatory submissions or receive regulatory approvals as planned or that we will be able to adhere to anticipated schedules for the development or approval of any of our product candidates. The length of time necessary to complete clinical trials and manufacturing development work and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly and is difficult to predict accurately. If we experience delays in the completion of, or if we terminate, our clinical trials or nonclinical testing or if we are otherwise unable to adhere to our current schedule for the development of our product candidates, the commercial prospects for our product candidates may be harmed and our ability to generate product revenues will be delayed. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials or nonclinical testing may also ultimately lead to the denial of regulatory approval of a product candidate. Even if we are able to ultimately commercialize our product candidates, other therapies for the same indications may have been introduced to the market in the interim and established a competitive advantage.

Positive results in nonclinical testing and clinical trials do not ensure that future clinical trials will be successful or that our product candidates will receive the regulatory approvals necessary for their commercialization.

Before obtaining regulatory approvals for the commercial sale of any of our product candidates, we must demonstrate through nonclinical testing and clinical trials that each product is safe and effective for use in each target indication. Success in nonclinical testing and clinical trials, including bioequivalence trials, does not ensure that subsequent or large-scale trials will be successful. Additionally, throughout development, we must provide adequate assurance to the FDA and other regulatory authorities that we can consistently produce our product candidates in conformance with current good manufacturing practices, or cGMP, and other regulatory standards. Clinical trial results are frequently susceptible to varying interpretations and regulatory authorities may disagree on what are appropriate methods for analyzing data, which may delay, limit or prevent regulatory approvals. For instance, despite positive nonclinical testing that indicated bioequivalence between ANX-514 and the reference product, Taxotere, Study 514-01 did not demonstrate pharmacokinetic equivalence between ANX-514 and Taxotere, the primary endpoint of Study 514-01, based on the FDA s benchmark regulatory standards. In February 2011, we announced that the FDA

determined ANX-514 could not be approved based on the findings from Study 514-01. In October 2011, we met with the FDA and reached agreement that our proposed Study 514-02 would generate sufficient additional clinical data to support approval of ANX-514 without requiring corticosteroid premedication. However, the FDA s requirements for development activities beyond Study 514-01 will significantly increase the time and cost associated with regulatory approval of ANX-514 relative to our previously planned regulatory approval pathway for ANX-514. In addition, the FDA may inquire regarding the manufacturing source, in-process and product release specifications and overall uniformity of reference product used in Study 514-01, particularly since it was conducted at sites in multiple countries, and we may be unable to provide documentation satisfactory to the FDA with respect to such reference product, which may result in the FDA

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requiring that we evaluate additional patients, re-perform the bioequivalence study, conduct clinical studies or take other remedial measures. Further, the form of API used in the manufacture of ANX-514 for purposes of Study 514-01 will not be the same form of API used in the manufacture of ANX-514 for purposes of the planned non-inferiority study of ANX-514 or for process validation batches or commercial supply. To ensure the comparability of the ANX-514 used in Study 514-01 and the ANX-514 intended for use in the planned non-inferiority study and commercial sale, the FDA may require that we evaluate each form of ANX-514 in additional patients, conduct other clinical studies or take other remedial actions. We may have insufficient quantities of each form of ANX-514 and could incur substantial cost and delay in acquiring such quantities, in addition to the time and expense associated with conducting the evaluation, conducting other clinical studies or taking other remedial measures. Furthermore, we have licensed to a third party certain rights to ANX-514 in South Korea and have limited control over any nonclinical testing or clinical studies such third party, or a future third-party licensee, may conduct. If data from investigations of ANX-514 sponsored by a third-party licensee identify a safety or efficacy concern with respect to ANX-514, or the lack of comparable pharmacokinetics between ANX-514 and Taxotere, such data could have an adverse effect on the U.S. regulatory process.

There is a significant risk that any of our product candidates could fail to show anticipated results in human trials, as was the case in our bioequivalence study of ANX-514, or manufacturing development, and, as a result, we may not continue their development. A failure to obtain requisite regulatory approvals or to obtain approvals of the scope requested will delay or preclude us from marketing our products or limit the commercial use of the products, and would have a material adverse effect on our business, financial condition and results of operations.

We currently have no sales or marketing capability and our failure to acquire or develop these and related capabilities internally or contract with third parties to perform these activities successfully could delay and/or limit our ability to generate revenues in the event one or more of our product candidates obtains regulatory approval.

We currently do not have sales, marketing or other commercialization personnel. To commercialize our products, we will have to acquire or develop marketing, distribution and sales capabilities and associated regulatory compliance capabilities, or rely on marketing partners or other arrangements with third parties for the marketing, distribution and sale of our products. There is no guarantee that we will be able to establish marketing, distribution or sales capabilities or make arrangements with third parties to perform those activities on terms satisfactory to us, or at all, or that any internal capabilities or third-party arrangements will be cost-effective. The acquisition or development of commercialization and associated regulatory compliance capabilities likely will require substantial financial and other resources and divert the attention of our management and key personnel, and, if not completed on time, could delay the launch of a product candidate and otherwise negatively impact our product development and commercialization efforts.

To the extent we establish marketing, distribution or sales arrangements with any third parties, those third parties may hold significant control over important aspects of the commercialization of our products, including market identification, marketing methods, pricing, composition of sales force and promotional activities. Even if we are successful in establishing and maintaining these arrangements, there can be no assurance that we will be able to control the amount and timing of resources that any third party may devote to our products or prevent any third party from pursuing alternative technologies or products that could result in the development of products that compete with, or the withdrawal of support for, our products. If we retain third-party service providers to perform functions related to the marketing, distribution and sale of our products, key aspects of those functions that may be out of our direct control could include warehousing and inventory management, distribution, contract administration and chargeback processing, accounts receivable management and call center management. In this event, we would place substantial reliance on third-party providers to perform services for us, including entrusting our inventories of products to their care and handling. If these third-party service providers fail to comply with applicable laws and regulations, fail to meet expected deadlines, or otherwise do not carry out their contractual duties to us, or encounter natural or other disasters at their facilities, our ability to deliver product to meet commercial demand could be significantly impaired. In addition, we may use third parties to perform various other services for us relating to sample accountability and regulatory monitoring, including adverse event reporting, safety database management and other product maintenance services. If the quality or accuracy of the data maintained by these service providers is insufficient, our ability to continue to market our products could be jeopardized or we could be subject to regulatory sanctions.

If any of our product candidates for which we receive regulatory approval do not achieve broad market acceptance (including as a result of our inability to differentiate our products from competitor products or promote any such differences or as a result of failing to obtain reimbursement rates for our products that make our products competitive from the healthcare provider s perspective), the revenues we generate from their sales will be limited and our business may not be profitable.

Our success will depend in substantial part on the extent to which our products for which we obtain marketing approval from the FDA and comparable foreign regulatory authorities are accepted by the medical community and reimbursed by third-party payors, including government payors. The degree of market acceptance with respect to each of our products, if approved, will depend upon a number of factors, including, among other things:

our product s perceived advantages over existing treatment methods (including the incidence and severity of any adverse side effects);

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the establishment and demonstration in the medical community of the safety and efficacy of our product and our ability to provide acceptable evidence of safety and efficacy;

claims or other information (including limitations or warnings) in our product s approved labeling;

the resources we devote to marketing our product and restrictions on promotional claims we can make with respect to the product;

reimbursement and coverage policies of government and other third-party payors;

pricing and cost-effectiveness;

availability of alternative treatments; and

the prevalence of off-label substitution of chemically equivalent products or alternative treatments.

We cannot predict whether physicians, patients, healthcare insurers or maintenance organizations, or the medical community in general, will accept or utilize any of our products. If our products are approved but do not achieve an adequate level of acceptance by these parties, we may not generate sufficient revenues from these products to become or remain profitable. In addition, our efforts to educate the medical community and third-party payors regarding the benefits, if any, of our products may require significant resources and may never be successful.

If we, or a future partner or licensee, fail to obtain a unique Healthcare Common Procedure Coding System, or HCPCS, product code for any of our approved products, we, or our partner or licensee, may be unable to sell those products at a price that exceeds their respective manufacturing, marketing and distribution costs. Even if we, or our partner or licensee, obtain unique HCPCS product codes for one or more of our approved products, if they are perceived to provide little or no advantage relative to competing products or for other reasons, we, or our partner or licensee, as applicable, may be required to price those products at levels that do not cover the costs to manufacture, market and distribute the products or provide any profit, or to price those products at levels at which they are not competitive. For instance, even if Study 514-02 demonstrates that ANX-514 can be administered safely without corticosteroid premedication, and the FDA approves ANX-514 without requiring a high-dose corticosteroid premedication regimen, the medical community and/or third-party payors may not perceive the avoidance of high-dose corticosteroid premedication as a meaningful benefit to patients, which likely would negatively impact adoption of, and the price that we could charge for, ANX-514.

There can be no assurance that, in the future, we will continue to develop or seek regulatory approval for our current lead product candidates as quickly as possible, or at all. Additionally, in the future, we may reduce our expenditures on the development and/or the process of seeking regulatory approval of these product candidates while we evaluate whether and on what timeline to move the programs forward. For example, in September 2011, following receipt of a complete response letter from the FDA regarding our Exelbine NDA, we discontinued making significant additional capital investments into the Exelbine program and are seeking a partner or outside investor for the program. In the future, we may devote our resources to identifying, acquiring and developing new product candidates. In such event, we will have significant flexibility in determining which new product candidates to pursue. Stockholders will be required to rely on the judgment of our management and our board of directors in this regard and may have limited or no opportunity to evaluate potential new product candidates, including the terms of their acquisition, the costs of their future development and their commercial potential.

We do not have manufacturing capabilities and are dependent on third parties to conduct manufacturing process development activities and to provide us with materials for clinical trials and, if any of our products are approved, commercial product, and the loss of any of these manufacturers, or their failure to provide to us with an adequate supply of our product candidates in a timely manner and on commercially acceptable terms, or at all, could harm our business.

We do not have any manufacturing capability and, currently, do not have any long-term development or supply agreements, whether for clinical or commercial purposes, with any third-party manufacturer or component supplier and we may not be able to establish these relationships in a timely manner or on commercially acceptable terms, or at all. If we fail to establish and maintain such relationships, we may not be able to complete development of our product candidates or market our products, if approved, on a timely basis, or at all, which would have a material

and adverse effect on our business. Even if we successfully establish these relationships with third-party manufacturers and component suppliers on commercially acceptable terms, our manufacturers and suppliers may not perform as agreed or may terminate their agreements with us. Because many of our suppliers provide manufacturing services to a number of other pharmaceutical companies, our suppliers may experience capacity constraints or choose to prioritize one or more of their other customers over us. Any significant problem that our manufacturers or suppliers experience could delay or interrupt the supply to us of clinical trial materials or commercial products until the manufacturer or supplier cures the problem or until we locate, negotiate for and validate an alternative source of supply, if an alternative source is available. Currently, we do not anticipate engaging alternative sources to backup our primary sources of clinical trial materials or commercial products. Therefore, if our primary sources become unable or unwilling to perform, we could experience protracted delays or interruptions in the supply of our product candidates for our clinical trials and, ultimately, for commercial sale, which could materially and adversely affect our development programs and commercial activities and operations.

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In addition to supplying product candidates for our planned clinical trials, we rely on third-parties to conduct key manufacturing development activities, including qualification of equipment, developing and validating methods, defining critical process parameters, releasing component materials and conducting stability testing, among other things. If these third parties are unable to perform successfully in a timely manner, whether for technical, financial or other reasons, we may be unable to secure material for our clinical trials, which likely would delay the initiation, conduct or completion of our clinical trials, which likely would have a material and adverse effect on our business.

Further, there may be a limited number of third-party manufacturers with the technical capabilities and desire to perform the development and supply services that we require. For instance, ANX-188 is a purified form of commercial-grade poloxamer 188 that is produced through a proprietary supercritical fluid extraction, or SCFE, process. SCFE is complex and requires highly specialized equipment and there are a limited number of CMOs capable and willing to perform SCFE as we require, which will make identifying and establishing relationships with CMOs more difficult and may provide them with substantial leverage over us in any negotiations. In addition, although commercial-grade poloxamer 188 is widely available, it generally is manufactured to cGMP requirements applicable to excipients, rather than cGMP requirements applicable to API. If the FDA or other regulatory agencies require the ANX-188 active ingredient starting material to be manufactured consistent with cGMP requirements applicable to API, we likely would engage a CMO to manufacture the ANX-188 active ingredient starting material, which would add significant additional cost to the development and commercialization of ANX-188 and likely would adversely affect our ability to develop ANX-188 on a timely and competitive basis, if we are able to find a CMO capable and willing to conduct such activities at all.

All manufacturers of our clinical and commercial products and product candidates, as well as the manufacturers of the active ingredients included in our products and product candidates, must comply with cGMP requirements enforced by the FDA through its facilities inspection program, as well as applicable requirements of foreign regulatory authorities. These requirements include quality control, quality assurance and the maintenance of records and documentation. Manufacturers of our products and product candidates may be unable to comply with these cGMP requirements and with other FDA, state and foreign regulatory requirements. While we or our representatives generally monitor and audit our manufacturers systems, we have little control over our manufacturers ongoing compliance with these regulations and standards. A failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval.

Furthermore, the manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, particularly in scaling-up initial production. These problems include difficulties with production costs and yields, quality control, including stability of the product candidate and quality assurance testing, and shortages of qualified personnel.

If our manufacturers encounter any of these difficulties or otherwise fail to comply with their contractual obligations, our ability to provide sufficient quantities of our product candidates for our planned and any future clinical trials or to meet commercial demand may be jeopardized. In addition, any delay or interruption in the supply of supplies necessary or useful to manufacture our product candidates could delay the completion of our planned and any future clinical trials, increase the costs associated with maintaining our development programs and, depending upon the period of delay, require us to commence new trials at significant additional expense or terminate the trials completely. We cannot ensure that manufacturing or quality control problems will not arise in connection with the manufacture of our products or product candidates, or that third-party manufacturers will be able to maintain the necessary governmental licenses and approvals to continue manufacturing such products or product candidates. Any of the above factors could cause us to delay or suspend anticipated or on-going trials, regulatory submissions, required approvals or commercialization of our product candidates, entail higher costs or result in our being unable to effectively commercialize our products. Our dependence upon third parties for the manufacture of our products and product candidates may adversely affect our future costs and our ability to develop and commercialize our products and product candidates on a timely and competitive basis.

If any of our product candidates should be approved, any problems or delays experienced in their manufacturing processes may impair our ability to provide commercial quantities of the products, which would limit our ability to sell the products and adversely affect our business. It could take significant time to redesign our manufacturing processes or identify alternative suppliers in response to problems we may encounter as we manufacture our products, if such alternative processes and suppliers are available at all. Even if we are able to identify alternative suppliers, they may be unwilling to manufacture our products on commercially reasonable terms. None of our product candidates have been manufactured at the scales we believe will be necessary to maximize their commercial value and, accordingly, we or a future partner of ours may encounter difficulties in production while scaling-up initial production and may not succeed in scaling-up initial production.

Any new supplier of products or component materials, including API, would be required to qualify under applicable regulatory requirements and would need to have sufficient rights under applicable intellectual property laws to the method of manufacturing such products or ingredients. The FDA may require us to conduct additional clinical trials, collect stability data and provide additional information concerning any new supplier, or change in a validated manufacturing process, before we could distribute products from that supplier or revised process. For example, if FDA requires substantial stability or other data from the new manufacturer, which data will take time and is costly to generate, it could cause

interruptions in our ability to meet commercial

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demand, if any. In addition, obtaining the necessary FDA approvals or other qualifications under applicable regulatory requirements and ensuring non-infringement of third-party intellectual property rights could result in a significant interruption of supply and require the new supplier to bear significant additional costs, which may be passed on to us.

We rely significantly on third parties to conduct our nonclinical testing and clinical studies and other aspects of our development programs and if those third parties do not satisfactorily perform their contractual obligations or meet anticipated deadlines, the development of our product candidates could be adversely affected.

We do not employ personnel or possess the facilities necessary to conduct many of the activities associated with our programs. We engage consultants, advisors, CROs, CMOs, clinical investigators and others to design, conduct, analyze and interpret the results of nonclinical tests and clinical studies in connection with the research and development of our product candidates, and we expect to continue to outsource to a significant degree such activities. As a result, many important aspects of our product candidates development are and will continue to be outside our direct control. For instance, we lacked the internal capabilities to fully analyze the data from our bioequivalence study of ANX-514 and relied on multiple third-party consultants to help us interpret and understand the data. Because of the impact different analyses of the data may have on our business, an employee may have approached the data and analysis in a substantially more rigorous, thoughtful and creative manner than a consultant or contractor. There can be no assurance that such third parties will perform all of their obligations under arrangements with us or will perform those obligations satisfactorily.

The CROs with which we contract for execution of our clinical studies play a significant role in the conduct of the studies and subsequent collection and analysis of data, and we likely will depend on these and other CROs and clinical investigators to conduct any future clinical studies or assist with our analysis of completed studies and to develop corresponding regulatory strategies. Individuals working at the CROs with which we contract, as well as investigators at the sites at which our studies are conducted, are not our employees, and we cannot control the amount or timing of resources that they devote to our programs. If these CROs and/or investigators fail to devote sufficient time and resources to our studies, if they do not comply with all regulatory and contractual requirements or if their performance is substandard, it will delay the approval of our applications to regulatory agencies and the introduction of our products. Moreover, these CROs may have relationships with other commercial entities, some of which may compete with us. If they assist our competitors at our expense, it could harm our competitive position. Failure of these CROs to meet their obligations could adversely affect development of our product candidates. For example, in 2006, we engaged a CRO to assist with the primary conduct of our bioequivalence study of Exelbine, including monitoring participating clinical sites to ensure compliance with regulatory requirements. FDA guidance recommends that clinical sites randomly select and retain reserve samples of study drugs used in bioequivalence studies. However, the clinical sites that participated in our bioequivalence study of Exelbine failed to do so. In August 2011, we received a complete response letter from the FDA stating that the authenticity of the study drugs used in Study 530-01 could not be verified and, consequently, the bioequivalence study would need to be repeated to address that deficiency.

Even if we receive regulatory approval for one or more of our emulsion-formulation product candidates, we may face competition from generic products and other reformulations, which could exert downward pressure on the pricing and market share of our products and limit our ability to generate revenues.

The currently marketed reference products against which our emulsion-formulation product candidates would compete are available as generics. For instance, ANX-514 would compete against Taxotere, for which generic equivalents may soon be and reformulations currently are available in the U.S. Even if we obtain a unique HCPCS product code for our products, the existence of generic products could make it more difficult for our branded products to gain or maintain market share and could cause prices for our products to drop, potentially below our cost of goods, which could adversely affect our business.

Even if we receive regulatory approval for one or more of our product candidates, we may face competition for our products from lower priced products from foreign countries that have placed price controls on pharmaceutical products.

Proposed federal legislative changes may expand consumers ability to import lower priced versions of our and competing products from Canada. Further, several states and local governments have implemented importation schemes for their citizens, and, in the absence of federal action to curtail such activities, it is possible other states and local governments to launch importation efforts. The importation of foreign products that compete with our own products could negatively impact our business and prospects.

Even if we receive regulatory approval for one or more of our product candidates, they may still face future development and regulatory difficulties that could materially and adversely affect our business, financial condition and results of operations and cause our stock price to decline.

Even if initial regulatory approval is obtained, the FDA or a foreign regulatory agency may still impose significant restrictions on a product s indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies or marketing surveillance programs. Our product candidates will also be subject to ongoing FDA requirements related to the labeling, packaging, storage, distribution, advertising, promotion, record-keeping and submission of safety and other post-market information regarding the product. For instance, the FDA may require changes to approved drug labels, require post-approval clinical trials and impose distribution and use restrictions on certain drug products. In addition, approved products, manufacturers and manufacturers facilities are subject to continuing regulatory review and periodic inspections. If previously unknown problems with a product are

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discovered, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, the FDA may impose restrictions on that product or us, including requiring withdrawal of the product from the market. If we or a CMO of ours fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters or untitled letters;
- impose civil or criminal penalties;
- suspend or withdraw regulatory approval;
- suspend or terminate any ongoing clinical trials;
- refuse to approve pending applications or supplements to approved applications;
- exclude our product from reimbursement under government healthcare programs, including Medicaid or Medicare;
- impose restrictions or affirmative obligations on our or our CMO s operations, including costly new manufacturing requirements;
- close the facilities of a CMO; or
- seize or detain products or require a product recall.

Even if we receive regulatory approval to market one or more of our product candidates in the U.S., we may never receive approval or commercialize our products outside of the U.S., which would limit our ability to realize the full commercial potential of our product candidates.

In order to market any products outside of the U.S., we must establish and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. The time required to obtain approval in other countries might differ from that required to obtain FDA approval. In particular, other countries may not have a comparable regulatory procedure as is available under Section 505(b)(2) of FDCA. Even if a country did have a comparable procedure, that country may require a more robust data package than the FDA. The regulatory approval process in other countries may include all of the risks detailed above regarding FDA approval in the U.S., as well as other risks. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval could have the same adverse effects detailed above regarding FDA approval in the U.S. As described above, such effects include the risks that our product candidates may not be approved for all indications requested, which could limit the uses of our product candidates and have an adverse effect on product sales, and that such approval may be subject to limitations on the indicated uses for which the product may be marketed or require costly, post-marketing follow-up studies.

Our product candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval or commercialization.

Undesirable side effects caused by our product candidates could interrupt, delay or halt clinical trials and could result in the denial of regulatory approval by the FDA or other regulatory authorities for any or all indications, and in turn prevent us from commercializing our product candidates and generating revenues from their sale. For example, in a phase 3 study of ANX-188 conducted by a prior sponsor, a modest but

statistically significant increase in levels of alanine aminotrasferase and direct bilirubin was observed. If in our planned phase 3 clinical trial of ANX-188 we observe more pronounced increases in these or other levels, or we observe other previously unidentified adverse events, whether or not statistically significant, we may be required to conduct additional clinical trials of ANX-188 or ANX-188 may not receive regulatory approval. In addition, if in our planned phase 3 clinical trial of ANX-514 we observe adverse events, including as a result of eliminating corticosteroid premedication, we may be required to conduct additional clinical trials of ANX-514 or ANX-514 may not receive regulatory approval.

If any of our product candidates receive marketing approval and we or others later identify undesirable side effects caused by the product or the reference product:

regulatory authorities may require the addition of labeling statements, such as a black box warning or a contraindication;

regulatory authorities may withdraw their approval of the product;

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- we may be required to change the way the product is administered, conduct additional clinical trials or change the labeling of the product; and

- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product or could substantially increase the costs and expenses of commercializing the product, which in turn could delay or prevent us from generating significant revenues from its sale.

Risks Related to Our Intellectual Property

Our success will depend on patents and other protection we obtain on our product candidates and proprietary technology.

Our success will depend in part on our ability to:

- obtain and maintain patent and other exclusivity with respect to our products;

- prevent third parties from infringing upon our proprietary rights;

- maintain trade secrets;

- operate without infringing upon the patents and proprietary rights of others; and

- obtain appropriate licenses to patents or proprietary rights held by third parties if infringement would otherwise occur, both in the U.S. and in foreign countries.

The patent and intellectual property positions of specialty pharmaceutical companies, including ours, are uncertain and involve complex legal and factual questions. There is no guarantee that we have or will develop or obtain the rights to products or processes that are patentable, that patents will issue from any pending applications or that claims allowed will be sufficient to protect the technology we develop or have developed or that is used by us, our CMOs or our other service providers. In addition, we cannot be certain that patents issued to us will not be challenged, invalidated, infringed or circumvented, including by our competitors, or that the rights granted thereunder will provide competitive advantages to us.

Furthermore, patent applications in the U.S. are confidential for a period of time until they are published, and publication of discoveries in scientific or patent literature typically lags actual discoveries by several months. As a result, we cannot be certain that the inventors listed in any patent or patent application owned by us were the first to conceive of the inventions covered by such patents and patent applications or that such inventors were the first to file patent applications for such inventions.

We also may rely on unpatented trade secrets and know-how and continuing technological innovation to develop and maintain our competitive position, which we seek to protect, in part, by confidentiality agreements with employees, consultants, collaborators and others. We also have invention or patent assignment agreements with our employees and certain consultants. There can be no assurance, however, that binding agreements will not be breached, that we will have adequate remedies for any breach, or that trade secrets will not otherwise become known or be independently discovered by competitors. In addition, there can be no assurance that inventions relevant to us will not be developed by a person not bound by an invention assignment agreement with us.

With respect to ANX-188 for the treatment of sickle cell crisis, we acquired exclusive rights to a variety of issued patents that cover, among other things, poloxamer 188, purified poloxamer 188, methods of treating sickle cell anemia using poloxamer 188 and methods of preparing purified poloxamer 188. However, we expect many of the patents covering ANX-188 for the treatment of sickle cell crisis will expire prior to regulatory approval of ANX-188 for that indication. For exclusivity, we expect to rely primarily on the orphan drug designation that the FDA has granted for poloxamer 188 for the treatment of sickle cell crisis. However, the orphan drug designation does not convey any advantage in, or

shorten the duration of, the regulatory review or approval process. ANX-188 would not receive the seven-year orphan drug marketing exclusivity if it is not the first to obtain FDA marketing approval. In addition, orphan drug exclusive marketing rights may be lost if the FDA later determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug. Furthermore, if the FDA later determines another drug or biologic for the treatment of sickle cell crisis to be clinically superior to or different from ANX-188, the FDA may approve such other product candidate for marketing during ANX-188 s seven year exclusive marketing period.

Patent protection for our emulsion-formulation product candidates may be difficult to obtain and any issued claims may be limited because of the nature of patent protection available for these candidates.

Our formulations consist of common excipients that emulsify the underlying chemical entity. We believe the specific combinations of excipients in our formulations are not obvious and that many of the properties that the resulting formulations exhibit are surprising. However, there is substantial prior art involving the emulsification of drugs and a patent examiner may combine numerous disparate references in order to reject our formulations for obviousness. A patent examiner could also determine that, even without combining references, the prior art taught the specific combination of excipients in our formulations or that, for other reasons, such combination was obvious. If our formulations are deemed obvious, the invention would not be patentable.

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In addition, while the patent applications and issued patents covering our emulsion-formulation product candidates, including Exelbine and ANX-514, include product claims, they cover only specific formulations of the API, and not the API itself. Such product claims are not as strong as claims covering APIs, which are widely viewed as the strongest form of intellectual property protection for pharmaceutical products, as they apply without regard to how the API is formulated or the method in which the API is used. A competitor may modify our formulations and obtain regulatory approval for products with largely the same formulation as our products. Such competitive products may not infringe any patents we may hold in the future covering our specific formulation of the API.

If we are sued for infringing the proprietary rights of third parties, it will be costly and time consuming, and an unfavorable outcome would have an adverse effect on our business.

Our commercial success depends on our ability and the ability of our CMOs and component suppliers to develop, manufacture, market and sell our products and product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we are or may be developing products. As the biotechnology and pharmaceutical industry expands and more patents are issued, the risk increases that we will be subject to claims that our products or product candidates, or their use, infringe the rights of others. Because patent applications can take many years to publish and issue, there currently may be pending applications, unknown to us, that may later result in issued patents that our products, product candidates or technologies infringe, or that the process of manufacturing our products or any of their respective component materials, or the component materials themselves, infringe, or that the use of our products, product candidates or technologies infringe.

We or our CMOs or component material suppliers may be exposed to, or threatened with, future litigation by third parties having patent or other intellectual property rights alleging that our products, product candidates and/or technologies infringe their intellectual property rights or that the process of manufacturing our products or any of their respective component materials, or the component materials themselves, or the use of our products, product candidates or technologies, infringe their intellectual property rights. If one of these patents was found to cover our products, product candidates, technologies or their uses, or any of the underlying manufacturing processes or components, we could be required to pay damages and could be unable to commercialize our products or use our technologies or methods unless we are able to obtain a license to the patent or intellectual property right. A license may not be available to us in a timely manner or on acceptable terms, if at all. In addition, during litigation, a patent holder could obtain a preliminary injunction or other equitable remedy that could prohibit us from making, using or selling our products, technologies or methods.

There is a substantial amount of litigation involving patent and other intellectual property rights in the biotechnology and pharmaceutical industries generally. If a third party claims that we or our CMOs or component material suppliers infringe its intellectual property rights, we may face a number of issues, including, but not limited to:

- infringement and other intellectual property claims which, with or without merit, may be expensive and time consuming to litigate and may divert our management s attention from our core business;
- substantial damages for infringement, including the potential for treble damages and attorneys fees, which we may have to pay if a court decides that the product at issue infringes or violates the third party s rights;
- a court prohibiting us from selling or licensing the product unless the third party licenses its product rights to us, which it may not be required to do;
- if a license is available from the third party, we may have to pay substantial royalties, fees and/or grant cross-licenses to our products; and
- redesigning our products or processes so they do not infringe, which may not be possible or may require substantial expense and time.

No assurance can be given that patents do not exist, have not been filed, or could not be filed or issued, which contain claims covering our products, product candidates or technology or those of our CMOs or component material suppliers or the use of our products, product candidates

or technologies. Because of the number of patents issued and patent applications filed in the pharmaceutical industry, we believe there is a risk that third parties may allege they have patent rights encompassing our products, product candidates or technologies, or those of our CMOs or component material suppliers, or uses of our products, product candidates or technologies.

In addition, it may be necessary for us to enforce patents under which we have rights, or to determine the scope, validity and unenforceability of other parties proprietary rights, which may affect our rights. There can be no assurance that our patents would be

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held valid by a court or administrative body or that an alleged infringer would be found to be infringing. The uncertainty resulting from the mere institution and continuation of any patent related litigation or interference proceeding could have a material and adverse effect on us.

RISKS RELATED TO OUR INDUSTRY

We expect intense competition in the marketplace for each of our products, if any of our product candidates are approved.

The industry in which we operate is highly competitive and rapidly changing. If successfully developed and approved, our products will likely compete with existing and new products and therapies and our competitors may succeed in commercializing products more rapidly or effectively than us, which would have a material and adverse effect on our ability to generate revenues from product sales. In addition, there are numerous companies with a focus in oncology and/or that are pursuing the development of pharmaceuticals that target the same diseases as are targeted by the products that we currently are, or in the future may be, developing or that focus on reformulating currently approved drugs. We anticipate that we will face intense and increasing competition in the future as new products enter the market and new technologies become available. Existing products or new products developed by competitors may be more effective, or more effectively marketed and sold, than those we may market and sell. Competitive products may render our products and product candidates obsolete or noncompetitive.

ANX-514 and Exelbine, if approved, would compete against Taxotere and Navelbine, respectively, as well as their generic equivalents and other formulations of docetaxel and vinorelbine. In addition to Navelbine, in the U.S., currently there are seven commercially available generic versions of vinorelbine. In addition, there is an oral formulation of vinorelbine approved for use in the EU against which Exelbine would compete if Exelbine were approved for use in the EU. With respect to docetaxel, four non-Taxotere formulations of docetaxel have been approved under NDAs by the FDA. In addition, generic versions of Taxotere may soon be commercially available.

If our emulsion-formulation product candidates receive regulatory approval based on bioequivalence to their currently marketed reference products, our ability to differentiate them from competing products will be limited. Even if we believe they demonstrate clinical, pharmacoeconomic or other benefits relative to competing products, we may be unable to market or promote them based on these benefits. If our products do not receive unique HCPCS product codes, we may be required to price our products at levels that do not cover our costs to manufacture, market and distribute the products or provide any profit, or to price our products at levels at which they are not competitive.

In addition, numerous companies are focused on reformulating currently approved chemotherapeutic agents. In particular, the taxanes, the class of drugs of which Taxotere is a member, have experienced substantial commercial success, in part as a result of their effectiveness in treating a wide variety of cancers, which has generated significant interest in reformulating Taxotere and other taxanes. For instance, in 2010, the FDA approved Jevtana® for treatment of patients with hormone-refractory metastatic prostate cancer previously treated with a docetaxel-containing treatment regimen. The active ingredient of Jevtana is cabazitaxel, an antineoplastic agent belonging to the taxane class. In addition to our approach of emulsifying docetaxel, other companies may be pursuing alternative delivery vehicles, including the use of albumin nanoparticles, prodrugs, polyglutamates, analogs, co-solvents, liposomes and microspheres. Many of these or similar approaches could be applied to vinorelbine. Relative to our formulations, formulations based on one or more of these other methods may result in greater efficacy or safety, provide better drug delivery to tumor sites or otherwise increase benefits to patients and healthcare providers.

With respect to competition for ANX-188 for the treatment of sickle cell crisis, we are aware of numerous companies with product candidates in varying stages of development for the treatment of sickle cell crisis. In addition, we expect advances in the understanding of the signaling pathways associated with sickle cell disease to lead to further interest and development of treatment options. More broadly, ANX-188, if approved for the treatment of sickle cell crisis, would compete against agents designed to treat sickle cell disease, of which sickle cell crisis is a condition. Hydroxyurea, a form of chemotherapy used for myeloproliferative disease, has been shown to decrease the severity of sickle cell disease by reducing the frequency of crisis. Blood transfusions also are used to treat sickle cell disease. Bone marrow and stem cell transplantation have also been shown to be effective to treat and, in some cases, cure sickle cell disease. In addition, there is increasing interest in developing drugs for rare diseases, which may have the effect of increasing the development of agents to treat sickle cell disease generally or sickle cell crisis in particular. GlaxoSmithKline and Pfizer each have a unit focused on rare diseases. Legislative action, such as the potential to expand the priority review voucher system to rare pediatric diseases, may further generate interest. If an effective treatment or cure for sickle cell disease or sickle cell crisis receives regulatory approval, the commercial success of ANX-188, if approved, could be severely jeopardized.

Companies likely to have products that will compete with our product candidates have significantly greater financial, technical and human resources than we do, and are better equipped to develop, manufacture, market and distribute products. Many of these companies have extensive experience in nonclinical testing and clinical trials, obtaining FDA and other regulatory approvals and manufacturing and marketing products, have products that have been approved or are in late-stage development, and operate large, well-funded research, development and commercialization programs.

Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large

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pharmaceutical and biotechnology companies. Furthermore, academic institutions, government agencies and other public and private research organizations are becoming increasingly aware of the commercial value of their inventions and are actively seeking to commercialize the technologies they have developed.

We are subject to uncertainty relating to healthcare reform measures and reimbursement policies that, if not favorable to our products, could hinder or prevent our products commercial success, if any of our product candidates are approved.

Our ability to commercialize our products successfully will depend in part on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payors. Significant uncertainty exists as to the reimbursement status of newly approved medical products. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare may adversely affect:

- our ability to set a price we believe is fair for our products;
- our ability to generate revenues or achieve or maintain profitability;
- the future revenues and profitability of our potential customers, suppliers and collaborators; and
- the availability to us of capital.

Our ability to successfully commercialize our product candidates will depend in part on the extent to which governmental authorities, private health insurers and other organizations establish what we believe are appropriate coverage and reimbursement levels for the cost of our products. These payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement, particularly for new therapeutic products or if there is a perception that the target indication of the new product is well-served by existing drugs or other treatments. Accordingly, even if coverage and reimbursement are provided, market acceptance of our products would be adversely affected if the amount of coverage and/or reimbursement rates for the use of our products proved to be unprofitable for healthcare providers or less profitable than alternative treatments.

There have been federal and state proposals to subject the pricing of healthcare goods and services to government control and to make other changes to the U.S. healthcare system. While we cannot predict the outcome of current or future legislation, we anticipate, particularly given the passage in 2010 of the Patient Protection and Affordable Care Act, that Congress and state legislatures will introduce initiatives directed at lowering the total cost of healthcare. In addition, in certain foreign markets, the pricing of drug products is subject to government control and reimbursement may in some cases be unavailable or insufficient. It is uncertain if future legislative proposals, whether domestic or abroad, will be adopted that might affect our products or product candidates or what actions federal, state, or private payors for healthcare treatment and services may take in response to any such healthcare reform proposals or legislation. Any such healthcare reforms could have a material and adverse effect on the marketability of any products for which we ultimately receive FDA or other regulatory agency approval.

We face potential product liability exposure and, if successful claims are brought against us, we may incur substantial liability for a product or product candidate and may have to limit its commercialization. In the future, we anticipate that we will need to obtain additional or increased product liability insurance coverage and it is uncertain that such increased or additional insurance coverage can be obtained on commercially reasonable terms, if at all.

Our business (in particular, the use of our product candidates in clinical trials and the sale of any products for which we obtain marketing approval) will expose us to product liability risks. Product liability claims might be brought against us by patients, healthcare providers, pharmaceutical companies or others selling our products. If we cannot successfully defend ourselves against any such claims, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

decreased demand for our products;

impairment of our business reputation;

withdrawal of clinical trial participants;

costs of related litigation;

substantial monetary awards to patients or other claimants;

loss of revenues; and

the inability to commercialize our products and product candidates.

We maintain limited product liability insurance for our clinical trials, but our insurance coverage may not reimburse us or

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may not be sufficient to reimburse us for all expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses.

We expect that we would expand our insurance coverage to include the sale of commercial products if we obtain marketing approval of any of our product candidates, but we may be unable to obtain product liability insurance on commercially acceptable terms or may not be able to maintain such insurance at a reasonable cost or in sufficient amounts to protect us against potential losses. Large judgments have been awarded in class action lawsuits based on drug products that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to fall and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

RISKS RELATED TO OUR COMMON STOCK

If we are unable to maintain compliance with NYSE Amex continued listing standards, we may be delisted from the NYSE Amex equities market, which would likely cause the liquidity and market price of our common stock to decline.

Our common stock currently is listed on the NYSE Amex equities market. The NYSE Amex normally will consider suspending dealings in, or removing from the list, securities of an issuer that has stockholders equity of less than $6.0 million if such issuer has sustained losses from continuing operations and/or net losses in its five most recent fiscal years. In addition, the NYSE Amex will normally consider suspending dealings in, or removing from the list, securities selling for a substantial period of time at a low price per share if the issuer fails to effect a reverse split of such stock within a reasonable time after being notified that the NYSE Amex deems such action to be appropriate under the circumstances.

Previously, we were not in compliance with certain NYSE Amex stockholders equity continued listing standards. Specifically, we were not in compliance with (1) Section 1003(a)(ii) of the NYSE Amex Company Guide, or the Company Guide, because we reported stockholders equity of less than $4,000,000 and losses from continuing operations and net losses in three of our four most recent fiscal years, or (2) Section 1003(a)(iii) of the Company Guide, because we reported stockholders equity of less than $6,000,000 and losses from continuing operations and net losses in our five most recent fiscal years. In addition, we were notified, in accordance with Section 1003(f)(v) of the Company Guide, that the NYSE Amex determined it was appropriate for us to effect a reverse stock split of our common stock to address our low selling price per share.

In April 2010, we announced that we had resolved the stockholders equity continued listing deficiencies and we implemented a 1-for-25 reverse split of our common stock, in part to address the NYSE Amex s requirement that we address our low stock price. However, there is no assurance that we will continue to maintain compliance with such standards. For example, we may determine to grow our organization or product pipeline or pursue development or other activities at levels or on timelines that reduces our stockholders equity below the level required to maintain compliance with NYSE Amex continued listing standards. In addition, the market price for our common stock historically has been highly volatile, as more fully described below under the risk titled The market price of our common stock historically has been and likely will continue to be highly volatile, and recently has traded at under $1.00 per share. The NYSE Amex may again determine that the selling price per share of our common stock is low and require that we effect a reverse stock split of our common stock, which would require stockholder approval that we may be unable to obtain. Our failure to maintain compliance with NYSE Amex continued listing standards could result in the delisting of our common stock from the NYSE Amex.

The delisting of our common stock from the NYSE Amex likely would reduce the trading volume and liquidity in our common stock and may lead to decreases in the trading price of our common stock. The delisting of our common stock may also materially impair our stockholders ability to buy and sell shares of our common stock. In addition, the delisting of our common stock could significantly impair our ability to raise capital, which is critical to the execution of our current business strategy.

If our common stock were delisted and determined to be a penny stock, a broker-dealer may find it more difficult to trade our common stock and an investor may find it more difficult to acquire or dispose of our common stock in the secondary market.

If our common stock were removed from listing with the NYSE Amex, it may be subject to the so-called penny stock rules. The SEC has adopted regulations that define a penny stock to be any equity security that has a market price per share of less than $5.00, subject to certain exceptions, such as any securities listed on a national securities exchange. For any transaction involving a penny stock, unless exempt, the rules impose additional sales practice requirements on broker-dealers, subject to certain exceptions. If our common stock were delisted and determined to be a penny stock, a broker-dealer may find it more difficult to trade our common stock and an investor may find it more difficult to acquire or dispose of our common stock on the secondary market.

The market price of our common stock historically has been and likely will continue to be highly volatile.

The market price for our common stock historically has been highly volatile, and the market for our common stock has from time to time experienced significant price and volume fluctuations, based both on our operating performance and for reasons that appear to us unrelated to our operating performance. For instance, on August 10, 2011, the market price for our common stock

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dropped almost 60% following our announcement of our receipt of the complete response letter for our Exelbine NDA, which stated that the FDA could not approve it in its present form. Conversely, the market price for our common stock increased over 66% in a 30-day period in June and July 2011 and more than doubled over two trading days in late December 2009. The market price of our common stock may fluctuate significantly in response to a number of factors, including:

- the level of our financial resources;
- announcements of entry into or consummation of a financing or strategic transaction;
- changes in the regulatory status of our product candidates, including results of any clinical trials and other research and development programs;
- FDA or international regulatory actions and regulatory developments in the U.S. and foreign countries;
- announcements of new products or technologies, commercial relationships or other events (including clinical trial results and regulatory events and actions) by us or our competitors;
- market conditions in the pharmaceutical, biopharmaceutical, specialty pharmaceutical and biotechnology sectors;
- developments concerning intellectual property rights generally or those of us or our competitors;
- changes in securities analysts estimates of our financial performance or deviations in our business and the trading price of our common stock from the estimates of securities analysts;
- events affecting any future collaborations, commercial agreements and grants;
- fluctuations in stock market prices and trading volumes of similar companies;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders or pursuant to shelf or resale registration statements that register shares of our common stock that may be sold by us or certain of our current or future stockholders;
- discussion of us or our stock price by the financial and scientific press and in online investor communities;
- commencement of delisting proceedings by the NYSE Amex;
- additions or departures of key personnel; and

changes in third-party payor reimbursement policies.

As evidenced by the August 10, 2011 decline, the realization of any of the foregoing could have a dramatic and adverse impact on the market price of our common stock. In addition, class action litigation has often been instituted against companies whose securities have experienced substantial decline in market price. Moreover, regulatory entities often undertake investigations of investor transactions in securities that experience volatility following an announcement of a significant event or condition. Any such litigation brought against us or any such investigation involving our investors could result in substantial costs and a diversion of management s attention and resources, which could hurt our business, operating results and financial condition.

Sales of substantial amounts of our common stock or the perception that such sales may occur could cause the market price of our common stock to drop significantly, even if our business is performing well.

The market price of our common stock could decline as a result of sales by, or the perceived possibility of sales by, us or our existing stockholders of shares of our common stock. These sales by our existing stockholders might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate. Currently, we have an effective primary registration statement on Form S-3 under which we may sell and issue more than $85 million of securities, before taking into account the securities being offered by this prospectus supplement. We also have effective resale registration statements on Form S-3 and an effective registration statement on Form S-1 that register a significant number of shares of our common stock and securities convertible into our common stock that may be sold by us or certain of our stockholders, including an effective resale registration statement for up to 16,278,901 shares of our common stock that were issued or may be issued in the future to the selling stockholders named therein in connection with our merger agreement with SynthRx. Collectively, these registration statements may increase the likelihood of sales by, or the perception of an increased likelihood of sales by, us or our existing stockholders of shares of our common stock.

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We currently have voting control with respect to more than 10% of our outstanding common stock and we may obtain voting control over a significant additional amount of our outstanding common stock if we issue the milestone-related shares to the former SynthRx stockholders, and we may determine to cause those shares to be voted in such a manner that does not necessarily coincide with the interests of individual stockholders or particular groups of stockholders.

Pursuant to the voting and transfer restriction agreement between us and each of the former principal stockholders of SynthRx, each stockholder party has agreed to vote all shares of our common stock beneficially owned by that party with respect to every action or approval by written consent of our stockholders in such manner as directed by us, except in limited circumstances, and has executed an irrevocable proxy appointing and authorizing us to vote such shares in such manner. If the development of ANX-188 achieves all of the milestones set forth in our merger agreement with SynthRx without reduction, we will issue an additional 13,478,050 shares of our common stock, representing, in the aggregate (and including the shares issued in connection with the closing of our acquisition of SynthRx) an approximately 41% ownership stake in our company (based on our currently outstanding shares plus shares issued in connection with the acquisition). As a result of such issuances and the voting and transfer restriction agreement, we currently have, and in the future may have even more, significant control over substantially all matters requiring approval by our stockholders, including the election of directors and the approval of certain mergers and other business combination transactions. Even if less than all potential milestone-related shares are issued, our ability to control a potentially significant block of stockholder votes pursuant to the voting and transfer restriction agreement may enable us to substantially affect the outcome of proposals brought before our stockholders. Although our board of directors acts in a manner it believes is in the best interest of our stockholders as a whole, the interests of our stockholders as a whole may not always coincide with the interests of individual stockholders or particular groups of stockholders.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us, which may be beneficial to our stockholders, more difficult, which could depress our stock price. Alternatively, prohibitions on anti-takeover provisions in our charter documents may restrict us from acting in the best interests of our stockholders.

We are incorporated in Delaware. Certain anti-takeover provisions of Delaware law and our charter documents as currently in effect may make a change in control of our company more difficult, even if a change in control would be beneficial to our stockholders. Our bylaws limit who may call a special meeting of stockholders and establish advance notice requirements for nomination of individuals for election to our board of directors or for proposing matters that can be acted upon at stockholders meetings. Delaware law also prohibits corporations from engaging in a business combination with any holders of 15% or more of their capital stock until the holder has held the stock for three years unless, among other possibilities, the board of directors approves the transaction. Our board of directors may use these provisions to prevent changes in the management and control of our company. Also, under applicable Delaware law, our board of directors may adopt additional anti-takeover measures in the future. In addition, provisions of certain compensatory contracts with our management, such as equity award agreements, may have an anti-takeover effect by resulting in accelerated vesting of outstanding equity securities held by our executive officers. In particular, in the event of a change in control, the vesting of options we granted since July 2009 to certain key executives will accelerate with respect to fifty percent of the then unvested shares on the day prior to the date of the change in control and, subject to the respective executive s continuous service, with respect to the remaining fifty percent of the then unvested shares on the one year anniversary of the date of the change in control, and could accelerate in full at the time of the change in control if the acquirer does not assume or substitute for the options. As a result, if an acquirer desired to retain the services of one or both of those executives following an acquisition, it may be required to provide additional incentive to them, which could increase the cost of the acquisition to the acquirer and may deter or affect the terms of the potential acquisition.

In connection with a July 2005 private placement, we agreed with the investors in that transaction that we would not implement certain additional measures that would have an anti-takeover effect. As a result, under our amended and restated certificate of incorporation, we are prohibited from dividing our board of directors into classes and adopting or approving any rights plan, poison pill or other similar plan or device. A classified board of directors could serve to protect our stockholders against unfair treatment in takeover situations, by making it more difficult and time-consuming for a potential acquirer to take control of our board of directors. A company may also adopt a classified board of directors to ensure stability in the board of directors and thereby improve long-term planning, which may benefit stockholders. A poison pill or similar plan or device may encourage potential acquirers to discuss their intentions with the board of directors of a company and avoid the time, expense and distraction of a hostile take-over. Any benefit to us and our stockholders from instituting a classified board or adopting or approving a poison pill or similar plan or device in these and other circumstances is unavailable.

Because we do not expect to pay dividends with respect to our common stock in the foreseeable future, you must rely on stock appreciation for any return on your investment.

We have paid no cash dividends on any of our common stock to date, and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, with respect to our common stock, we do not expect to pay any cash dividends in the foreseeable future, and payment of cash dividends, if any, will also depend on our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Furthermore, we are subject to various laws and regulations that may

restrict our ability to pay dividends and we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends. Due to our intent to retain any future earnings rather than pay cash

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dividends on our common stock and applicable laws, regulations and contractual obligations that may restrict our ability to pay dividends on our common stock, the success of your investment in our common stock will likely depend entirely upon any future appreciation and there is no guarantee that our common stock will appreciate in value.

RISKS RELATED TO THIS OFFERING

Since we have broad discretion in how we use the proceeds from this offering, we may use the proceeds in ways with which you disagree.

Although we describe under the heading Use of Proceeds in this prospectus supplement our currently intended use of the net proceeds from this offering, we cannot estimate the allocation of the net proceeds from this offering among those uses and we reserve the right to change the use of proceeds as a result of certain contingencies, including any future partnering or strategic transaction opportunity with respect to our current product candidates and any future product pipeline expansion opportunity. Accordingly, our management will have significant flexibility in applying the net proceeds from this offering. You will be relying on the judgment of our management and our board of directors with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that the net proceeds will be used in a way that does not improve our operating results or enhance the value of our common stock.

There is no public market for the warrants being offered by this prospectus supplement.

There is no established trading market for the warrants being offered by this prospectus supplement and we do not expect a market to develop. In addition, we do not intend to apply to list the warrants on any securities exchange or automated quotation system. Without an active market, the liquidity of the warrants will be limited.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the other materials we have filed or will file with the SEC contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, statements regarding our business strategy, expectations and plans regarding our product candidates, our objectives for future operations and our future financial position. When used in this prospectus supplement or in the other materials we have filed or will file with the SEC, the words believe, may, could, will, estimate, continue, anticipate, intend, expect, indicate, seek, should or would and similar expressions are intend forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding activities, timing and costs related to developing and seeking regulatory approval for our product candidates, estimated peak annual sales for our product candidates, seeking to partner or collaborate with third parties with respect to the development and commercialization of our product candidates, seeking to partner or find an outside investor for our Exelbine program, the sale or exclusive license of one or more of our product candidate programs, raising additional capital, expanding our product pipeline and our belief that we have sufficient liquidity to fund our currently planned level of operations for at least the next 12 months. The foregoing is not an exclusive list of all forward-looking statements we make.

We have based the forward-looking statements we make on our expectations and projections about future events and trends at the time we make such statements that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. The forward-looking statements we make are subject to risks and uncertainties that could cause our actual results to differ materially from those reflected in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to the following:

- delays in the commencement or completion of nonclinical testing and/or clinical trials of or manufacturing activities related to our product candidates;
- our ability to establish and maintain relationships with third-party manufacturers and component suppliers for our product candidates, and the ability of such manufacturers and suppliers, which may be single source manufacturers and suppliers, to successfully manufacture and supply clinical trial material;
- the success of future clinical trials;
- undesirable side effects that our product candidates may cause, including as a result of eliminating corticosteroid premedication with ANX-514;
- the satisfactory performance of third parties on whom we rely significantly to conduct our nonclinical testing and clinical trials and other aspects of our development programs;
- our ability to obtain additional funding to develop our current product candidates and any product candidates or products we may acquire in the future, on a timely basis or on acceptable terms, or at all;
- healthcare reform measures and reimbursement policies that, if not favorable to our product candidates, could hinder or prevent our ability to raise capital and, ultimately, the commercial success of our products;
- our ability, or that of a future partner, to successfully develop and obtain regulatory approval for our product candidates and, if approved, to successfully commercialize them in the U.S. and/or elsewhere;

the extent to which we acquire new technologies, product candidates, products or businesses and our ability to integrate them, including the assets we acquired from SynthRx, Inc., successfully into our operations;

the potential that we may enter into one or more commercial partnerships or other strategic transactions relating to our product candidates, and the terms of any such transactions;

whether any of our product candidates for which we receive regulatory approval, if any, achieve broad market acceptance;

our ability to maintain compliance with NYSE Amex continued listing standards and maintain the listing of our common stock on the NYSE Amex equities market or another national securities exchange;

the extent to which we rebuild our workforce and our ability to attract and retain qualified personnel and manage growth;

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our ability to protect our intellectual rights with respect to our product candidates and proprietary technology; and

claims against us for infringing the proprietary rights of third parties.

Additional factors that could cause or contribute to such differences include, but are not limited to, those discussed in this prospectus supplement and, in particular, the risks discussed under the heading Risk Factors, and those discussed in other documents we file with the SEC and incorporate herein. Any forward-looking statement speaks only as of the date on which it is made and, except as required by law, we do not intend to update any forward-looking statements publicly to reflect events or circumstances after the date on which such statement is made or to update the reasons actual results could differ materially from those anticipated in the forward-looking statements, even if new information becomes available in the future. In light of these risks and uncertainties and our assumptions, the forward-looking events and circumstances discussed in the prospectus and this prospectus supplement and in the documents incorporated by reference may not occur and actual results could differ materially and adversely from those anticipated or implied in such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on such forward-looking statements.

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USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the securities offered under this prospectus supplement, after deducting the underwriting discounts and commissions and our estimated offering expenses, and excluding the proceeds, if any, from exercise of the warrants issued in this offering, will be approximately $15.7 million, or approximately $18.0 million if the underwriter exercises in full the over-allotment option granted by us.

We currently intend to use the net proceeds from this offering to fund continued development of our current lead product candidates, including activities necessary to initiate and conduct our planned phase 3 clinical studies of ANX-188 and ANX-514, and for general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in technologies, product candidates, products and/or businesses that we believe will enhance the value of our company, although we have no current commitments or agreements with respect to any such transactions as of the date of this prospectus supplement. At this time, we cannot estimate the allocation of the net proceeds of this offering among our anticipated uses. The amounts and timing of expenditures may vary significantly depending on numerous factors, including delays in the commencement or completion of activities necessary to initiate and/or conduct our planned clinical trials, future opportunities to evaluate, negotiate and complete one or more strategic or partnering transactions with respect to our current product candidates and future pipeline expansion opportunities. We reserve the right to change the use of proceeds as a result of certain contingencies, such as those discussed above. Accordingly, our management will have broad discretion in the application of the net proceeds of this offering. Pending use of the net proceeds, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities.

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PRICE RANGE OF COMMON STOCK

Our common stock trades under the symbol ANX on NYSE Amex Equities. The following table sets forth the high and low sales prices of our common stock for the fiscal periods indicated. The prices in the table below for periods before April 23, 2010 have been adjusted to reflect retrospective application of the 1-for-25 reverse split of our common stock effected on April 23, 2010.

	Sales Prices					
	2011		2010		2009	
	High	Low	High	Low	High	Low
First Quarter	$ 3.45	$ 1.85	$ 13.00	$ 4.00	$ 6.00	$ 1.75
Second Quarter	3.25	2.08	7.25	1.60	6.25	2.50
Third Quarter	4.21	0.81	2.35	1.50	5.00	2.75
Fourth Quarter	1.16*	0.81*	3.20	1.91	12.50	2.25

* Through November 9, 2011

As of September 30, 2011, we had approximately 69 record holders of our common stock. We believe that the number of beneficial holders is substantially greater than the number of record holders because a large portion of our common stock is held of record through brokerage firms in street name.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. In addition, in connection with previous preferred stock financings, we have agreed to charter restrictions on our ability to pay cash dividends or distributions on our common stock for so long as any shares of such preferred stock are outstanding, unless we obtain prior written consent from the holders of such preferred stock. Although currently there are no such restrictions on our ability to pay dividends on our common stock, we may agree to similar restrictions in the future.

We expect to retain all available funds and any future earnings to support operations and fund the development and growth of our business. Our board of directors will determine whether we pay and the amount of future dividends (including cash dividends), if any.

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DILUTION

In many cases, an investment in securities results in immediate, substantial dilution in the net tangible book value per share. An investment in the securities being offered by this prospectus supplement will result in an increase in the net tangible book value per share of common stock. Net tangible book value per share is determined by dividing our net tangible book value, which consists of our total tangible assets less our total tangible liabilities, by the number of shares of our common stock outstanding on that date. Our net tangible book value (unaudited) as of September 30, 2011 was approximately $36.7 million, or approximately $1.39 per share of common stock, based on 26,465,709 shares outstanding.

The increase in net tangible book value per share represents the difference between the net tangible book value per share of our common stock immediately after this offering and the price per fixed combination of shares and warrants paid by investors in this offering. After giving effect to the sale in this offering of 21,250,000 shares of common stock and warrants to purchase up to an additional 10,625,000 shares of our common stock at the purchase price of $0.80 per fixed combination, less the underwriting discounts and commissions and estimated offering expenses we expect to pay, but excluding any effects of exercises of the warrants issued in this offering, our pro forma net tangible book value (unaudited) as of September 30, 2011, would have been approximately $52.3 million, or approximately $1.10 per share. This represents an immediate decrease of approximately $0.29 in net tangible book value per share to our existing stockholders and an immediate increase of approximately $0.30 per share to investors in this offering. The following table illustrates this per share increase in net tangible book value.

Public offering price per fixed combination of securities (consisting of one share and a warrant to purchase up to 0.5 of a share)		$ 0.80
Net tangible book value per share as of September 30, 2011	$ 1.39	
Decrease in net tangible book value per share attributable to this offering	$ 0.29	
Pro forma net tangible book value per share as of September 30, 2011, after giving effect to this offering		$ 1.10
Increase in net tangible book value per share to investors in this offering		$ 0.30

The above is based on 26,465,709 shares of our common stock outstanding as of September 30, 2011 (as adjusted for 21,250,000 shares of common stock to be issued in this offering), and excludes, as of that date:

- 1,553,692 shares of common stock issuable upon the exercise of outstanding stock options issued under our equity incentive plans prior to this offering, at a weighted average exercise price of $4.75 per share;
- 3,256,014 shares of common stock available for future issuance under our Amended and Restated 2008 Omnibus Incentive Plan;
- 7,777,988 shares of common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of approximately $6.58 per share;
- 13,478,050 shares of common stock that may be issued to the former stockholders of SynthRx, subject to the achievement of performance milestones, pursuant to the terms of our merger agreement with SynthRx dated February 12, 2011;
- 10,625,000 shares of common stock issuable upon the exercise of the warrants to be issued to the investors in this offering, at an exercise price of $1.10 per share;
- 3,187,500 shares of common stock and 1,593,750 shares of common stock issuable upon the exercise of warrants that may be issued if the underwriter exercises the option to purchase such securities within 45 days from the date of this prospectus supplement; and

1,062,500 shares of common stock issuable upon exercise of warrants to be issued to the underwriter for this offering and/or its designees, which are not covered by this prospectus supplement, at an exercise price of $1.00 per share.

To the extent that any options or warrants are exercised, new options or other equity awards are issued under our Amended and Restated 2008 Omnibus Incentive Plan, or we otherwise issue additional shares of common stock in the future, there will be further dilution to new investors.

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DESCRIPTION OF SECURITIES BEING OFFERED

Common Stock

Below is a summary description of our common stock. This description is not complete. You should carefully read the full text of our amended and restated certificate of incorporation, as amended, and our bylaws, as well as the description of our common stock contained in our registration statement on Form 8-A filed with the SEC on April 27, 2004, which is incorporated by reference herein.

We are authorized to issue 500,000,000 shares of common stock, par value $0.001 per share, of which 26,465,709 shares were issued and outstanding as of September 30, 2011. Additional shares of authorized common stock may be issued, as authorized by our board of directors from time to time, without stockholder approval, except as may be required by applicable securities exchange requirements. The holders of common stock possess exclusive voting rights in us, except to the extent our board of directors specifies voting power with respect to any other class of securities issued in the future. Each holder of our common stock is entitled to one vote for each share held of record on each matter submitted to a vote of stockholders, including the election of directors. Stockholders do not have any right to cumulate votes in the election of directors.

Subject to preferences that may be granted to the holders of preferred stock, each holder of our common stock is entitled to share ratably in distributions to stockholders and to receive ratably such dividends as may be declared by our board of directors out of funds legally available therefor. In the event of our liquidation, dissolution or winding up, the holders of our common stock will be entitled to receive, after payment of all of our debts and liabilities and of all sums to which holders of any preferred stock may be entitled, the distribution of any of our remaining assets. Holders of our common stock have no conversion, exchange, sinking fund, redemption or appraisal rights (other than such as may be determined by our board of directors in its sole discretion) and have no preemptive rights to subscribe for any of our securities.

Warrants

Below is a brief summary of the material terms and provisions of the warrants being offered in this offering. This description is not complete. We urge you to review the warrant agency agreement, which we will file as an exhibit to a Current Report on Form 8-K with the SEC in connection with this offering, for the complete terms and conditions applicable to the warrants. The following summary description of the warrants is subject to, and qualified in its entirety by, the complete terms and conditions set forth warrant agency agreement. The warrants we are issuing to the underwriter and/or its designee in connection with this offering are not covered by this prospectus supplement.

The common stock warrants will provide for an exercise price of $1.10 per share and will be exercisable at the option of the holder at any time on or after their date of issuance, which will be the closing date of this offering, through and including the date that is the five-year anniversary of their date of issuance.

The warrants will be issued pursuant to the terms of the warrant agency agreement between American Stock Transfer & Trust Company, as warrant agent, and us. You should review a copy of the warrant agency agreement, which we have included as an exhibit to our Current Report on Form 8-K filed with the SEC in connection with this offering, for a complete description of the terms and conditions applicable to the warrants. We will initially issue the warrants in the form of global securities held in book-entry form. The Depository Trust Company (DTC) or its nominee will be the sole registered holder of the warrants. Owners of beneficial interests in the warrants represented by the global securities will hold their interests pursuant to the procedures and practices of DTC. As a result, beneficial interests in any such securities will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants and any such interest may not be exchanged for certificated securities, except in limited circumstances. Owners of beneficial interests must exercise any rights in respect of their interests in accordance with the procedures and practices of DTC. Beneficial owners will not be holders and will not be entitled to any rights provided to the holders of the warrants under the global securities or the global warrant. Our company and any of our agents may treat DTC as the sole holder and registered owner of the global securities.

Subject to limited exceptions, a warrant holder will not have the right to exercise any portion of the warrant if the holder, together with its affiliates, would beneficially own in excess of 4.99% of the number of shares of our common stock outstanding immediately after the exercise. The exercise price of the warrants, and in some cases the number of shares issuable upon exercise of the warrants, will be subject to adjustment in the event of stock splits, stock dividends, combinations, rights offerings and similar events affecting our common stock. In addition, in the event we consummate a merger or consolidation with or into another person or other reorganization event in which our common stock is converted or exchanged for securities, cash or other property, or we sell, lease, license or otherwise dispose of all or substantially all of our assets or we or another person acquire 50% or more of our outstanding common stock, then following such event, the holders of the warrants will be entitled to receive upon exercise of the warrants the same kind and amount of securities, cash or property which the holders would have received had they exercised the warrants immediately prior to such fundamental transaction. Any successor to us or surviving entity shall

assume the obligations under the warrants.

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The warrant holders must surrender payment in cash of the aggregate exercise price of the shares being acquired upon exercise of the warrants. If, however, we are unable to offer and sell the shares underlying these warrants pursuant to this prospectus supplement due to the ineffectiveness of the registration statement of which this prospectus supplement is a part, then the warrants may only be exercised on a net or cashless basis. No fractional shares of common stock will be issued in connection with the exercise of a warrant. In lieu of fractional shares, we will pay the holder an amount in cash equal to the fractional amount multiplied by the exercise price.

We do not intend to list the warrants on any securities exchange or automated quotation system.

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UNDERWRITING

Rodman & Renshaw, LLC is acting as the sole underwriter. Subject to the terms and conditions set forth in an underwriting agreement dated the date of this prospectus supplement, we have agreed to sell to the underwriter, and the underwriter has agreed to purchase from us, the number of shares of our common stock and warrants to purchase up to the number of shares of our common stock set forth opposite its name below.

Underwriter	Number of Shares	Number of Warrant Shares
Rodman & Renshaw, LLC	21,250,000	10,625,000

Subject to the terms and conditions set forth in the underwriting agreement, if the underwriter defaults, the underwriting agreement may be terminated.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriter may be required to make in respect of those liabilities.

A copy of the underwriting agreement is included as an exhibit to our Current Report on Form 8-K filed with the SEC in connection with this offering.

Nature of Underwriting Commitment

The underwriter is offering the shares of common stock and warrants to purchase shares of common stock in multiples of the fixed combination of one share and a warrant to purchase up to 0.5 of a share, subject to its acceptance of these securities from us and subject to prior sale. The underwriting agreement provides that the obligations of the underwriter to pay for and accept delivery of the securities offered by this prospectus supplement are subject to the approval of certain legal matters by its counsel and to other conditions. The underwriter is obligated to take and pay for all of the securities offered by this prospectus supplement if any such securities are taken. However, the underwriter is not required to take or pay for the securities covered by the over-allotment option described below. The underwriter initially proposes to offer the securities offered by this prospectus supplement directly to the public at the public offering price listed on the cover page of this prospectus supplement. After the initial offering of these securities, the offering price and other selling terms may from time to time be varied by the underwriter.

Option to Purchase Additional Securities

We have granted to the underwriter an option, exercisable for 45 days from the date of this prospectus supplement, to purchase up to an aggregate of 3,187,500 additional shares of common stock and warrants to purchase up to 1,593,750 additional shares of common stock in multiples of the fixed combination of one share and a warrant to purchase up to 0.5 of a share at the public offering price, less underwriting discounts and/or commissions. The underwriter may exercise this option, in whole or in part, solely for the purpose of covering over-allotments, if any, made in connection with the offering of the securities offered by this prospectus supplement. If the over-allotment option is exercised in full, the total offering price to the public would be $19,550,000, the total underwriter discounts and/or commissions would be $1,270,750 and the total proceeds to us, before expenses, would be $18,279,250.

Discounts and/or Commissions

The following table shows the public offering price per fixed combination of one share and a warrant to purchase up to 0.5 of a share, the total public offering price and the total underwriting discounts and/or commissions that we are to pay to the underwriter in connection with this offering. These amounts are shown assuming either no exercise or full exercise of the over-allotment option. These amounts exclude potential proceeds from the exercise of the warrants offered in combination with the shares of our common stock.

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	Per Fixed Combination of One Share and a Warrant to Purchase up to 0.5 of a Share	No Exercise	Full Exercise
Public offering price	$ 0.80	$ 17,000,000	$ 19,550,000
Underwriting discounts and/or commissions	$ 0.052	$ 1,105,000	$ 1,270,750
Proceeds, before expenses, to us	$ 0.748	$ 15,895,000	$ 18,279,250

In addition, we estimate that the expenses of this offering other than underwriting discounts and/or commissions payable by us will be approximately $0.2 million.

Other Compensation to the Underwriter

Pursuant to an engagement letter agreement, dated May 17, 2011, we also have agreed to grant compensation warrants to Rodman & Renshaw, LLC and/or its designees to purchase that number of our shares of common stock equal to 5.0% of the number of shares of common stock sold by us in this offering (excluding the shares issuable upon exercise of the warrants sold by us in this offering), or up to an aggregate of 1,062,500 shares, at an exercise price of $1.00 per share, which warrants shall be in certificated form. We also have agreed to reimburse Rodman & Renshaw, LLC for actual expenses incurred in connection with the public offering in an amount up to 0.5% of the gross proceeds from the securities sold hereunder, subject to compliance with FINRA Rule 5110(f)(2)(D). In compliance with the guidelines of FINRA, under no circumstances will the fee, commission or discount received by the underwriter for this offering or any other FINRA member or independent broker-dealer exceed 8.0% of the gross proceeds to us in this offering or any other offering in the U.S. pursuant to the this prospectus supplement and the accompanying prospectus.

The compensation warrants otherwise will be substantially on the same terms as the warrants offered by this prospectus supplement, except that the exercise price will be 125% of the public offering price per share, the exercise period will expire five years from the effective date of the shelf registration statement on Form S-3 of which this prospectus supplement and the accompanying prospectus form a part, or April 1, 2015, and they will comply with FINRA Rule 5110(g) in that for a period of six months after their date of issuance (which shall not be earlier than the closing date of this offering), neither the compensation warrants nor any shares issued upon exercise of the compensation warrants shall be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person, except the transfer of any security:

by operation of law or by reason of reorganization of us;

to any FINRA member firm participating in this offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up restriction described above for the remainder of the time period;

if the aggregate amount of our securities held by Rodman & Renshaw or related persons do not exceed 1% of the securities being offered;

that is beneficially owned on a pro-rata basis by all equity owners of an investment fund, provided that no participating member manages or otherwise directs investments by the fund, and participating members in the aggregate do not own more than 10% of the equity in the fund; or

the exercise or conversion of any security, if all securities received remain subject to the lock-up restriction set forth above for the remainder of the time period.

Lock-ups

ADVENTRX. We have agreed that, subject to specified exceptions, without the prior written consent of Rodman & Renshaw, LLC, we will not:

during the period beginning on the date of the pricing of this offering and ending 90 days thereafter, issue, enter into any agreement to issue or announce the issuance or proposed issuance by us or any of our subsidiaries of shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock; or

during the period beginning on the date of the pricing of this offering and ending 12 months thereafter, effect or enter into an agreement to effect any issuance by us or any of our subsidiaries of shares of our common stock or any securities

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convertible into or exercisable or exchangeable for our common stock for cash consideration that includes a transaction in which we (i) issue or sell any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive, additional shares of our common stock either (A) at a conversion price, exercise price or exchange rate or other price that is based upon, and/or varies with, the trading prices of or quotations for the shares of our common stock at any time after the initial issuance of such debt or equity securities or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to our business or the market for the our common stock or (ii) enter into any agreement, including, but not limited to, an equity line of credit, whereby we may sell securities at a future determined price.

The restrictions described in the preceding paragraph regarding the 90-day lock-up period do not apply to the issuance of:

shares of our common stock upon the exercise of any the warrants issued to the underwriters in connection with this offering;

shares of our common stock or options to our employees, officers, directors or consultants pursuant to any equity incentive plan adopted for such purpose, by our board of directors;

securities upon the exercise or exchange of or conversion of any securities issued and outstanding on the date of the underwriting agreement; and

securities issued pursuant to acquisitions or strategic transactions approved by a our board of directors.

Officers and Directors. In addition, our directors and executive officers have agreed that, subject to specified exceptions, without the prior written consent of Rodman & Renshaw, LLC, they will not, during the period beginning on the date of the pricing of this offering and ending 90 days thereafter:

offer, sell, contract to sell, hypothecate, pledge or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)), directly or indirectly, any shares of our common stock or securities convertible, exchangeable or exercisable into shares of our common stock; or

establish or increase a put equivalent position or liquidate or decrease a call equivalent position with respect to any shares of our common stock or securities convertible, exchangeable or exercisable into share of our common stock.

The 90-day restricted period described in the preceding paragraph will be extended if:

during the last 17 days of the 90-day restricted period we issue an earnings release or material news or a material event relating to us occurs; or

prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period;

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The restrictions described in the preceding paragraphs do not apply to the entry into a so-called 10b5-1 plan by one of our executive officers or the sale or transfer of approximately 41,000 shares of our common stock by the officer pursuant to such a plan.

Stabilization

In order to facilitate this offering of common stock, the underwriter may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriter may sell more shares than it is obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriter under the over-allotment option. The underwriter can close out a covered short sale by exercising the over-allotment option or by purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriter will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriter may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriter must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. In addition, to stabilize the price of the common stock, the underwriter may bid for and purchase shares of common stock in the open market. These

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activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriter is not required to engage in these activities and may end any of these activities at any time.

In connection with this offering, the underwriter may engage in passive market making transactions in our common stock on the NYSE Amex in accordance with Rule 103 of Regulation M under the Exchange Act during a period before the commencement of offers or sales of common stock and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker s bid, that bid must then be lowered when specified purchase limits are exceeded.

Common Stock Listing and Transfer Agent

Our common stock is traded on the NYSE Amex equities market under the symbol ANX. We do not intend to list the warrants being offered by this prospectus supplement on any national securities exchange.

The transfer agent for our common stock is American Stock Transfer & Trust Company. American Stock Transfer & Trust Company will also act as transfer agent for the warrants being offered by this prospectus supplement.

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LEGAL MATTERS

The validity of the issuance of the securities being offered hereby will be passed upon for us by DLA Piper LLP (US), San Diego, California.

EXPERTS

The consolidated financial statements of ADVENTRX Pharmaceuticals, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive loss and cash flows for the years then ended and for the period from January 1, 2002 through December 31, 2010 are incorporated by reference herein and in the registration statement in reliance upon the report of J.H. Cohn LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the securities was employed on a contingency basis, or had, or is to receive, in connection with the offering, a substantial interest, direct or indirect, in the registrant or any of its parents or subsidiaries. Nor was any such person connected with the registrant or any of its parents or subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information electronically with the SEC. You may read and copy these reports, proxy statements and other information at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room. You can request copies of these documents by writing to the SEC and paying a fee for the copying costs. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. The SEC s Internet site can be found at http://www.sec.gov. In addition, we make available on or through our Internet site copies of these reports as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Our corporate Internet site can be found at http://www.adventrx.com. Our website and the information contained on that site, or connected to that site, are not incorporated into and are not a part of this prospectus.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference the information contained in documents that we file with it. This means that we can disclose important information to you by referring you to those documents and that the information in this prospectus supplement and the accompanying prospectus is not complete. You should read the information incorporated by reference for more detail. We incorporate by reference in two ways. First, we list below certain documents that we have already filed with the SEC. The information in these documents is considered part of this prospectus supplement. Second, the information in documents that we file with the SEC after the date of this prospectus supplement will automatically update and, as applicable, supersede the information contained, or incorporated by reference, in this prospectus supplement. Any information so updated or superseded will not be deemed to constitute part of this prospectus supplement and the accompanying prospectus, except as so updated or superseded.

We incorporate by reference the documents listed below and any filings we make with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement until the termination of this offering (in each case, except for the information furnished under Item 2.02 or Item 7.01 in any current report on Form 8-K and Form 8-K/A):

- our annual report on Form 10-K for the year ended December 31, 2010 filed with the SEC March 10, 2011 (File No. 001-32157-11679095);

- our quarterly report on Form 10-Q for the quarterly period ended March 31, 2011 filed with the SEC on May 9, 2011 (File No. 001-32157-11823538);

Our quarterly report on Form 10-Q for the quarterly period ended June 30, 2011 filed with the SEC on August 8, 2011 (File No. 001-32157-111017315);

Our quarterly report on Form 10-Q for the quarterly period ended September 30, 2011 filed with the SEC on November 8, 2011 (File No. 001-32157-111186142);

Our current reports on Form 8-K filed with the SEC on January 6, 2011 (File No. 001-32157-11512917), January 7, 2011 (File No. 001-32157-11515655), January 7, 2011 (File No. 001-32157-11515695), January 19, 2011 (File No. 001-32157-11536324), February 14, 2011 (File No. 001-32157-11604349), February 15, 2011 (File No. 001-32157-11613491), March 22, 2011 (File No. 001-32157-11704394), April 11, 2011 (File No. 001-32157-11752769); May 9,

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2011 (File No. 001-32157-11823649); May 13, 2011 (File No. 001-32157-11837895); June 3, 2011 (File No. 001-32157-11892227); June 16, 2011 (File No. 001-32157-11915265); June 23, 2011 (File No. 001-32157-11928162); June 29, 2011 (File No. 001-32157-11939023); July 8, 2011 (File No. 001-32157-11959481); August 10, 2011 (File No. 001-32157-111022618); September 30, 2011 (File No. 001-32157-111117627); October 25, 2011 (File No. 001-32157-111157223; October 26, 2011 (File No. 001-32157-111158031); and November 9, 2011 (File No. 001-32157-111191884); and

the description of our common stock contained in our registration statement on Form 8-A filed with the SEC on April 27, 2004.

We will provide each person, including any beneficial owner, to whom this prospectus supplement and the accompanying prospectus is delivered, a copy of any or all of the documents incorporated by reference in this prospectus supplement and the accompanying prospectus but not delivered with this prospectus supplement and the accompanying prospectus upon written or oral request at no cost to the requester. Requests should be directed to: ADVENTRX Pharmaceuticals, Inc., 12390 El Camino Real, Suite 150, San Diego, California 92130, Attn: Investor Relations, telephone: (858) 552-0866. Copies of any of these documents may also be obtained at no cost through our Internet site, which can be found at http://www.adventrx.com.

This prospectus supplement is part of a registration statement on Form S-3 that we have filed with the SEC. That registration statement contains more information than this prospectus supplement regarding us and our common stock, including certain exhibits and schedules. You can obtain a copy of the registration statement from the SEC at the address listed above or from the SEC s Internet site.

You should rely only on the information in and incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front cover of these documents.

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PROSPECTUS

$150,000,000

Common Stock

Preferred Stock

Debt Securities

Warrants

Units

ADVENTRX PHARMACEUTICALS, INC.

We may, from time to time in one or more offerings, offer and sell up to $150,000,000 in the aggregate of common stock, preferred stock, debt securities, warrants to purchase common stock, preferred stock or debt securities, or any combination of the foregoing, either individually or as units comprised of one or more of the other securities.

This prospectus provides a general description of the securities we may offer. We will provide the specific terms of the securities offered in one or more supplements to this prospectus. We may also authorize one or more free writing prospectuses to be provided to you in connection with these offerings. You should read carefully this prospectus, the applicable prospectus supplement and any related free writing prospectus, as well as any documents incorporated by reference before you invest in any of our securities. **This prospectus may not be used to offer or sell any securities unless accompanied by the applicable prospectus supplement.**

Our common stock is listed on the NYSE Amex equities market under the symbol ANX.

As of March 25, 2010, the aggregate market value of our outstanding common stock held by non-affiliates was approximately $78.4 million, based on 257,250,690 shares of outstanding common stock as of March 22, 2010, of which 34,000 shares are held by affiliates, and a price of $0.3049 per share, which was the last reported sale price of our common stock on the NYSE Amex on February 24, 2010.

Investing in our securities involves risk. See Risk Factors on page 5 of this prospectus. You should also carefully review the risks and uncertainties described in any applicable prospectus supplement and any related free writing prospectus.

We will sell these securities directly to investors, through agents designated from time to time or to or through underwriters or dealers. For additional information on the methods of sale, you should refer to the section entitled Plan of Distribution in this prospectus. If any underwriters are involved in the sale of any securities with respect to which this prospectus is being delivered, the names of such underwriters and any applicable commissions or discounts will be set forth in a prospectus supplement. The price to the public of such securities and the net proceeds we expect to receive from such sale will also be set forth in a prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 1, 2010.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf registration process, we may from time to time sell common stock, preferred stock, debt securities or warrants to purchase common stock, preferred stock or debt securities, or any combination of the foregoing, either individually or as units comprised of one or more of the other securities, in one or more offerings up to a total dollar amount of $150,000,000. We have provided to you in this prospectus a general description of the securities we may offer. Each time we sell securities under this shelf registration, we will, to the extent required by law, provide a prospectus supplement that will contain specific information about the terms of that offering. We may also authorize one or more free writing prospectuses to be provided to you that may contain material information relating to these offerings. The prospectus supplement and any related free writing prospectus that we may authorize to be provided to you may also add, update or change information contained in this prospectus or in any documents that we have incorporated by reference into this prospectus. To the extent there is a conflict between the information contained in this prospectus and the prospectus supplement or any related free writing prospectus, you should rely on the information in the prospectus supplement or the related free writing prospectus; provided that if any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in this prospectus or any prospectus supplement or any related free writing prospectus the statement in the document having the later date modifies or supersedes the earlier statement.

We have not authorized any dealer, agent or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or an accompanying prospectus supplement. This prospectus and the accompanying prospectus supplement, if any, do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus and the accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus, any applicable prospectus supplement or any related free writing prospectus is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference (as our business, financial condition, results of operations and prospects may have changed since that date), even though this prospectus, any applicable prospectus supplement or any related free writing prospectus is delivered or securities are sold on a later date.

As permitted by the rules and regulations of the SEC, the registration statement, of which this prospectus forms a part, includes additional information not contained in this prospectus. You may read the registration statement and the other reports we file with the SEC at the SEC s web site or at the SEC s offices described below under the heading Where You Can Find Additional Information.

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SUMMARY

This summary highlights selected information from this prospectus and does not contain all of the information that you need to consider in making your investment decision. You should carefully read the entire prospectus, including the section entitled Risk Factors on page 5, the information incorporated herein by reference, including our financial statements, and the exhibits to the registration statement of which this prospectus is a part. When used in this prospectus, the terms ADVENTRX , we , our , us or the Company refer to ADVENTRX Pharmaceuticals, Inc. and its consolidated subsidiaries, unless otherwise indicated or as the context otherwise requires.

About ADVENTRX Pharmaceuticals, Inc.

We are a development-stage specialty pharmaceutical company focused on in-licensing, developing and commercializing proprietary product candidates for the treatment of cancer. We seek to improve the performance of existing drugs by addressing limitations associated principally with their safety and use. We have not yet marketed or sold any products or generated any significant revenue.

Our lead product candidates, ANX-530 (vinorelbine injectable emulsion) and ANX-514 (docetaxel injectable emulsion), are novel emulsion formulations of currently marketed chemotherapy drugs. We believe ANX-530 and ANX-514 may improve the safety of and have greater commercial potential than the currently marketed reference products, Navelbine® (vinorelbine tartrate) Injection and Taxotere® (docetaxel) Injection Concentrate, respectively, by:

- reducing the incidence and severity of adverse effects; and
- improving their pharmacoeconomics and convenience to healthcare practitioners and patients.

In December 2009, we submitted a new drug application, or NDA, for ANX-530 to the U.S. Food and Drug Administration, or FDA. In March 2010, we announced that we had received a refusal-to-file letter from the FDA regarding our ANX-530 NDA submission. In the letter, the FDA indicated that the data included in our December 2009 NDA submission from the intended commercial manufacturing site was insufficient to support a commercially-viable expiration dating period. The FDA identified only this one chemistry, manufacturing and controls, or CMC, reason for the refusal to file. We have requested a face-to-face meeting with the FDA to understand its requirements and define the path to a successful filing of the ANX-530 NDA at the earliest possible time. In addition, we expect to meet with the FDA in the summer of 2010 to discuss the results of our bioequivalence study of ANX-514, following which we will provide an update on planned activities with respect to, or a potential NDA submission timeline for, ANX-514.

Our company was incorporated in Delaware in December 1995. In October 2000, we merged our wholly-owned subsidiary, Biokeys Acquisition Corp., with and into Biokeys, Inc. and changed our name to Biokeys Pharmaceuticals, Inc. In May 2003, we merged Biokeys, Inc., our wholly-owned subsidiary, with and into us and changed our name to ADVENTRX Pharmaceuticals, Inc. In April 2006, we acquired SD Pharmaceuticals, Inc., a Delaware corporation, as a wholly-owned subsidiary.

Our executive offices are located at 6725 Mesa Ridge Road, Suite 100, San Diego, California 92121, and our telephone number is (858) 552-0866. Our corporate website is located at www.adventrx.com. We make available free of charge through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information on our website does not constitute part of this prospectus or any prospectus supplement.

We have applied for trademark registration for the trademark EXELBINE in the United States for pharmaceutical preparations for use in chemotherapy. We are developing commercial names for our other product candidates. All other trademarks, service marks or trade names appearing or incorporated by reference in this prospectus and any applicable prospectus supplement, including but not limited to Navelbine® and Taxotere®, are the property of their respective owners. Use or display by us of other parties trademarks, service marks, trade names, trade dress or products is not intended to and does not imply a relationship with, or endorsements or sponsorship of, us by the trademark, service mark, trade name, trade dress or product owners.

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The Securities We May Offer

We may offer shares of our common stock and preferred stock, various series of debt securities and warrants to purchase any of such securities, either individually or in units, with a total value of up to $150,000,000 from time to time under this prospectus, together with any applicable prospectus supplement and related free writing prospectus, at prices and on terms to be determined by market conditions at the time of offering. If we issue any debt securities at a discount from their original stated principal amount, then, for purposes of calculating the total dollar amount of all securities issued under this prospectus, we will treat the initial offering price of the debt securities as the total original principal amount of the debt securities. Each time we offer securities under this prospectus, we will provide offerees with a prospectus supplement that will describe the specific amounts, prices and other important terms of the securities being offered, including, to the extent applicable:

designation or classification;

aggregate principal amount or aggregate offering price;

maturity, if applicable;

original issue discount, if any;

rates and times of payment of interest or dividends, if any;

redemption, conversion, exchange or sinking fund terms, if any;

conversion or exchange prices or rates, if any, and, if applicable, any provisions for changes to or adjustments in the conversion or exchange prices or rates and in the securities or other property receivable upon conversion or exchange;

ranking;

restrictive covenants, if any;

voting or other rights, if any; and

important United States federal income tax considerations.

A prospectus supplement and any related free writing prospectus that we may authorize to be provided to you may also add, update or change information contained in this prospectus or in documents we have incorporated by reference. However, no prospectus supplement or free writing prospectus will offer a security that is not registered and described in this prospectus at the time of the effectiveness of the registration statement of which this prospectus is a part.

We may sell the securities to or through underwriters, dealers or agents or directly to purchasers. We, as well as any agents acting on our behalf, reserve the sole right to accept and to reject iand cash equivalents, was approximately $0.3 million during the three months ended March 31, 2012 compared to $0.2 million during the same period in 2011. This increase was primarily due to the increase in interest income of approximately $0.1 million as a result of an increase in our cash and marketable securities balances during the three months ended March 31,

2012 as compared to the same period in 2011.

Income Taxes

Income tax expense for the three months ended March 31, 2012 and March 31, 2011 was $3.0 million and $6.3 million, or approximately 43% and 35% of pre-tax income, respectively. The effective tax rate for the three months ended March 31, 2012 was comprised of federal expense at statutory rates plus an increase in our tax rate of 7% due to the impact of certain permanent items and an increase in our tax rate of approximately 1% due to the reserves for uncertain tax positions. The effective tax rate for the three months ended March 31, 2011 was comprised of federal and state expense at statutory rates less research and development credits which resulted in a 1.5% benefit, offset by an increase in our tax rate of 1.5% due to the impact of certain permanent items. Our net state income tax rate was less than 0.1% for the three months ended March 31, 2012 and March 31, 2011, respectively, due to the impact of the California single sales factor election to calculate our tax liability. Due to the expected utilization of the remainder of our net operating loss carryforwards and research and development credits that offset our taxes payable, our current income tax expense in 2012 is significantly higher than our actual cash tax liability.

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Liquidity and Capital Resources

As of March 31, 2012 and December 31, 2011, we had cash, cash equivalents and marketable securities of $234.4 million and $216.5 million, respectively. At March 31, 2012 and December 31, 2011, we had approximately $2.0 million and $1.7 million of cash, respectively, which was held outside of the United States. The cash held outside the United States was needed to meet local working capital requirements for our foreign subsidiaries and is considered permanently reinvested in the applicable foreign subsidiary.

In April 2011, our $5.0 million revolving credit line with Silicon Valley Bank expired and was not renewed.

The following table shows our cash flows from operating activities, investing activities and financing activities for the three months ended March 31, 2012 and 2011 (in thousands):

	Three Months Ended March 31,	
	2012	2011
Net cash provided by operating activities	$ 17,771	$ 11,654
Net cash provided by (used in) investing activities	67,289	(75,106)
Net cash provided by financing activities	1,363	736
Net effect of exchange rates on cash	(1)	21
Net increase (decrease) in cash and cash equivalents	$ 86,422	$ (62,695)

Cash Flows from Operating Activities

Net cash provided by operating activities was $17.8 million for the three months ended March 31, 2012. Sources of cash provided by operating activities included cash generated from net income of $3.9 million, which included non-cash charges of $3.1 million in stock compensation expenses, depreciation and amortization expense of $1.2 million, amortization of premiums on marketable securities of $1.0 million, loss related to equity method investment of $0.8 million and a reserve for excess and obsolete inventory of $0.4 million, offset by $0.5 million of excess tax benefits from share-based payment arrangements. Cash generated from working capital changes were approximately $7.8 million, which included a decrease of $2.5 million in prepaid expenses and other current assets, an increase in our accounts payable balance of $2.4 million due to the timing of payments for inventory purchases, an increase in accrued payroll and benefit expenses of approximately $1.6 million, an increase in accrued expenses and other liabilities of approximately $1.0 million, a decrease in long-term assets of $0.6 million and a decrease in our accounts receivable balance of $0.1 million. These working capital sources of cash were partially offset by working capital uses of cash including an increase in our inventory balances of $0.3 million as we increased our inventory levels on our DBS products during the first three months of 2012.

Net cash provided by operating activities was $11.7 million for the three months ended March 31, 2011. Sources of cash provided by operating activities included cash generated from net income of $11.9 million, which included non-cash charges of $5.2 million related to deferred income taxes, $3.0 million in stock compensation expenses, depreciation and amortization expense of $1.0 million and amortization of premiums on marketable securities of $0.7 million. Offsetting the non-cash charges were uses of cash of $10.2 million related to working capital changes. Cash used for working capital purposes included a decrease in our accounts payable balance of $8.4 million due to the timing of payments for inventory purchases, an increase in our accounts receivable balance of $5.5 million due to higher revenues and a more linear quarter and a reduction in accrued payroll and benefit expenses of approximately $1.7 million due to payments of fiscal year end incentive bonuses in the first quarter of 2011. These working capital uses of cash were partially offset by working capital sources of cash including a decrease in our inventory balances of $4.6 million as we reduced our inventory levels on our MoCA products during the quarter and an increase in accrued expenses and other liabilities of approximately $1.0 million primarily due to an increase in income taxes payable.

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Cash Flows from Investing Activities

Net cash provided by investing activities was $67.3 million for the three months ended March 31, 2012 due to sales and maturities of available-for-sale securities of $72.1 million.These investing activity proceeds of cash were partially offset by purchases of available-for-sale securities of $4.2 million and purchases of property and equipment of $0.6 million.

Net cash used in investing activities was $75.1 million for the three months ended March 31, 2011 due to purchases of available-for-sale securities of $73.8 million and purchases of property and equipment of $1.3 million, primarily consisting of research and development equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities was $1.4 million for the three months ended March 31, 2012, due to proceeds from the issuance of common stock in connection with stock option exercises of $0.9 million and $0.5 million of excess tax benefits from share-based payment arrangements.

Net cash provided by financing activities was $0.7 million for the three months ended March 31, 2011, due to proceeds from the issuance of common stock in connection with stock option exercises.

We believe that our cash, cash equivalents and investments of $234.4 million as of March 31, 2012, will be sufficient to fund our projected operating requirements for at least the next 12 months.

We intend to continue spending substantial amounts in connection with the growth of our business and we may need to obtain additional financing to pursue our business strategy, develop new products, respond to competition and market opportunities, and possibly acquire complementary businesses or technologies.

As a result of the Trident acquisition in the second quarter of 2012, we will utilize a significant amount of our cash and investments to fund the $74 million purchase price and working capital items in addition to the operating expenses associated with the STB Business.

In October 2010, we completed a public offering of 10,750,000 shares of our common stock, which resulted in net proceeds of approximately $99.3 million. In the future we may not be able to obtain such financing on favorable terms or at all. If we were to raise additional capital through further sales of our equity securities, our stockholders would suffer dilution of their equity ownership. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, prohibit us from paying dividends, prohibit us from repurchasing our stock or making investments or force us to maintain specified liquidity or other ratios, any of which could harm our business, operating results and financial condition.

In connection with our acquisition of the STB business from Trident, we are required to file certain historical financial information for the STB business pursuant to the Securities Exchange Act of 1934, as amended, portions of which are unavailable to us or Trident. Our inability to file such historical financial information will, for a specified period of time, prevent us from utilizing a Registration Statement on Form S-3 to register our securities. As a result, beginning June 28, 2012 through at least our filing of our Annual Report on Form 10-K for the year ended December 31, 2012, our ability to obtain financing will be made more difficult as a result of our inability to register our securities using a Registration Statement on Form S-3.

Indemnities

In the ordinary course of business, we have entered into agreements that include indemnity provisions with certain customers. Based on historical experience and information known as of March 31, 2012, we have not recorded any indemnity obligations.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and the results of operations are based on our financial statements which have been prepared in accordance with United States generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies are discussed in our Annual Report and there have been no material changes to such policies.

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Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update, or ASU, No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standard , or IFRS. This update amends Accounting Standards Codification Topic 820, Fair Value Measurement and Disclosure. ASU 2011-04 clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 is effective for annual and interim reporting periods beginning on or after December 15, 2011. We have adopted ASU 2011-04 effective January 1, 2012 and the application of this guidance did not have a a significant impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We have adopted this guidance effective January 1, 2012 and we believe the adoption of ASU 2011-05 concerns presentation and disclosure only and does not have an impact on our consolidated financial position or results of operations.

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2012, as compared to the recent accounting pronouncements described in the Annual Report, that are of material significance, or have potential material significance, to us.

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Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Foreign Currency Risk

Our sales have been historically denominated in U.S. dollars and an increase in the value of the U.S. dollar relative to the currencies of the countries in which our customers operate could materially affect the demand of our products by non-U.S. customers, leading to a reduction in orders placed by these customers, which would adversely affect our business. Our international sales and marketing operations incur expenses that are denominated in foreign currencies. These expenses could be materially affected by currency fluctuations; however, we do not consider this currency risk to be material as the related costs do not constitute a significant portion of our total spending. We outsource our wafer manufacturing, assembly, testing, warehousing and shipping operations; however all expenses related thereto are denominated in U.S. dollars. If the value of the U.S. dollar decreases relative to the currencies of the countries in which such contractors operate, the prices we are charged for their services may increase, which would adversely affect our business. Currently, we have not implemented any hedging strategies to mitigate risks related to the impact of fluctuations in currency exchange rates.

Interest Rate Risk

We typically maintain an investment portfolio of various holdings, types and maturities. We do not use derivative financial instruments. We place our cash investments in deposits and money market funds with major financial institutions, U.S. government obligations and debt securities of corporations with strong credit ratings in a variety of industries that meet high credit quality standards, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument.

All of our fixed income investments are classified as available-for-sale and therefore reported on the balance sheet at market value. The fair value of our cash equivalents and investments are subject to change as a result of changes in market interest rates and investment risk related to the issuers credit worthiness. We do not utilize financial contracts to manage our exposure in our investment portfolio to changes in interest rates. We place our cash investments in instruments that meet credit quality standards, as specified in our investment policy guidelines. We have established guidelines relative to diversification and maturities that attempt to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of interest rate trends. We generally do not utilize derivatives to hedge against increases in interest rates which decrease market values. At March 31, 2012, we had $234.4 million in cash, cash equivalents and investments, all of which were stated at fair value. A 100 basis point increase or decrease in market interest rates over a three month period would not be expected to have a material impact on the fair value of the $106.6 million of cash and cash equivalents held as of March 31, 2012, as these consisted of securities with maturities of less than three months. A 100 basis point increase or decrease in interest rates would, however, decrease or increase, respectively, the fair value of the $127.6 million of our investments by approximately $0.9 million.

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Item 4. ***Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and no evaluation of controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, prior to filing this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

An evaluation was also performed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of any change in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1A. ***Risk Factors***

Investing in our common stock involves a high degree of risk. Before deciding to purchase, hold or sell our common stock, you should carefully consider the following information, the other information in this Quarterly Report on Form 10-Q, or Quarterly Report, and information contained in our Annual Report on Form 10-K, or Annual Report, and in our other filings with the Securities and Exchange Commission, or SEC. If any of these risks were to occur, our business, financial condition, results of operations or prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose all or part of your investment. These risks and uncertainties may be interrelated or co-related, and as a result, the occurrence of one risk might directly affect other risks described below, make them more likely to occur or magnify their impact. Moreover, the risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business.

The risk factors set forth below with an asterisk (*) next to the title are new risk factors or risk factors containing changes from the risk factors previously disclosed in our Annual Report.

Risks Related to Our Business

We have had net operating losses for most of the time we have been in existence, had an accumulated deficit of $146.7 million as of March 31, 2012 and only became profitable on an annual basis for the first time in 2010, and we are unable to predict whether we will remain profitable.*

We were incorporated in 2001, did not commence shipping production quantities of our home networking products until December 2004 and only became profitable on an annual basis for the first time in 2010. Consequently, any predictions about future performance may not be as accurate as they could be if we had a longer history of successfully commercializing our home networking solutions and profitable operations. You should not rely on our operating results for any prior quarterly or annual periods as an indication of our future operating performance.

For the years ended December 31, 2011 and 2010, we generated net income of $26.6 million and $64.7 million, respectively, and for the year ended December 31, 2009, we incurred a net loss of $13.2 million. Although we have been profitable on an annual basis since 2010, we have incurred substantial net losses since our inception and, as of March 31, 2012, we had an accumulated deficit of $146.7 million. Despite our recent profitability, we may incur operating losses in the future as we continue to make significant expenditures related to the development of our products and the expansion of our business, including in connection with our recent acquisition of certain assets used in or related to the set-top box business, or STB business, of Trident Microsystems, Inc. and certain of its subsidiaries, collectively Trident. Prior to our acquisition, the STB business of Trident was not profitable and unless or until we are able to make the STB business profitable, it will negatively impact overall profitability going forward. In addition, the costs associated with integrating the STB business into our existing operations could impair our financial condition and results of operations.

Our ability to sustain profitability depends on the extent to which we can maintain or increase revenue and control our costs in order to, among other things, counter any unforeseen difficulties, complications, product delays or other unknown factors that may require additional expenditures, or unforeseen difficulties or costs associated with the integration of acquired assets or businesses, including the STB business. Because of the numerous risks and uncertainties associated with our growth prospects, product development, sales and marketing and other efforts, we are unable to predict the extent of our profitability or future losses. If we are unable to achieve adequate growth, we may not sustain profitability.

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Our recently completed acquisition of the STB business from Trident may not provide the anticipated benefits when and to the extent we expect, which could negatively impact our business and harm our financial position.*

On April 12, 2012, we completed our acquisition of the STB business from Trident. While we anticipate numerous benefits and synergies from this acquisition, our ability to achieve such benefits in a timely and cost-efficient manner is dependent on our ability to manage the risks associated with this acquisition. We are just beginning to integrate the STB business into our existing operations and expect to encounter numerous challenges and risks in connection with this integration, including:

- the necessity of investing substantially more time and financial resources in the growth and development of the STB business, or in integrating the STB business with our existing operations, than presently anticipated, resulting in increased costs and demands on management and time which could otherwise be devoted to more profitable activities;
- our ability to integrate, on a timely and cost efficient basis, the STB business, which is larger, more geographically dispersed and substantially more complex than our existing business, including the addition of approximately 355 global employees to our headcount (nearly doubling the size of our headcount);
- difficulty dealing with tax, employment, logistics, and other related issues resulting from our expanded international operations;
- the ability of our existing systems, infrastructure and personnel to accommodate a rapid and orderly integration of the STB business into our existing operations, including the need to establish uniform standards, controls, procedures and policies (including internal control over financial reporting required by the Sarbanes-Oxley Act of 2002) across our existing business and the newly acquired STB business;
- our lack of expertise with respect to the STB business and with maintaining and improving upon the quality of products and services that Trident historically provided;
- the potential need to record accounting charges for restructuring and related expenses, impairment of goodwill and amortization of intangible assets in the future;
- difficulties in combining corporate cultures;
- issues with maintaining and improving relationships with present and potential customers of the STB business, and distributors and suppliers of Trident;
- reliance on key persons still employed by Trident for critical transition services and the risk that Trident will not be able to retain such employees throughout the transition period; and
- the dependence of the STB business on a limited number of suppliers and customers, including reliance on NXP B.V. for the manufacture of STB products.

In addition, at the time of our acquisition of the STB business, Trident was seeking protection under the United States bankruptcy laws and as a result, the benefits and potential value of the STB business are difficult to ascertain. As a result of these difficulties and risks, we may not accomplish the integration of the STB business smoothly, successfully or within our budgetary expectations and anticipated timetable. If we do not achieve the anticipated benefits of an acquisition as rapidly as expected, or at all, investors or analysts may not perceive the same benefits of

the acquisition as we do and our business may be negatively impacted and our financial condition may be harmed.

Moreover, in connection with our acquisition of the STB business from Trident, we are required to file certain historical financial information for the STB business pursuant to the Securities Exchange Act of 1934, as amended, portions of which are unavailable to us or Trident. Our inability to file such historical financial information will, for a specified period of time, prevent us from utilizing a Registration Statement on Form S-3 to register our securities. As a result, beginning June 28, 2012 through at least our filing of our Annual Report on Form 10-K for the year ended December 31, 2012, our ability to obtain financing will be made more difficult as a result of our inability to register our securities using a Registration Statement on Form S-3.

We face intense competition and expect competition to increase in the future, with many of our competitors being larger, more established and better capitalized than we are.*

The markets for our products are extremely competitive and have been characterized by rapid technological change, evolving industry standards, rapid changes in customer requirements, short product life cycles and frequent introduction of next generation and new products, as well as competing technologies. This competition could make it more difficult for us to sell our products and result in increased pricing pressure, reduced gross profit as a percentage of revenues or gross margins, increased sales and marketing expenses and failure to increase or the loss of market share or expected market share. Semiconductor products in particular have a history of declining prices driven by customer insistence on lower prices as the cost of production is reduced and as demand falls when competitive products or newer, more advanced, products are introduced. If market prices decrease faster than product costs, our gross margins and operating margins would be adversely affected.

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Moreover, we expect increased competition from other established and emerging companies both domestically and internationally. In particular, we currently face, or in the future expect to face, competition from companies such as Broadcom Corporation, or Broadcom, STMicroelectronics N.V., or STMicro, Sigma Designs, Inc., Cisco Systems, Inc., Intel Corporation, Marvell Technology Group Ltd., MaxLinear, Inc., or MaxLinear, Qualcomm Incorporated, Lantiq Deutschland GmbH and Vixs Systems, Inc., in the sale of MoCA compliant chipsets and technology, and from companies such as Broadcom, NXP Semiconductors N.V., PLX Technology, Inc., MaxLinear and STMicro, in the sale of direct broadcast satellite outdoor unit products and from companies such as Broadcom, STMicro, MediaTek Inc., MStar Semiconductor, Inc. and Sigma Designs, Inc. in the sale of STB system-on-a-chip, or SoCs, and other STB products. In addition, current and potential competitors may establish cooperative relationships among themselves or with third parties. If so, competitors or alliances that include our competitors may emerge and could acquire significant market share. Further, our current and potential competitors may also enter into licensing arrangements with third parties with respect to MoCA chipsets or technology on licensing terms that are more favorable than the licensing terms that we would be able to offer through the direct licensing of our MoCA chipsets and technology to such third parties. We expect these trends to continue as companies attempt to strengthen or maintain their market positions in an evolving industry. In addition, our competitors could develop products or technologies that cause our products and technologies to become non-competitive or obsolete, or cause us to substantially reduce our prices.

Currently, we face competition from a number of established companies that offer products based on competing technologies, such as Data over Cable Service Interface Specifications, or DoCSIS, versions of Digital Subscriber Line, or DSL, Ethernet, HomePNA, HomePlug AV, Broadband over Power Line, High Performance Network Over Coax, or HiNOC, Wi-Fi and WiMAX. Although some of these competing technologies were not originally designed to operate over coaxial cables, our competitors have modified certain technologies, including HomePNA, HomePlug AV, Broadband over Power Line and Wi-Fi, to work on the same in-home coaxial cables that our MoCA-based products use. We also expect to face competition from companies that offer products based on G.hn technology in the future. Many of our competitors and potential competitors are substantially larger and have longer operating histories, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. Given their capital resources, many of these larger organizations are in a better position to withstand any significant reduction in customer purchases or market downturns. Many of our competitors also have broader product lines and market focus, allowing them to bundle their products and services and effectively use other products to subsidize lower prices for those products that compete with ours or to provide integrated product solutions that offer cost advantages to their customers. In addition, many of our competitors have been in operation much longer than we have and therefore have better name recognition and more long-standing and established relationships with service providers, original design manufacturers, or ODMs, and original equipment manufacturers, or OEMs.

Our ability to compete depends on a number of factors, including:

- the adoption of our products and technologies by service providers, ODMs and OEMs;
- the performance and cost effectiveness of our products relative to our competitors products;
- our ability to deliver high quality and reliable products in large volumes and on a timely basis;
- our ability to build close relationships with service providers, ODMs, OEMs, retailers and consumer electronics manufacturers;
- our success in developing and utilizing new technologies to offer products and features previously not available in the marketplace that are technologically superior to those offered by our competitors;
- our ability to identify new and emerging markets and market trends;
- our ability to reduce our product costs and receive favorable pricing from our suppliers;

our ability to recruit design and application engineers and other technical personnel;

our ability to protect our intellectual property and obtain licenses to the intellectual property of others on commercially reasonable terms;

our ability to expand MoCA penetration outside of the United States; and

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our ability to create a retail market for MoCA products in consumer electronics devices, such as televisions.

Our inability to address any of these factors effectively, alone or in combination with others, could seriously harm our business, operating results and financial condition.

In addition, consolidation by industry participants could result in competitors with further increased market share, larger customer bases, greater diversified product offerings and greater technological and marketing expertise, which would allow them to compete more effectively against us. Current and potential competitors may also gain such competitive advantages by establishing financial or strategic relationships with existing or potential customers, suppliers or other third-parties. These new competitors or alliances among competitors, customers, or suppliers could emerge rapidly and acquire significant market share. In addition, some of our suppliers and customers offer, or may in the future offer, products that compete with our products. Depending on the participants, industry consolidation or the formation of strategic relationships could have a material adverse effect on our business and results of operations by reducing our ability to compete successfully in our current markets and the markets we are seeking to serve.

We depend on a limited number of customers, and ultimately service providers, for a substantial portion of our revenues, and the loss of, or a significant shortfall in, orders from any of these parties could significantly impair our financial condition and results of operations.*

We derive a substantial portion of our revenues from a limited number of customers. For example, for the year ended December 31, 2011, Wistron and Motorola accounted for 25% and 17% of our net revenues, respectively; for the year ended December 31, 2010, Wistron and Motorola accounted for 21% and 17% of our net revenues, respectively; and for the year ended December 31, 2009, Actiontec and Motorola accounted for 16% and 27% of our net revenues, respectively. More recently, during the three months ended March 31, 2012, Wistron, Motorola and Foxconn accounted for approximately 22%, 18% and 12% of our net revenues, respectively. Our inability to generate anticipated revenues from our key existing or targeted customers, or a significant shortfall in sales to certain of these customers would significantly reduce our revenues and adversely affect our operating results. Our operating results in the foreseeable future will continue to depend on our ability to sell our products to existing and other large customers.

Further, we depend on a limited number of service providers that purchase products from our customers which incorporate our home networking or digital broadcast satellite outdoor unit solutions. If these service providers, or other service providers that elect to use our products, reduce or eliminate purchases of our customers products which incorporate our products, this would significantly reduce our revenues and adversely affect our operating results. In addition, any sudden or unexpected slowdown in deployments by service providers that incorporate our products may lead to an inventory buildup by our customers who may, in turn, postpone taking delivery of our products or wait to clear their existing inventory before ordering more products from us, which, in turn, may adversely affect our results. Our operating results for the foreseeable future will continue to depend on a limited number of service providers demand for products which incorporate our products.

We may have conflicts with our customers, including customers we have acquired as part of the STB business acquisition from Trident, or the service providers that purchase products from our customers that incorporate our products. Any such conflict could result in events that have a negative impact on our business, including:

reduced purchases of our products or our customers products that incorporate them;

uncertainty regarding ownership of intellectual property rights;

litigation or the threat of litigation; or

settlements or other business arrangements imposing obligations on us or restrictions on our business, including obligations to license intellectual property rights or make cash payments.

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If we fail to develop and introduce new or enhanced products on a timely basis, our ability to attract and retain customers could be impaired, and our competitive position may be harmed.

To compete successfully, we must design, develop, market and sell new or enhanced products that provide increasingly higher levels of performance and reliability and meet the cost expectations of our customers. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render our existing or future products obsolete. Our failure to anticipate or timely develop new or enhanced products or technologies in response to technological shifts could result in decreased revenues and an increase in design wins by our competitors. In particular, we may experience difficulties with product design, manufacturing, marketing or certification that could delay or prevent our development, introduction or marketing of new or enhanced products. If we fail to introduce new or enhanced products that meet the needs of our customers or penetrate new markets in a timely fashion, we may lose market share and our operating results will be adversely affected. In addition, a design loss to one of our competitors may negatively impact our financial results for several years.

Our results could be adversely affected if our customers or the service providers who purchase their products are unable to successfully compete in their respective markets.

Our customers and the service providers that purchase products from our customers face significant competition from their competitors. We rely on these customers and service providers ability to develop products and/or services that meet the needs of their customers in terms of functionality, performance, availability and price. If these customers and service providers do not successfully compete, they may lose market share, which would negatively impact the demand for our products. For example, for our home networking products, there is intense competition among service providers to deliver video and other multimedia content into and throughout the home. For the sale of our home networking products, we are currently dependent on the ability of a limited number of service providers to compete in the market for the delivery of high-definition television-quality video, or HD video, and other multimedia content. Therefore, factors influencing the ability of these service providers to compete in this market, such as competition from alternative content providers or laws and regulations regarding local cable franchising or satellite broadcasting rights, could have an adverse effect on our ability to sell home networking products. In addition, our digital broadcast satellite outdoor unit products are primarily supplied to digital broadcast satellite service providers by our ODM and OEM customers. Digital broadcast satellite service providers are facing significant competition from telecommunications carriers and cable service operators as they compete for customers in terms of video, voice and data services. Moreover, ODMs and OEMs who market satellite set-top boxes using our silicon tuners are competing with a variety of Internet protocol-based video delivery solutions, including versions of DSL technology and certain fiber optic-based solutions. Many of these technologies compete effectively with satellite set-top boxes and do not require tuners such as the ones we sell. If our customers and the service providers who purchase products from our customers that incorporate our products do not successfully compete, they may lose market share, which would reduce demand for our products.

If the market for HD video and other multimedia content delivery solutions does not continue to develop as we anticipate, our revenues may decline or fail to grow, which would adversely affect our operating results.*

We derive, and expect to continue to derive for the foreseeable future, a significant portion of our revenues from sales of our home networking products based on the MoCA standard. The market for multimedia content delivery solutions based on the MoCA standard is relatively new, still evolving and difficult to predict. Currently, the growth of the MoCA-based multimedia content delivery market and the success of our business are largely driven by the adoption and deployment of existing and future generations of the technology by service providers, ODMs and OEMs and, to a lesser extent, by consumer adoption of such technology which is dependent on upgrades from standard definition television services to high-definition television services, or HD services, and on the availability of over-the-top, or OTT, services that directly deliver Internet video content into the home. It is difficult to predict whether the MoCA standard will continue to achieve and sustain high levels of demand and market acceptance by service providers or consumers, the rate at which consumers will upgrade to HD services, whether the availability of OTT services will continue to grow or whether consumers beyond the early technology adopters will embrace OTT services in increasing numbers, if at all.

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Many of these same market dynamics apply to advanced set-top box SoCs which we acquired when we purchased the STB business of Trident. For example, some of our newly acquired advanced STB products use Google s Android operating system, which allows third party applications and other advanced features to be deployed by service providers. The market for such advanced set-top box features is relatively new, still evolving and difficult to predict. The future success of our set-top box product line may depend on the adoption and deployment of advanced STB features by service providers and the availability of OTT services that deliver Internet video content into the home. As with our MoCA products, it is difficult to predict the levels of demand and market acceptance of advanced STB products, and therefore, if may be difficult to predict future revenues and our investment return from STB products that offer advanced features.

With regard to our home-networking products, some service providers, ODMs and OEMs have adopted, and others may adopt, multimedia content delivery solutions that rely on technologies other than the MoCA standard or may choose to wait for the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, MoCA-based solutions. The alternative technology solutions, which compete with MoCA-based solutions, include DOCSIS, versions of DSL, Ethernet, HomePNA, HomePlug AV, Broadband over Power Line, HiNOC, Wi-Fi and WiMAX. It is critical to our success that additional service providers, including telecommunications carriers, digital broadcast satellite service providers and cable operators, adopt the MoCA standard for home networking and deploy MoCA solutions to their customers. If the market for MoCA-based solutions does not continue to develop or develops more slowly than we expect, or if we make errors in predicting adoption and deployment rates for these solutions, our revenues may be significantly adversely affected. Our operating results may also be adversely affected by any delays in consumer upgrade to HD services, delays in consumer adoption of OTT services, or if the market for OTT services develops more slowly than we expect.

Even if service providers, ODMs and OEMs adopt multimedia content delivery solutions based on the MoCA standard, we may not compete successfully in the market for MoCA-compliant chipsets.

As a member of MoCA, we are required to license any of our patent claims that are essential to implement the MoCA specifications to other MoCA members on reasonable and non-discriminatory terms. As a result, we are required to license some of our important intellectual property to other MoCA members, including other semiconductor manufacturers that may compete with us in the sale of MoCA-compliant chipsets. Furthermore, there may be disagreements among MoCA members as to specifically which of our patent claims we are required to license to them. If we are unable to differentiate our MoCA-compliant chipsets from other MoCA-compliant chipsets by offering superior pricing and features outside MoCA specifications, we may not be able to compete effectively in the market for such chipsets. Moreover, although we are currently and actively involved in the ongoing development of the MoCA standard, we cannot guarantee that future MoCA specifications will incorporate technologies or product features we are developing or that our products will be compatible with future MoCA specifications. As additional members, including our competitors, continue to join MoCA, they and existing members may exert greater influence on MoCA and the development of the MoCA standard in a manner that is adverse to our interests. If our home networking products fail to comply with future MoCA specifications, the demand for these products could be severely reduced.

The semiconductor and communications industries are highly cyclical and subject to rapid change and evolving industry standards and, from time to time, have experienced significant downturns in customer demand as well as unexpected increases in demand resulting in production capacity constraints. These factors could impact our operating results, financial condition and cash flows and may increase the volatility of the price of our common stock.

The semiconductor and communications industries are highly cyclical and subject to rapid change and evolving industry standards and, from time to time, have experienced significant downturns in customer demand. These downturns are characterized by decreases in product demand, excess customer inventories and accelerated erosion of prices; factors which have caused, and could continue to cause, substantial fluctuations in our net revenue and in our operating results. Any downturns in the semiconductor and communications industries may be severe and prolonged, and any failure of these industries to fully recover from downturns could harm our business. For example, because a significant portion of our expense is fixed in the near term or is incurred in advance of anticipated sales, during these downturns we may not be able to decrease our expenses rapidly enough to offset unanticipated shortfalls in revenues during industry downturns, which would adversely affect our operating results. Even as the industry recovers from a downturn, some OEMs and ODMs may continue to slow down their research and development activities, cancel or delay new product development, reduce their inventories and/or take a cautious approach to acquiring products, which may negatively impact our business.

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The semiconductor and communications industries also periodically experience increased demand and production capacity constraints, which may affect the ability of companies such as ours to ship products to customers. Any factor adversely affecting either the semiconductor or communications industries in general, or the particular segments of any of these industries that our products target, may adversely affect our ability to generate revenue and could negatively impact our operating results, cash flow and financial condition. The semiconductor and communications industries may experience supply shortages due to sudden increases in demand beyond foundry capacity. In addition to capacity issues, during periods of increased demand these industries may also experience difficulty obtaining sufficient manufacturing, assembly and test resources from manufacturers. If, as a result of these industry issues, we are unable to meet our customers increased demand for our products, we would miss opportunities for additional revenue and could experience a negative impact on our relationships with affected customers. Further, in response to the cyclical and rapidly changing nature of the semiconductor and communications industries, our operating results may fluctuate from period to period as we adjust our inventory and production requirements to meet the changing demands of our customers, which could impact our financial condition and cash flows and may increase the volatility of the price of our common stock.

Our operating results have fluctuated significantly in the past and we expect them to continue to fluctuate in the future, which could lead to volatility in the price of our common stock.*

Our operating results have fluctuated in the past and are likely to continue to fluctuate, on an annual and a quarterly basis, as a result of a number of factors, many of which are outside of our control. These fluctuations in our operating results may cause our stock price to fluctuate as well. The primary factors that are likely to affect our quarterly and annual operating results include:

changes in demand for our products or those offered by service providers and our customers;

the timing and amount of orders, especially from significant service providers and customers;

the seasonal nature of the sales of products that incorporate our products by certain service providers which may affect the timing of orders for our products;

the level and timing of capital spending of service providers, both in the United States and in international markets;

competitive market conditions, including pricing actions by us or our competitors;

adverse market perception of MoCA-compliant products;

any delay in the development, certification or adoption associated with new MoCA standards (e.g., MoCA 2.0) by the alliance, OEMs or service providers;

our unpredictable and lengthy sales cycles;

the mix of products and product configurations sold;

our ability to successfully define, design and release new products on a timely basis that meet customers or service providers needs;

costs related to acquisitions of complementary products, technologies or businesses, including costs associated with our recent acquisition of the STB business of Trident;

uncertainty regarding the anticipated benefits and synergies of the STB business with our existing operations;

new product introductions and enhancements, or the market anticipation of new products and enhancements, by us or our competitors;

the timing of revenue recognition on sales arrangements, which may include multiple deliverables and the effect of our use of inventory hubbing arrangements;

unexpected changes in our operating expenses;

general economic conditions (including the recent industry and economic downturn) and political conditions in the countries where we operate or our products are sold or used;

our ability to attain and maintain production volumes and quality levels for our products, including adequate allocation of wafer, assembly and test capacity for our products by our subcontractors;

our customers ability to obtain other components needed to manufacture their products;

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- the cost and availability of components and raw materials used in our products, including, without limitation, the price of gold and copper;
- changes in manufacturing costs, including wafer, test and assembly costs, manufacturing yields and product quality and reliability;
- our inability to obtain continuous cost reductions from wafer, assembly and test vendors;
- productivity of our sales and marketing force;
- our inability to reduce operating expenses in a particular quarter if revenues for that quarter fall below expectations;
- future accounting pronouncements and changes in accounting policies;
- disputes between content owners and service providers that result in the delay or elimination of the mass production and sale of products using our technology;
- costs associated with litigation; and
- changes in domestic and international regulatory environments.

Unfavorable changes in any of the above factors, many of which are beyond our control, could significantly harm our business and results of operations. You should not rely on the results of prior periods as an indication of our future performance.

Adverse U.S. and international economic conditions have affected and may continue to adversely affect our revenues, margins and profitability.*

Since September 2008, the credit markets and the financial services industry in the United States and Europe have been experiencing a period of unprecedented turmoil and upheaval. These conditions, together with the slow and fragile recovery facing the broader economy and, in particular, the semiconductor and communications industries, have adversely affected, and may continue to adversely affect, our business as service providers cut back or delay deployments that include our products and to the extent that consumers decrease their discretionary spending for enhanced video offerings from service providers, which may in turn lead to cautious or reduced spending by service providers and, in turn, may lead to a decrease in orders for our products, thereby adversely affecting our operating results. Our operating results may also be adversely affected if the State of California adopts laws to suspend net operating loss deductions as it has done in the past in response to the sharp decrease in tax revenue collections caused by the current adverse economic conditions.

We may also experience adverse conditions in our cost base due to changes in foreign currency exchange rates that reduce the purchasing power of the U.S. dollar, increase research and development expenses and otherwise harm our business. These conditions may harm our margins and prevent us from sustaining profitability if we are unable to increase the selling prices of our products or reduce our costs sufficiently to offset the effects of effective increases in our costs. Our attempts to offset the effects of cost increases through controlling our expenses, passing cost increases on to our customers or any other method may not succeed.

The success of our digital broadcast satellite outdoor unit products depends on the demand for our products within the satellite digital television market and the growth of this overall market.

In addition to our MoCA home networking products, we also derive a significant portion of our revenues from sales of our digital broadcast satellite outdoor unit products into markets served by digital broadcast satellite providers and their ODM and OEM partners. The digital broadcast satellite market may not grow in the future as anticipated or a significant market slowdown may occur, which would in turn reduce the

demand for applications or devices, such as multi-switch and low-noise block converters that rely on our digital broadcast satellite outdoor unit products. Because of the intense competition in the satellite, terrestrial and cable digital television markets, the unproven technology of many products addressing these markets and the short product life cycles of many consumer applications or devices, it is difficult to predict the potential size and future growth rate of the markets for our digital broadcast satellite outdoor unit products. If the demand for our digital broadcast satellite outdoor unit products is not as great as we expect, or if we are unable to produce competitive products to meet that demand, our revenues could be adversely affected.

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Market-specific risks affecting the digital television, digital television set-top box and digital television peripheral markets could impair our ability to successfully sell our silicon tuners.

The market for digital television applications in digital televisions, digital television set-top boxes and digital television peripherals is characterized by certain market-specific risks, any of which may adversely affect our ability to sell our silicon tuners. For example, sellers of module tuners or tuner silicon providers that offer similar or better functionality than our silicon tuner solutions may dramatically lower their prices and become more competitive than we are in the tuner market. In addition, our silicon tuners may not meet the specifications or have the feature sets desired by our customers or may not be architecturally compatible with other components in the customers designs. Our efforts to penetrate the digital television market, in particular, will depend on our ability to overcome these and other challenges. To the extent our efforts are adversely affected by any of these risks or are otherwise unsuccessful, the demand for our silicon tuner products may not develop as anticipated or decline which could adversely affect our revenues, financial condition and results of operations.

The success of our silicon tuners is highly dependent on our relationships with demodulator manufacturers.

Our silicon tuners are designed to be interoperable with various specific demodulator integrated circuit products that are designed and manufactured by other companies. Historically, we have relied on strategic relationships with various demodulator manufacturers to enable both parties to offer an interoperable tuner/demodulator solution to mutual end customers. Although we work in concert with third-party demodulator manufacturers to complete highly functional reference designs, we have no control over their future product plans and product roadmaps and could be effectively designed out of future customer applications by the refusal of a demodulator manufacturer to continue to support our products. Likewise, our ability to acquire new customers is dependent on the cooperation of third-party demodulator manufacturers. If such third-party manufacturers decide to partner with one of our competitors or to provide their own tuner solutions, we would effectively be prevented from selling our products to potential new customers. Furthermore, our dependence on these third-party demodulator manufacturers often limits our strategic direction. If we were to design products that were competitive with any of such demodulator manufacturers, they may choose to stop working with us.

If any of the current or prospective demodulator manufacturers with whom we have or intend to have relationships with were to stop working with us in favor of other tuner manufacturers or in favor of deploying their own tuner products, we would be effectively designed out of current and potential customers products and the demand for our silicon tuners would be substantially reduced.

The market for our broadband access products is limited and these products may not be widely adopted.*

Our broadband access products are designed to meet broadband access requirements in areas characterized by fiber optic network deployments that terminate within one kilometer of customer premises. We believe the primary geographic markets for our broadband access products are currently in China and in parts of Europe where there are many multi-dwelling units and fiber optic networks that extend to or near a customer premises. We do not expect to generate significant revenues from sales of our broadband access products in North America, which is generally characterized by low-density housing, or in developing nations which do not generally have extensive fiber optic networks. To the extent our efforts to sell our broadband access products into currently targeted markets are unsuccessful, the demand for these products may not develop as anticipated or may decline, either of which could adversely affect our future revenues. Moreover, these markets have a large number of service providers and varying regulatory standards, both of which may delay any widespread adoption of our products and increase the time during which competing technologies could be introduced and displace our products.

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In addition, if areas characterized by fiber optic networks that terminate within one kilometer of customer premises do not continue to grow, or we are unable to develop broadband access products that are competitive outside of these areas, the demand for our broadband access products may not grow and our revenues may be limited. Even if the markets in which our broadband access products are targeted continue to grow or we are able to serve additional markets, customers and service providers may not adopt our technology. There are a growing number of competing technologies for delivering high-speed broadband access from the service provider s network to the customer s premises. For example, our broadband access products face competition from products using DoCSIS, versions of DSL, Ethernet and 4G LTE solutions. Moreover, there are many other access technologies that are currently in development including some low cost proprietary solutions. If service providers adopt competing products or technologies, the demand for our broadband access products will decline and we may not be able to generate significant revenues from these products.

We have and in the future intend to continue to expand our operations and increase our expenditures in an effort to grow our business. If we are not able to manage this expansion and growth, or if our business does not continue to grow as we expect, we may not be able to realize a return on the resources we devote to expansion.*

We recently added approximately 365 new employees to our employee headcount as a result of our acquisition of the STB business from Trident. We anticipate that we will continue to expand our infrastructure and grow our headcount to accommodate changes in our research and development strategy and achieve planned expansion of our product offerings, projected increases in our customer base and anticipated growth in the number of our product deployments. This rapid growth will place a strain on our administrative and operational infrastructure. Our success in managing our growth will be dependent upon our ability to:

- enhance our operational, financial and management controls, reporting systems and procedures;
- expand our facilities and equipment and develop new sources of supply for the manufacture, assembly and testing of our semiconductor products when and as needed and on commercially reasonable terms;
- successfully hire, train, motivate and productively deploy additional employees, including technical personnel; and
- expand our international resources.

Our inability to address effectively any of these factors, alone or in combination with others, could harm our ability to execute our business strategy.

Further, our acquisition of the STB business from Trident increased our international footprint and opened up new markets in which we had not previously operated. We intend to continue to grow our business geographically and also to develop new product offerings and pursue new customers. If we fail to timely or efficiently expand operational and financial systems in connection with such growth or if we fail to implement or maintain effective internal controls and procedures, resulting operating inefficiencies could increase costs and expenses more than we planned and might cause us to lose the ability to take advantage of market opportunities, enhance existing products, develop new products, satisfy customer requirements, respond to competitive pressures, control our inventory or otherwise execute our business plan. Failure to implement or maintain such controls and procedures could also impact our ability to produce timely and accurate financial statements. Additionally, if we increase our operating expenses in anticipation of the growth of our business and such growth does not meet our expectations, our financial results likely would be negatively impacted.

Our joint development arrangements with customers, companies that we have investments in and other third parties may not be successful.*

We have entered into joint development arrangements with customers, companies we have investments in and other third parties, and we expect to enter into new joint development arrangements from time to time in the future. Currently we have investments in, and various obligations and commitments to, third parties related to these joint development arrangements. Joint development arrangements can magnify several risks for us, including loss of control over the development and development timeline of jointly developed products. Accordingly, we face increased risk that our joint development activities may result in products that are not commercially successful or that are not available in a timely fashion. In addition, any third party with whom we enter into a joint development arrangement may fail to commit sufficient resources to the joint development, change its policies or priorities and abandon or fail to perform its obligations related to the joint development. The failure to timely

develop commercially successful products through our joint development activities as a result of any of these and other challenges could have a material adverse affect on our business, results of operations, and financial condition.

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We are currently in the process of developing an integrated chip that combines our MoCA functionality with a third party s independently developed transcoding technology. We lack experience in developing a highly integrated chip of this nature, and therefore may encounter unexpected engineering challenges and difficulties. This integrated chip, which is being jointly developed with Zenverge, Inc., or Zenverge, will be significantly more complex than other chips that we have developed in the past. Consequently, it might take longer and cost more to develop than we currently anticipate. In addition, given the complexity of this integrated chip and its related software, we may not be successful in addressing quality and reliability issues, which could result in a final product that is less reliable than other chips we have developed. If this occurs, or if other customer requirements or program objectives are not met, the integrated chip may not achieve widespread market acceptance and our sales may not meet our expectations or be sufficient to provide us with an adequate return on our investment. There can be no assurances that our joint development arrangement with Zenverge will be successful or that the resulting integrated chip will be cost-competitive or include all of the functionality required by our customers, or released to production on time.

Any acquisition, strategic relationship, joint venture or investment could disrupt our business and harm our financial condition.*

We will continue to actively pursue acquisitions, strategic relationships, joint ventures, collaborations and investments that we believe may allow us to complement our growth strategy, increase market share in our current markets or expand into adjacent markets, or broaden our technology and intellectual property.

Such transactions, including our recently completed acquisition of the STB business from Trident, are often complex, time consuming and expensive, and may present numerous challenges and risks including:

- difficulties in assimilating any acquired workforce and merging operations;
- attrition and the loss of key personnel;
- an acquired company, asset or technology, or a strategic collaboration or licensed asset or technology not furthering our business strategy as anticipated;
- our overpayment for a company, asset or technology or changes in the economic or market conditions or assumptions underlying our decision to make an acquisition;
- an acquisition, strategic relationship, joint venture or investment in an unproven development stage company not furthering our business strategy as anticipated as a result of limited financial or other resources, lack of management experience or expertise or for other reasons unknown to us at the time of such transaction;
- our inability to liquidate an investment in a privately held company when we believe it is prudent to do so which results in a significant reduction in value or loss of our entire investment;
- difficulties entering and competing in new product categories or geographic markets and increased competition, including price competition;
- significant problems or liabilities, including increased intellectual property and employment related litigation exposure, associated with acquired businesses, assets or technologies;

in connection with any such transaction, the need to use a significant portion of our available cash, issue additional equity securities that would dilute the then-current stockholders percentage ownership, make unanticipated follow-on investments or incur substantial debt or contingent liabilities in an effort to preserve any value in the initial transaction;

requirements to devote substantial managerial and engineering resources to any strategic relationship, joint venture or collaboration, which could detract from our other efforts or significantly increase our costs;

lack of control over the actions of our business partners in any strategic relationship, joint venture, collaboration or investment, which could significantly delay the introduction of planned products or otherwise make it difficult or impossible to realize the expected benefits of such relationship; and

requirements to record substantial charges and amortization expense related to certain intangible assets, deferred stock compensation and other items.

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Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions, strategic relationships, joint ventures or investments after we have expended resources on them.

We may enter into negotiations for acquisitions, relationships, joint ventures or investments that are not ultimately consummated. These negotiations could result in significant diversion of our management s time, as well as substantial out-of-pocket costs, which could materially and adversely affect our operating results during the periods in which such costs are incurred.

We cannot forecast the number, timing or size of future acquisitions, strategic relationships, joint ventures or investments, or the effect that any such transactions might have on our operating or financial results. Any such transaction could disrupt our business and harm our operating results and financial condition.

We may not realize the anticipated financial and strategic benefits from the businesses we have acquired or be able to successfully integrate such businesses with ours.*

We will need to overcome challenges, some of which may be significant, in order to realize the benefits or synergies from the acquisitions we have completed to date and any acquisitions that we may complete from time to time in the future, including our recently completed acquisition of the STB business of Trident. These challenges include the following:

- integrating businesses, operations and technologies;
- retaining and assimilating key personnel;
- retaining existing customers and attracting additional customers;
- creating uniform standards, controls, procedures, policies and information systems;
- meeting the challenges inherent in efficiently managing an increased number of employees, including some at geographic locations distant from our headquarters and senior management; and
- implementing appropriate systems, policies, benefits and compliance programs.

Integration in particular may involve considerable risks and may not be successful. These risks include the following:

- the potential disruption of our ongoing business and distraction of our management;
- the potential strain on our financial and managerial controls and reporting systems and procedures;
- unanticipated expenses and potential delays related to integration of the operations, technology and other resources of the acquired companies;
- the impairment of relationships with employees, suppliers and customers; and

potential unknown or contingent liabilities.

The inability to integrate successfully any businesses we acquire, or any significant delay in achieving integration, could delay introduction of new products and require expenditure of additional resources to achieve integration. For example, although we recorded significant amounts of goodwill and other intangible assets in connection with the acquisitions we completed in 2007 and 2008, as a result of the industry and macro-economic turmoil that began in mid-2008 and its effects on our market value and business outlook, we had to reduce the carrying amount of all of these long-lived assets and, as of March 31, 2012, we had recorded an aggregate impairment charge of $113.4 million against our goodwill and intangible assets carrying value related to these acquisitions.

Investors should not rely on attempts to combine our historical financial results with those of any of our acquired businesses as separate operating entities to predict our future results of operations as a combined entity.

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The STB business is dependent on NXP B.V. as its sole source manufacturer of SoCs and other products and we may face significant hurdles to decrease this dependence moving forward.*

The STB business is dependent on on NXP B.V., or NXP, as its sole source manufacturer of SoCs and other products. Our reliance on NXP involves several risks, including the indirect risk we bear to the business condition of NXP and its ability to meet our manufacturing needs on economically reasonable terms. If our arrangement with NXP is terminated, modified in an unforeseen way or if our relationship with NXP were to deteriorate for any reason such that we were required to find an alternative manufacturer, we may sustain lost revenues, increased costs and damage to our customer relationships.

Our current plan is to mitigate this risk by reducing our dependence on NXP through the identification and qualification of additional manufacturers. We will likely incur significant time and expense in identifying and qualifying alternative manufacturers and products manufactured by such suppliers will, in turn, need to be qualified by our customers. The lead time required to establish a relationship with a new manufacturer is long, and it takes time to adapt a product s design and technological requirements to a particular manufacturer s processes. We may experience bugs and defects as we work through this process, which could result in delayed or decreased revenue and harm to our reputation and our relationship with our customers.

The average selling prices of our products have historically decreased over time and will likely do so in the future, which may reduce our revenues and gross margin.*

Our products and products sold by other companies in our industry have historically experienced a decrease in average selling prices over time. We anticipate that the average selling prices of our products will continue to decrease in the future in response to competitive pricing pressures, increased sales discounts and new product introductions from our competitors. For example, we expect that other chipset manufacturers who are members of MoCA will produce competing chipsets and create pricing pressure for such products. Broadcom s announcements about the availability of competing discrete MoCA chipsets and integrated MoCA SoCs in certain applications will put further pressure on pricing. Our future operating results may be harmed due to the decrease of our average selling prices. To maintain our current gross margins or increase our gross margins in the future, we must develop and introduce on a timely basis new products and product enhancements, continually reduce our product costs and manage product transitions in a timely and cost-effective manner. Our failure to do so would likely cause our revenues and gross margins to decline, which could have a material adverse effect on our operating results and cause the value of our common stock to decline.

Fluctuations in the mix of products we sell may adversely affect our financial results.

Because of differences in selling prices and manufacturing costs among our products, the mix and types of products sold affect the average selling price of our products and have a substantial impact on our revenues and profit margins. To the extent our sales mix shifts toward increased sales of our relatively lower-margin products, our overall gross margins will be negatively affected. Fluctuations in the mix and types of our products sold may also affect the extent to which we are able to recover our costs and expenditures associated with a particular product, and as a result, can negatively impact our financial results.

Our product development efforts are time-consuming, require substantial research and development expenditures and may not generate an acceptable return.*

Our product development efforts require substantial research and development expense. Our research and development expense was $15.5 million and $13.1 million for the three months ended March 31, 2012 and 2011, respectively. There can be no assurance that we will achieve an acceptable return on our research and development efforts.

The development of our products is also highly complex. Due to the relatively small size of our product design teams, our research and development efforts in our core technologies may lag behind those of our competitors, some of whom have substantially greater financial and technical resources. In the past, we have occasionally experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Unanticipated problems in developing products could also divert substantial engineering resources, which may impair our ability to develop new products and enhancements and could substantially increase our costs. Furthermore, we may expend significant amounts on a research and development program that may not ultimately result in a commercially successful product, and we have in the past terminated ongoing research and development programs before they could be brought to successful conclusions. As a result of these and other factors, we may be unable to develop and introduce new products successfully and in a cost-effective and timely manner, and any new products we develop and offer may never achieve market acceptance. Any failure to develop future products that are commercially successful would have a material adverse effect on our business, financial condition and results of operations.

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Our products typically have lengthy sales cycles, which may cause our operating results to fluctuate, and a service provider, ODM or OEM customer may decide to cancel or change its service or product plans, which could cause us to lose anticipated sales and expected revenue.*

Our products typically have lengthy sales cycles. A service provider must first evaluate our products. This initial evaluation period can vary considerably based on the service provider and product being evaluated, and could take a significant amount of time to complete. Products incorporating new technologies generally require longer periods for evaluation. After this initial evaluation period, if a service provider decides to adopt our products, that service provider and the applicable ODM or OEM customers will need to further test and evaluate our products prior to completing the design of the equipment that will incorporate our products. Additional time is needed to begin volume production of equipment that incorporates our products. Due to these lengthy sales cycles, we may experience significant delays from the time we incur research and development and sales expenses until the time, if ever, that we generate sales and revenue from these products. The delays inherent in these lengthy sales cycles increase the risk that a customer will decide to cancel or change its product plans. From time to time, we have experienced changes, delays and cancellations in the purchase plans of our customers. A cancellation or change in plans by a service provider, ODM or OEM customer could prevent us from realizing anticipated sales and the associated revenue. In addition, our anticipated sales could be lost or substantially reduced if a significant service provider, ODM or OEM customer reduces or delays orders during our sales cycle or chooses not to release equipment that contains our products. We may invest significant time and effort in marketing to a particular customer that does not ultimately result in a sale to that customer. As a result of these lengthy and uncertain sales cycles for our products, it is difficult for us to predict if or when our customers may purchase products in volume from us, and our operating results may vary significantly from quarter to quarter, which may negatively affect our operating results for any given quarter.

If we do not achieve additional design wins in the future or if we do not complete our design-in activities before a customer s design window closes, we could adversely affect our future sales and revenues and harm our customer relationships.*

To achieve design wins with OEM customers and ODMs, we must define and deliver cost-effective, innovative and high performance products on a timely basis, before our competitors do so. In addition, the timing of our design-in activities with key customers and prospective customers may not align with their open design windows, which may or may not be known to us, making design win predictions more difficult. If we miss a particular customer s design window, we may be forced to wait an entire year or even longer for the next opportunity to compete for the customer s next design. The loss of a particular design opportunity could eliminate or substantially delay revenues from certain target customers and markets, which could have a material adverse effect on our results of operations and future prospects as well as our customer relationships.

Our products must interoperate with many software applications and hardware found in service providers networks and other devices in the home, and if they do not interoperate properly our business would be harmed.

Our products must interoperate with service providers networks and other devices in the home, which often have varied and complex specifications, utilize multiple protocol standards, software applications and products from multiple vendors, and contain multiple generations of products that have been added over time. As a result, we must continually ensure that our products interoperate properly with existing and planned future networks. To meet these requirements, we must undertake development efforts that involve significant expense and the dedication of substantial employee resources. We may not accomplish these development efforts quickly or cost-effectively, if at all. If we fail to maintain or anticipate compatibility with products, software or equipment found in our customers networks, we may face substantially reduced demand for our products, which would adversely affect our business, operating results and financial condition.

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From time to time, we may enter into collaborations or interoperability arrangements with equipment and software vendors providing for the use, integration or interoperability of their technology with our products. These arrangements would give us access to and enable interoperability with various products or technologies in the connected home entertainment market. If these relationships fail to achieve their goals, we would have to devote substantially more resources to the development of alternative products and the support of our existing products, or the addressable market for our products may become limited. In many cases, these parties are either companies that we compete with directly in other areas or companies that have extensive relationships with our existing and potential customers and may have influence over the purchasing decisions of these customers. A number of our competitors have stronger relationships than we do with some of our existing and potential customers and, as a result, our ability to have successful arrangements with these companies may be harmed. Our failure to establish or maintain key relationships with third-party equipment and software vendors may harm our ability to successfully sell and market our products. We are currently devoting significant resources to the development of these relationships. Our operating results could be adversely affected if these efforts do not result in the revenues necessary to offset these investments.

In addition, if we find errors in the software or hardware used in service providers networks or problematic network configurations or settings we may have to modify our products so that they will interoperate with these networks. This could cause longer installation times for our products and order cancellations, either of which would adversely affect our business, operating results and financial condition.

We do not have long-term commitments from our customers and our customers may cancel their orders, change production quantities or delay production, and if we fail to forecast demand for our products accurately, we may incur product shortages, delays in product shipments or excess or insufficient product inventory.*

We sell our products to customers who integrate them into their products. We do not obtain firm, long-term purchase commitments from our customers. We have limited visibility as to the volume of our products that our customers are selling or carrying in their inventory. In addition, certain service providers are affected by seasonality in their deployment of products that incorporate our products, which may in turn impact the timing of our sales. Because production lead times often exceed the amount of time required to fulfill orders, we often must build inventory in advance of orders, relying on an imperfect demand forecast to project volumes and product mix. Further, because we acquired the STB business of Trident out of bankruptcy proceedings, Trident s customers may have switched to alternative suppliers to meet their needs and we may be unable to secure such customers business in the future, which could result in lost sales and revenues which we otherwise would have received had Trident s business not deteriorated prior to the closing of our acquisition of the STB business. In addition, we may incur costs in building a relationship or improving upon existing relationships with these customers which could affect our profit margins and results of operations, with no guarantee of any commitment in return.

Our demand forecast accuracy, and our ability to manage our inventory carrying levels accurately, can be adversely affected by a number of factors, including inaccurate forecasting by our customers, changes in market conditions, adverse changes in our product order mix and demand for our customers products. We have in the past had customers dramatically decrease and increase their requested production quantities with little or no advance notice to us. Even after an order is received, our customers may cancel these orders, postpone taking delivery or request a decrease in production quantities. Any such cancellation, postponement of delivery or decrease in production quantity subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls, reduced profit margins and excess or obsolete inventory which we may be unable to sell to other customers or which we may be required to sell at reduced prices or write off entirely. Furthermore, changes to our customers requirements may result in disputes with our customers which could adversely impact our future relationships with those customers. Alternatively, if we are unable to project customer requirements accurately, we may not build enough products, which could lead to delays in product shipments and lost sales opportunities in the near term, as well as force our customers to identify alternative sources of supply, which could affect our ongoing relationships with these customers and potentially reduce our market share. If we do not timely fulfill customer demands, our customers may cancel their orders and we may be subject to customer claims for cost of replacement.

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Our ability to accurately predict revenues and inventory needs, and to effectively manage inventory levels, may be adversely impacted due to our use of inventory hubbing arrangements.*

We are party to an inventory hubbing arrangement with Motorola and we may enter into similar arrangements with other customers (including customers of the recently acquired STB business) in the future. Pursuant to these arrangements, we ship our products to a designated third-party warehouse, or hub, rather than shipping them directly to the customer. The products generally remain in the hub until the customer removes them for incorporation into its own products. In the absence of any hubbing arrangement, we generally recognize revenues on sales of our products upon shipment of those products to the buyer. Under our hubbing arrangement with Motorola, however, we maintain ownership of our products in the hub, and therefore do not recognize the related revenue until the date Motorola removes them from the hub. As a result, our ability to accurately predict future revenues recognized from sales to Motorola or any other customers with which we implement hubbing arrangements may be impaired, and we may experience significant fluctuations in our quarterly operating results depending on when Motorola or any such other customers remove our products from the hub, which they may do with little or no lead time. In the short term, we may experience an increase in operating expenses as we build and ship inventory to the hub and will not recognize revenues from sales of this inventory, if at all, until Motorola or any such other customers remove it from the hub at a later time. Furthermore, because we continue to own but do not maintain control over our products after they are shipped to the hub, our ability to effectively manage inventory levels may be impaired as our shipments under the hubbing arrangement increase and we may be exposed to additional risk that the inventory in the hub becomes obsolete before sales are recognized.

We extend credit to our customers, sometimes in large amounts, but there is no guarantee every customer will be able to pay our invoices when they become due.

As part of our routine business, we extend credit to customers purchasing our products. While our customers may have the ability to pay on the date of shipment or on the date credit is granted, their financial condition could change and there is no guarantee that customers will ever pay the invoices. Rapid changes in our customers financial conditions and risks associated with extending credit to our customers can subject us to a higher financial risk and could have a material adverse effect on our business, financial condition and results of operations.

We depend on a limited number of third parties to manufacture, assemble and test our products which reduces our control over key aspects of our products and their availability.*

We do not own or operate a manufacturing, assembly or test facility for our products. Rather, we outsource the manufacture, assembly and testing of our products to third-party subcontractors including Taiwan Semiconductor Manufacturing Company, Ltd., or TSMC, Jazz Semiconductor, Inc. (a wholly owned subsidiary of Tower Semiconductor, Inc), or TowerJazz, Amkor Technologies, Inc. and Giga Solution Tech. Co., Ltd. Further, the STB business recently acquired from Trident is dependent on NXP as its sole source manufacturer of STB products. Accordingly, we are greatly dependent on a limited number of suppliers to deliver quality products on time. Our reliance on sole or limited suppliers involves several risks, including susceptibility to increased manufacturing costs if competition for foundry capacity intensifies and reduced control over the following:

- supply of our products available for sale;
- pricing, quality and timely delivery of our products;
- prices and availability of components for our products; and
- production capacity for our products, including shortages due to the difficulties of suppliers to meet production capacities because of unexpected increases in demand.

Because we rely on a limited number of third-party manufacturers, if we were required to change contract manufacturers or one of our contract manufacturers became unable or unwilling to continue manufacturing our products, we may sustain lost revenues, increased costs and damage to our customer relationships. In addition, we would need to expend significant time and effort to locate new third-party manufacturers, if available, and have them qualified by us and our customers.

Manufacturing defects may not be detected by the testing process performed by our subcontractors. If defects are discovered after we have shipped our products, we may be exposed to warranty and consequential damages claims from our customers. Such claims may have an adverse impact on our revenues and operating results. Furthermore, if we are unable to deliver quality products, our reputation would be harmed, which could result in the loss of future orders and business with our customers.

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When demand for manufacturing capacity is high, we may take various actions to try to secure sufficient capacity, which may be costly and negatively impact our operating results.

The ability of each of our subcontractors manufacturing facilities to provide us with chipsets is limited by their available capacity and existing obligations. Although we have purchase order commitments to supply specified levels of products to our customers, we do not have a guaranteed level of production capacity from any of our subcontractors facilities to produce our products. Facility capacity may not be available when we need it or at reasonable prices. In addition, our subcontractors may allocate capacity to the production of other companies products and thereby reduce deliveries to us on short notice.

In order to secure sufficient manufacturing facility capacity when demand is high and mitigate the risks associated with an inability to meet our customers demands for our products, we may enter into various arrangements with subcontractors that could be costly and harm our operating results, including:

- option payments or other prepayments to a subcontractor;
- nonrefundable deposits with or loans to subcontractors in exchange for capacity commitments;
- contracts that commit us to purchase specified quantities of components over extended periods; and
- purchase of testing equipment for specific use at the facilities of our subcontractors.

We may not be able to make any such arrangements in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility and not be on terms favorable to us. Moreover, if we are able to secure capacity, we may be obligated to use all of that capacity or incur penalties. These penalties and obligations may be expensive and require significant capital and could harm our business.

We believe that transitioning certain of our silicon products to newer or better manufacturing process technologies will be important to our future competitive position. If we fail to make this transition efficiently, our competitive position could be seriously harmed.

We continually evaluate the benefits, on a product-by-product basis, of migrating to higher performance or lower cost process technologies in order to produce higher performance, more efficient or better integrated circuits because we believe this migration is required to remain competitive. Other companies in our industry have experienced difficulty in migrating to new process technologies and, consequently, have suffered reduced yields, delays in product deliveries and increased expense levels. We may experience similar difficulties. Moreover, we are dependent on our relationships with subcontractors and the products of electronic design automation tool vendors to successfully migrate to newer or better process technologies. Our third-party manufacturers may not make newer or better process technologies available to us on a timely or cost-effective basis, if at all. If our third-party manufacturers do not make newer or better manufacturing process technologies available to us on a timely or cost-effective basis, or if we experience difficulties or delays in migrating to these processes, it could have a material adverse effect on our competitive position and business prospects.

We rely on sales representatives and distributors to assist in selling our products, and the failure of these representatives to perform as expected could reduce our future sales.

We sell some of our products through third-party sales representatives and distributors. Our relationships with some of these third-party sales representatives and distributors are relatively new and we are unable to predict the extent to which our third-party sales representatives and distributors will be successful in marketing and selling our products. Moreover, many third-party sales representatives and distributors also market and sell competing products. Third-party sales representatives and distributors may terminate their relationships with us at any time, or with short notice, and may give greater attention to the products sold by our competitors. Our future performance will also depend, in part, on our ability to attract additional third-party sales representatives and distributors that market our products effectively, especially in markets in which we have not previously distributed our products. If we cannot retain our current third-party sales representatives and distributors and recruit additional or replacement third-party sales representatives and distributors, our revenues and operating results could be harmed.

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Our products may contain defects or errors which may adversely affect their market acceptance and our reputation and expose us to product liability claims.*

Our products are very complex and may contain defects or errors, especially when first introduced, when in full production, or when new versions are released. Despite testing, errors may occur. Product errors could affect the performance of our products, delay the development or release of new products or new versions of products, adversely affect our reputation and our customers willingness to buy products from us, and adversely affect market acceptance of our products. Any such errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance could cause us to lose revenue or market share, increase our service costs, cause us to incur substantial costs in redesigning our products, subject us to liability for damages and divert our resources from other tasks. Our products must successfully interoperate with products from other vendors. As a result, when problems occur in a device or application in which our product is used, it may be difficult to identify the sources of these problems. The occurrence of hardware and software errors, whether or not caused by our products, could result in the delay or loss of market acceptance of our products, and therefore delay our ability to recognize revenue from sales, and any necessary revisions may cause us to incur significant expenses. Moreover, since one of the key benefits of our home networking products is reduction of the need for truck rolls, problems with our products would likely result in a greater number of truck rolls and this in turn could adversely affect our sales. The occurrence of any such problems could harm our business, operating results and financial condition.

The use of our products also entails the risk of product liability claims. Such claims may require us to incur additional development and remediation costs, pursuant to warranty and indemnification provisions in our customer contracts and purchase orders. We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not adequately cover any claim asserted against us. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation which may divert our technical and other resources from product development efforts and divert our management s time and other resources. Any limitation of liability provisions in our standard terms and conditions of sale may not fully or effectively protect us from claims as a result of federal, state or local laws or ordinances or unfavorable judicial decisions in the United States or other countries.

We depend on key personnel to operate our business, and if we are unable to retain our current personnel and hire additional qualified personnel, our ability to develop and successfully market our products could be harmed.*

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering and sales and marketing personnel. There is significant competition for qualified personnel in the markets in which we compete and in the geographical locations in which we operate. We do not have employment agreements with most of our executive or key employees and the unexpected loss of any key employees, including Patrick Henry, our president and chief executive officer, other members of our senior management or our senior engineering personnel, or an inability to attract additional qualified personnel, including engineers and sales and marketing personnel, could delay the development, introduction and sale of our products and our ability to execute our business strategy may suffer. Further, our integration of the STB business into our existing operations is substantially reliant on certain key employees of Trident who are providing transition services to us and our ability to achieve the anticipated benefits from the transaction may be dependent on Trident s ability to retain such employees during the transition period. In addition, in the event that there is a loss of any of our or Trident s key personnel, there is a potential for loss of important knowledge that may delay or negatively impact development or sale of our products and our ability to execute on our business strategy. We do not currently have any key person life insurance covering any executive officer or employee.

Increasingly stringent environmental laws, rules and regulations could adversely affect our ability to cost-effectively produce our products and if we fail to comply with environmental regulatory requirements, our operating results could be adversely affected.*

The electronics industry has been subject to increasing environmental regulations. At the same time, we face increasing complexity in our product design and procurement operations as we adjust to requirements relating to the materials composition of many of our products. The European Union has adopted certain directives to facilitate the recycling of electrical and electronic equipment sold in the European Union, including the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or RoHS, directive that restricts the use of lead, mercury and certain other substances in electrical and electronic products placed on the market in the European Union after July 1, 2006, and many other countries, including China, Taiwan and Korea, where the majority of our products are manufactured and packaged and sold, have also adopted similar directives banning or limiting the use of specified substances in products introduced into their domestic markets. We have incurred costs in connection with our compliance with these environmental laws and regulations, such as costs related to eliminating lead from our semiconductor product packaging. Other environmental regulations may be enacted in the future, including in the United States, that require us to re-engineer or redesign our products and processes to utilize components that are compatible with these regulations. and this re-engineering and redesign may result in additional costs to us or disrupt our operations or logistics. If we or the third-party manufacturers of our products are unable to meet future environmental regulations in a timely and cost-effective manner, it could have a material adverse effect on our business, results of operations and financial condition.

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Certain of our customers products and service providers services are subject to governmental regulation.

Governmental regulation could place constraints on our customers and service providers services and, consequently, reduce our customers demand for our products. For example, the Federal Communications Commission has broad jurisdiction over products that emit radio frequency signals in the United States. Similar governmental agencies regulate these products in other countries. Moreover, laws and regulations regarding local cable franchising or satellite broadcasting rights could have an adverse effect on service providers ability to compete in the HD video and multimedia content delivery market. Although most of our products are not directly subject to current regulations of the Federal Communications Commission or any other federal or state communications regulatory agency, much of the equipment into which these products are incorporated is subject to direct governmental regulation. Accordingly, the effects of regulation on our customers or the industries in which they operate may, in turn, impede sales of our products. For example, demand for these products will decrease if equipment into which they are incorporated fails to comply with the specifications of the Federal Communications Commission.

Our effective tax rate may increase or fluctuate, and we may not derive the anticipated tax benefits from any expansion of our international operations.

Our effective tax rate could be adversely affected by various factors, many of which are outside of our control. Our effective tax rate is directly affected by the relative proportions of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. We are also subject to changing tax laws, regulations and interpretations in multiple jurisdictions in which we operate as well as the requirements of certain tax rulings. Changes in applicable tax laws may cause fluctuations between reporting periods in which the changes take place. If our business opportunities outside the United States continue to grow, we may expand our international operations and staff to better support our expansion into international markets. We anticipate that this expansion will include the implementation of an international organizational structure that could result in an increasing percentage of our consolidated pre-tax income being derived from, and reinvested in, our international operations. Moreover, we anticipate that this pre-tax income would be subject to foreign tax at relatively lower tax rates when compared to the U.S. federal statutory tax rate and as a consequence, our future effective income tax rate may be lower than the U.S. federal statutory rate. There can be no assurance that significant pre-tax income will be derived from or reinvested in our international operations, that our international operations and sales will result in a lower effective income tax rate, or that we will implement an international organizational structure. In addition, our future effective income tax rate could be adversely affected if tax authorities challenge any international tax structure that we implement or if the relative mix of U.S. and international income changes for any reason. Accordingly, there can be no assurance that our effective income tax rate will be less than the U.S. federal statutory rate.

Our ability to utilize our net operating loss and tax credit carryforwards may be limited, which could result in our payment of income taxes earlier than if we were able to fully utilize our net operating loss and tax credit carryforwards.

As of December 31, 2011, we had federal and state net operating loss carryforwards of approximately $3.6 million and $32.2 million, respectively, and federal and state research and development tax credit carryforwards of $14.1 million and $14.0 million, respectively. The tax benefits related to utilization of net operating loss and tax credit carryforwards may be limited due to ownership changes or as a result of other events. For example, Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limitation on the amount of net operating loss carryforwards and tax credit carryforwards that may be used to offset federal taxable income and federal tax liabilities when a corporation has undergone a significant change in its ownership. While prior changes in our ownership, including as a result of our acquisition of RF Magic, Inc., have resulted in annual limitations on the amount of our net operating loss and tax credit carryforwards that may be utilized in the future, we do not anticipate that such annual limitations will preclude the utilization of substantially all the net operating loss and tax credit carryforwards described above in the event we remain profitable. However, to the extent our use of net operating loss and tax credit carryforwards is further limited by future offerings or transactions or by our implementation of an international tax structure or other future events, our income would be subject to cash payments of income tax earlier than it would be if we were able to fully utilize our net operating loss and tax credit carryforwards without such further limitation.

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If we fail to manage our exposure to global financial and securities market risks successfully, our operating results could be adversely impacted.

We are exposed to financial market risks, including changes in interest rates, foreign currency exchange rates, credit markets and prices of marketable equity and fixed-income securities. The primary objective of most of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, a majority of our marketable investments are investment grade, liquid, fixed-income securities and money market instruments denominated in U.S. dollars. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments, which could materially harm our results of operations and financial condition. Moreover, the performance of certain securities in our investment portfolio is affected by the credit condition of the U.S. financial sector. Although there have been recent signs of improvement within the U.S. financial sector, the sector remains fragile and conditions may deteriorate rapidly, which could adversely affect the value, realized or unrealized, of our investments and cause us to record significant impairment losses.

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Risks Related to Our Intellectual Property

Our ability to compete and our business could be jeopardized if we are unable to secure or protect our intellectual property.

We rely on a combination of patent, copyright, trademark and trade secret laws, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our patent applications may not issue as patents at all or they may not issue as patents in a form that will be advantageous to us. Our issued patents and those that may issue in the future may be challenged, invalidated, rendered unenforceable or circumvented, which could limit our ability to stop competitors from marketing related products. Although we have taken steps to protect our intellectual property and proprietary technology, there is no assurance that third parties will not be able to invalidate, render unenforceable or design around our patents. Additionally, in September 2011, the Leahy-Smith America Invests Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to United States patent law. These include provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. The United States patent office is currently developing regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act will not become effective until one year or 18 months after its enactment. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

Furthermore, although we have entered into nondisclosure agreements and intellectual property assignment agreements with our employees, consultants and advisors, such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Moreover, we are required to license any of our patent claims that are essential to implement MoCA specifications to other MoCA members, who could potentially include our competitors, on reasonable and non-discriminatory licensing terms. In addition, in connection with commercial arrangements with our customers and the service providers who deploy equipment containing our products, we may be required to license our intellectual property to third parties, including competitors or potential competitors.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our trademarks, products or technology. Monitoring unauthorized use of our trademarks and technology is difficult and we cannot be certain that the steps we have taken to prevent such unauthorized use will be successful, particularly in foreign countries where the laws may not protect our proprietary rights as comprehensively as in the United States. In addition, if we become aware of a third party s unauthorized use or misappropriation of our trademarks or technology, it may not be practicable, effective or cost-efficient for us to enforce our intellectual property and contractual rights, particularly where the initiation of a claim might harm our business relationships or risk a costly and protracted lawsuit, including a potential countersuit by a competitor with patents that may implicate our products. If competitors engage in unauthorized use or misappropriation of our trademarks or technology, our ability to compete effectively could be harmed.

The acquisition of the STB business of Trident greatly expands the size of our patent portfolio and our ability to manage this growth could have significant affects on our business.*

Upon closing the Trident acquisition, the number of issued and granted patents under our control increased from 161 to 1,460, an increase of 907%. In addition, the number of pending applications under our control increased from 232 to 680, an increase of 293%. The risks associated with managing what is now a complex portfolio of patents are significant. Our ability to manage these risks, including increased costs related to patent prosecution, maintenance costs and potential legal costs in protecting, defending and enforcing our rights under these patents may consume more resources than we are accustomed to, and could negatively impact our business. There is no guarantee that the patents we have acquired are sufficient to provide meaningful protection. If we are unsuccessful in managing the expanded portfolio or if the value of the patents is less than we anticipate, we may not fully achieve the anticipated benefits of the Trident acquisition and our financial results may suffer.

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Our participation in patent pools and standards setting organizations, or other business arrangements, may require us to license our patents to competitors and other third parties and limit our ability to enforce or collect royalties for our patents.

In addition to our existing obligations to license our patent claims that are essential to implement the MoCA specifications to other MoCA members, in the course of participating in patent pools and other standards setting organizations or pursuant to other business arrangements, we may agree to license certain of our technologies on a reasonable and non-discriminatory basis and, as a result, our control over the license of such technologies may be limited. We may also be unable to limit to whom we license some of our technologies and may be unable to restrict many terms of the license. Consequently, our competitors may obtain the right to use our technology. In addition, our control over the application and quality control of our technologies that are included in patent pools or otherwise necessary for implementing industry standards may be limited.

Any dispute with a MoCA member regarding what patent claims are necessary to implement MoCA specifications could result in litigation which could have an adverse effect on our business.

We are required to grant to other MoCA members a non-exclusive and world-wide license on reasonable and non-discriminatory terms to any of our patent claims that are essential to implement MoCA specifications. The meaning of reasonable and non-discriminatory has not been settled by the courts, and accordingly, it is not a well-defined concept. If we had a disagreement with a MoCA member regarding which of our patent claims are necessary to implement MoCA specifications or regarding whether the terms of any license by us under reasonable and non-discriminatory terms fall within the scope and meaning of reasonable and non-discriminatory, this could result in litigation. Any such litigation, regardless of its merits, could be time-consuming, expensive to resolve, divert our management s time and attention and harm our reputation. In addition, any such litigation could result in us being required to license on reasonable and non-discriminatory terms certain of our patent claims which we previously believed did not need to be licensed under our MoCA agreement. Significant disagreements or any litigation between us and any MoCA member regarding patent claims necessary to implement MoCA or the scope and meaning of our reasonable and non-discriminatory terms could have an adverse effect on our business and harm our competitive position.

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Possible third-party claims of infringement of proprietary rights against us, our customers or the service providers that purchase products from our customers, or other intellectual property claims or disputes, could have a material adverse effect on our business, results of operations or financial condition.

The semiconductor industry is characterized by a high level of litigation based on allegations of infringement of proprietary rights. Numerous U.S. and foreign issued patents and pending patent applications owned by third parties exist in the fields in which we are selling and developing products. Because patent applications take many years to issue, currently pending applications, known or unknown to us, may later result in issued patents that we infringe. In addition, third parties continue to actively seek new patents in our field. It is difficult or impossible to keep fully abreast of these developments and therefore, as we develop new and enhanced products, we may sell or distribute products that inadvertently infringe patents held by third parties.

We have in the past received, and in the future we, our customers or the service providers that purchase products from our customers may receive, inquiries from other patent holders and may become subject to claims that we infringe their intellectual property rights. Furthermore, we are, and may in the future be, engaged in joint development projects with technology partners that will result in the incorporation of technology contributed by us and our technology partners into one or more jointly developed products. Accordingly, even if our own technology and stand-alone products do not infringe third party patents, the technology that is contributed by any of our technology partners, or the combination of our technology with that of our technology partners, may infringe third party patents, subjecting us through the use, manufacture, sale, offer for sale or importation of our products to claims that we infringe the intellectual property rights of others. Any intellectual property claim or dispute, regardless of its merits, could force us, our customers or the service providers that purchase our products from our customers to license the third-party s patents for substantial royalty payments or cease the sale of the alleged infringing products or use of the alleged infringing technologies, or force us to defend ourselves and possibly our customers or contract manufacturers in litigation. Any cessation of product sales by us, our customers or the service providers that purchase products from our customers could have a substantial negative impact on our revenues. Any litigation, regardless of its outcome, could result in substantial expense and significant diversion of our management s time and other resources. Moreover, any such litigation could subject us, our customers or the service providers that purchase our products from our customers to significant liability for damages (including treble damages), temporary or permanent injunctions, or the invalidation of proprietary rights or require us, our customers or the service providers that purchase products from our customers to license the third-party patents for substantial royalty or other payments.

In addition, we may also be required to indemnify our customers and contract manufacturers for damages they suffer as a result of such infringement or litigation.

Our use of open source software and third-party technologies, including software, could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products, including certain open source code which is governed by the GNU General Public License, Lesser GNU General Public License and Common Development and Distribution License. In addition, open source software may be incorporated into the technology developed by our technology partners either with or without our knowledge and may be incorporated into our products either with or without our knowledge. The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, make our proprietary code generally available in source code form (for example, proprietary code that links in particular ways to certain open source modules), which could result in our trade secrets being disclosed to the public and the potential loss of intellectual property rights in our software, require us to re-engineer our products, discontinue the sale of our products if re-engineering cannot be accomplished on a cost-effective and timely basis, or become subject to other consequences, any of which could adversely affect our business, operating results and financial condition.

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In addition to technologies we have already licensed, we may find that we need to incorporate certain proprietary third-party technologies, including software programs, into our products in the future. However, licenses to relevant third-party technologies may not be available to us on commercially reasonable terms, if at all. Therefore, we could face delays in product releases until alternative technology can be identified, licensed or developed, and integrated into our current products. Such alternative technology may not be available to us on reasonable terms, if at all, and may ultimately not be as effective as the preferred technology. Any such delays or failures to obtain licenses, if they occur, could materially adversely affect our business, operating results and financial condition.

Because we license some of our software source code directly to customers, we face increased risks that our trade secrets will be exposed through inadvertent or intentional disclosure, which could harm our competitive position or increase our costs.

We license some of our software source code to our customers, which increases the number of people who have access to some of our trade secrets and other proprietary rights. Contractual obligations of our licensees not to disclose or misuse our source code may not be sufficient to prevent such disclosure or misuse. The costs of enforcing contractual rights could substantially increase our operating costs and may not be cost-effective, reasonable under the circumstances or ultimately succeed in protecting our proprietary rights. If our competitors access our source code, they may gain further insight into the technology and design of our products, which would harm our competitive position.

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Risks Related to International Operations

We expect a significant portion of our future revenues to come from our international customers and, as a result, our business may be harmed by political and economic conditions in foreign markets and the challenges associated with operating internationally.*

We have derived, and expect to continue to derive, a significant portion of our revenues from international markets. Many of our customers in Asia incorporate our chipsets into their products that are then sold to U.S.-based service providers. Net revenues outside of the United States comprised 99% of our total revenues for the three months ended March 31, 2012 and 2011, respectively. Our international presence has significantly increased as a result of our acquisition of the STB business from Trident and as a result our exposure to the risks of international business activities are likely to increase. Certain of these risks, include:

- difficulties involved in the staffing and management of geographically dispersed operations;
- complying with local laws and regulations, which are interpreted and enforced differently across jurisdictions and which can change significantly over time;
- longer sales cycles in certain countries, especially on initial entry into a new geographical market;
- greater difficulty evaluating a customer s ability to pay, longer accounts receivable payment cycles and greater difficulty in the collection of past-due accounts;
- general economic conditions in each country;
- challenges associated with operating in diverse cultural and legal environments;
- seasonal reductions in business activity specific to certain markets;
- loss of revenue, property and equipment from expropriation, natural disasters, nationalization, war, insurrection, terrorism and other political risks;
- foreign taxes and the overlap of different tax structures, including modifications to the U.S. tax code as a result of international trade regulations;
- foreign technical standards;
- compliance with the Foreign Corrupt Practices Act, as well as other anti-corruption laws;
- changes in currency exchange rates; and

import and export licensing requirements, tariffs, and other trade and travel restrictions.

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To the extent our international sales are adversely affected by any of these risks or are otherwise unsuccessful, we could experience a reduction in revenue and our operating results could suffer.

In addition, the laws that govern the protection of intellectual property rights in certain foreign countries where we sell our products, such as China and Korea, can make recognition and enforcement of contractual and intellectual property rights more expensive and difficult than is the case in the United States. In particular, we may have difficulty preventing ODMs and OEMs in these countries from incorporating our inventions, technologies, copyrights or trademarks into their products without our authorization or without paying us licensing fees. We may also experience difficulty enforcing our intellectual property rights in these countries, where intellectual property rights are not as respected as they are in the United States, Japan and Europe. Unauthorized use of our technologies and intellectual property rights may dilute or undermine the strength of our brand. Further, if we are not able to adequately monitor the use of our technologies by foreign-based ODMs and OEMs, or enforce our intellectual property rights in foreign countries, our revenue potential could be adversely affected.

Our products are subject to export and import controls that could subject us to liability or impair our ability to compete in international markets.

Our products are subject to U.S. export controls and may be exported outside the United States only with the required level of export license or through an export license exception, in part because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or could limit our customers ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, or change in the countries, persons or technologies targeted by such regulations or legislation, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers internationally.

In addition, we may be subject to customs duties and export quotas, which could have a significant impact on our revenue and profitability. The future imposition of significant increases in the level of customs duties or export quotas could have a material adverse effect on our business.

Substantially all of our products, and the products of many of our customers, are manufactured by third-party contractors located in the Pacific Rim, a region subject to earthquakes and other natural disasters, as well as economic and political instability. Any disruption to the operations of these contractors could cause significant delays in the production or shipment of our products.*

Substantially all of our products are manufactured by third-party contractors located in the Pacific Rim. The risk of an earthquake in this area is significant due to the proximity of major earthquake fault lines to the facilities of our foundry, assembly and test subcontractors. The occurrence of earthquakes or other natural disasters, or the occurrence of other catastrophic events such as a pandemic in the region, could result in the disruption of our foundry or assembly and test capacity or in the ability of our customers to purchase the raw materials or parts necessary to manufacture products, such as digital video recorders, or DVRs, into which our products are incorporated. In addition, many countries within the Pacific Rim have experienced, and continue to experience, periods of economic and political instability. Any deterioration in the economic and political conditions in the Pacific Rim that disrupts the operations of our third-party contractors could also result in the disruption of our foundry or assembly and test capacity. Any disruption caused by an earthquake or other catastrophic event or from the deterioration of economic and political conditions could cause significant delays in the production or shipment of our products until we are able to shift our manufacturing, assembling or testing from the affected contractor to another third-party vendor. We may not, and our customers may not, be able to obtain alternate capacity on favorable terms, if at all.

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Risks Related to Ownership of Our Common Stock

Our stock price is volatile and may decline regardless of our operating performance, and you may not be able to resell your shares at or above the price at which you purchased such shares.*

The market price for our common stock is volatile and may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

price and volume fluctuations in the overall stock market;

market conditions or trends in our industry or the economy as a whole;

changes in operating performance and stock market valuations of other technology companies generally, or those that sell semiconductor products in particular;

the timing of customer or service provider orders that may cause quarterly or other periodic fluctuations in our results that may, in turn, affect the market price of our common stock;

the seasonal nature of the deployment of products that incorporate our products by certain service providers which may affect the timing of orders for our products;

the timing of revenue recognition on sales arrangements, which may include multiple deliverables, and the effect of our use of inventory hubbing arrangements;

the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

changes in financial estimates or ratings by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;

the public s response to press releases or other public announcements by us or third parties, including our filings with the SEC and announcements relating to product development, litigation and intellectual property impacting us or our business;

the sustainability of an active trading market for our common stock;

future sales of our common stock by our executive officers, directors and significant stockholders;

announcements of mergers or acquisition transactions;

market acceptance and understanding of our recent acquisition of the STB business of Trident;

announcements of technical innovations, new products or design wins by our competitors or customers;

other events or factors, including those resulting from war, incidents of terrorism, natural disasters or responses to these events; and

changes in accounting principles.

In addition, the stock markets, and in particular NASDAQ, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

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Future sales of our common stock or the issuance of securities convertible into or exercisable for shares of our common stock may depress our stock price.

A significant number of shares of our common stock are held by a small number of stockholders. Sales of a substantial number of shares of our common stock, the issuance of securities convertible into or exercisable for shares of our common stock or the expectation or perception in the market that the holders of a large number of our shares of common stock intend to sell their shares, could significantly reduce the market price of our common stock. Although the average daily trading volume of our common stock has slowly increased in recent months, our common stock is still less liquid than the stock of companies with broader public ownership and, as a result, the trading of a relatively small volume of our common stock may have a greater impact on the trading price for our stock and lead to increased volatility in our stock price. In particular, certain venture capital funds have held shares of our common stock for a substantial period of time and may distribute shares to their limited partners or members at any time and without notice. Any such distribution may result in a substantial number of our shares being sold, which could have an adverse effect on the trading price of our common stock.

Anti-takeover provisions in our charter documents and Delaware law might deter acquisition bids for us that you might consider favorable.

Our amended and restated certificate of incorporation and bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval, and which may include rights superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws;
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- provide that in addition to any vote required by law or by our amended and restated certificate of incorporation, the approval by holders of at least 66-2/3% of our then outstanding common stock is required to adopt, amend or repeal any provision of our amended and restated bylaws.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire.

Our principal stockholders, executive officers and directors have substantial control over the company, which may prevent you and other stockholders from influencing significant corporate decisions and may harm the market price of our common stock.*

As of March 31, 2012, our executive officers, directors and holders of five percent or more of our outstanding common stock, beneficially owned, in the aggregate, 14.6% of our outstanding common stock. These stockholders may have interests that conflict with our other stockholders and, if acting together, have the ability to influence the outcome of matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. Accordingly, this

concentration of ownership may harm the market price of our common stock by:

delaying, deferring or preventing a change of control;

impeding a merger, consolidation, takeover or other business combination involving us; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

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We do not expect to pay any cash dividends for the foreseeable future.

The continued expansion of our business will require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Investors seeking cash dividends in the foreseeable future should not purchase or hold our common stock.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

The following sets forth information regarding all unregistered securities of the Company that were sold during the three months ended March 31, 2012:

(1) As of December 31 2011, options to purchase up to 886,826 shares of our common stock were outstanding under our 2001 Stock Option Plan, or 2001 Plan. Of these options, during the three months ended March 31, 2012, none of these options were cancelled without being exercised and options to purchase 49,900 shares of common stock were exercised at a weighted average exercise price of $1.43 per share. As of March 31, 2012, options to purchase up to 836,926 shares of our common stock remained outstanding under the 2001 Plan.

(2) As of December 31, 2011, options to purchase up to 233,814 shares of our common stock were outstanding under our RF Magic, Inc. 2000 Incentive Stock Plan, or RF Magic Plan. During the three months ended March 31, 2012, none of these options were cancelled without being exercised and options to purchase 13,976 shares of common stock were exercised at a weighted average exercise price of $0.46 per share. As of March 31, 2012, options to purchase up to 219,838 shares of our common stock remained outstanding under the RF Magic Plan.

All of the offers, sales and issuances of the securities described in paragraphs (1) and (2) were deemed to be exempt from registration under the Securities Act of 1933, as amended, or the Securities Act, in reliance on Rule 701 in that the transactions were under compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of such securities were our employees, directors or bona fide consultants and received the securities under the 2001 Plan or RF Magic Plan, as the case may be. Appropriate legends were affixed to the securities issued in these transactions to the extent required. Each of the recipients of securities in these transactions had adequate access, through employment, business or other relationships, to information about us.

Item 6. Exhibits

The exhibits listed in the accompanying Index to Exhibits are filed with, or incorporated by reference into, this Quarterly Report. The exhibit numbers on the Index to Exhibits that are followed by an asterisk (*) indicate exhibits filed with this Quarterly Report on Form 10-Q. All other exhibit numbers indicate exhibits filed by incorporation by reference.

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SIGNATURES

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

ENTROPIC COMMUNICATIONS, INC.

By: /s/ David Lyle
David Lyle

Duly Authorized Officer and

Principal Financial Officer

Date: May 4, 2012

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INDEX TO EXHIBITS

Exhibit Number	Description of Document
2.1(1)	Asset Purchase Agreement, dated January 18, 2012, by and between Entropic Communications, Inc. and Trident Microsystems, Inc. and certain of its subsidiaries.
2.2(2)	Amendment to Asset Purchase Agreement, dated January 18, 2012, by and between Entropic Communications, Inc. and Trident Microsystems, Inc. and certain of its subsidiaries.
2.3(3)	Second Amendment to Asset Purchase Agreement, dated February 6, 2012, by and between Entropic Communications, Inc. and Trident Microsystems, Inc. and certain of its subsidiaries.
2.4(4)	Third Amendment to Asset Purchase Agreement, dated March 14, 2012, by and between Entropic Communications, Inc. and Trident Microsystems, Inc. and certain of its subsidiaries.
3.1(5)	Amended and Restated Certificate of Incorporation of the Registrant.
3.2(6)	Amended and Restated Bylaws of the Registrant.
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2(7)	Form of Common Stock Certificate of the Registrant.
10.1#*	Amended and Restated Manufacturing Services Agreement, dated April 12, 2012, by and between Entropic Communications, Inc. (as successor-in-interest to Trident Microsystems (Far East) Ltd.) and NXP Semiconductors Netherlands B.V.
31.1*	Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL 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 Taxonomy Extension Presentation Linkbase Document.

Certain confidential portions of this Exhibit have been omitted pursuant to a request for confidential treatment. Omitted portions have been filed separately with the Securities and Exchange Commission.

* Filed herewith.

** Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 460T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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(1) Incorporated herein by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed with the SEC on January 20, 2012.

(2) Incorporated herein by reference to Exhibit 2.2 to the Registrant s Current Report on Form 8-K filed with the SEC on January 20, 2012.

(3) Incorporated herein by reference to Exhibit 99.3 to the Registrant s Current Report on Form 8-K filed with the SEC on April 18, 2012.

(4) Incorporated herein by reference to Exhibit 99.4 to the Registrant s Current Report on Form 8-K filed with the SEC on April 18, 2012.

(5) Incorporated herein by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed with the SEC on December 13, 2007.

(6) Incorporated herein by reference to Exhibit 3.2 the Registrant s Current Report on Form 8-K filed with the SEC on December 5, 2008.

(7) Incorporated herein by reference to the Registrant s Registration Statement on Form S-1 (No. 333-144899), as amended, filed with the SEC.