



Charter

Charter of the Audit Committee of the
Board of Directors

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Revision: 2.0

**Charter of the Audit Committee
of the Board of Directors
(Adopted April 29, 2004)**

Notice of Proprietary Information

This Charter is the property of Avid Bioservices, Inc., and any of its subsidiaries. The information contained herein is proprietary to this Company and may not be copied or reproduced without the express written permission of the Company's President & Chief Executive Officer.

PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing (i) the Company's financial statements provided to stockholders, the public and others, (ii) the Company's system of internal controls regarding finance, accounting, legal compliance and ethical behavior and (iii) the Company's auditing, accounting and financial reporting process. Consistent with this function, the Audit Committee shall encourage continuous improvement of, and foster adherence to, the Company's policies, procedures and practices at all levels.

In meeting its responsibilities, the Audit Committee is expected to:

- serve as an independent and objective party to review the Company's financial reporting process and internal control system;
- review and evaluate the audit activities of the Company's outside auditors; and
- provide an open avenue of communication among the outside auditors, management and the Board of Directors.

Without limiting the foregoing, and in recognition of the fact that the Company's outside auditors are ultimately accountable to the Audit Committee, the Audit Committee has the sole authority and responsibility to select, evaluate, oversee, determine the compensation of and, where appropriate, replace the outside auditors and/or nominate the outside auditors for stockholder approval. The Audit Committee shall consult with management, but shall not delegate these responsibilities. The Audit Committee is responsible for resolving disputes between management and the outside auditor regarding financial reporting issues.

The Audit Committee shall primarily fulfill these responsibilities by carrying out the activities enumerated under the heading "Responsibilities and Duties" in this Charter. In carrying out its responsibilities, the Audit Committee has the authority (i) to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and (ii) to retain independent legal, accounting and other consultants to advise the Audit Committee, at the Company's expense, as it deems necessary.

ORGANIZATION

The Audit Committee shall be appointed by the Board of Directors and shall be comprised of three or more directors as determined by the Board of Directors, each of whom shall be an independent director (as defined by all applicable Nasdaq and SEC rules and regulations) and each of whom is free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of the director's independent judgment as a member of the Audit Committee.

All members of the Audit Committee shall have a working familiarity with basic finance and accounting practices and be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement or shall become able to do so within a reasonable time after his or her appointment to the Audit Committee. At least one member of the Audit Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other

comparable experience or background which results in that member's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. No member of the Audit Committee shall have participated in the preparation of the financial statements of the Company or any current subsidiary at any time during the previous three (3) years.

MEETINGS

The Audit Committee shall meet as circumstances require. The Audit Committee may require any officer or employee of the Company or its subsidiaries, the Company's outside auditors or outside counsel or others to attend its meetings or to meet with any members of, or consultants to, the Audit Committee, and to provide pertinent information as necessary. As part of its job to foster open communication, the Audit Committee shall meet at least annually with management and the Company's outside auditors in separate executive sessions to discuss any matters that the Audit Committee or any of these groups believe should be discussed privately.


RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Audit Committee shall:

1. Review with financial management and the Company's outside auditors the Company's annual audited financial statements, including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations", prior to the filing of such statements with the Securities and Exchange Commission. This review should include a discussion of the outside auditors' judgments about the quality and appropriateness of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, including review of estimates, reserves and accruals, review of judgmental areas, review of audit adjustments whether or not recorded and such other inquiries as may be appropriate. Based on this review, the Audit Committee shall make its recommendation to the Board of Directors as to the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K.
2. Review with financial management and the Company's outside auditors the Company's quarterly financial statements and Form 10-Q, including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the independent auditors' review of the quarterly financial statements (including a review of the matters included in the paragraph immediately above), prior to the submission of such statements to the Securities and Exchange Commission or the public. The Chairman of the Audit Committee or any subcommittee of the Audit Committee may represent the entire Audit Committee for the purpose of this review. Based on this review, the Audit Committee (or the Chairman or a subcommittee of the Audit Committee) shall make a recommendation as to the filing of the Form 10-Q.
3. Review the performance of the outside auditors and make determinations regarding the appointment, replacement or rotation of the outside auditors.

4. On an annual basis, review and discuss with the outside auditors all relationships the outside auditors have or have had during the current year with the Company to determine the outside auditors' continued independence. In connection with the foregoing, the Audit Committee shall request that the outside auditors submit to the Audit Committee on an annual basis a written statement delineating all such relationships. The Audit Committee shall discuss with the outside auditors any disclosed relationship or services that may impact the objectivity and independence of the outside auditors and shall, if appropriate, recommend that the Board of Directors take appropriate action in response to the written statement to satisfy itself of the outside auditors' independence.
5. Review and reassess the adequacy of the Audit Committee's Charter annually and recommend to the Board of Directors any changes deemed appropriate by the Audit Committee. The Chairman of the Audit Committee may represent the entire Audit Committee for purposes of this review.
6. Consider and pre-approve all auditing services and non-audit services to be provided to the Company by its outside auditor, and establish policies and procedures for the pre-approval of such services, including the fees and terms thereof. All non-audit services permitted pursuant to law to be provided by the outside auditors must be considered and pre-approved by the Audit Committee and such approvals must be disclosed in the Company's applicable periodic public filings. The Audit Committee may delegate to one or more designated members of the Audit Committee who are independent directors of the Company the authority to grant pre-approvals as required by this item, provided that the decisions of any such designated members to whom such authority is delegated will be presented to the full Audit Committee at its scheduled meetings.
7. Prepare any reports of the Audit Committee required by applicable securities laws or stock market listing requirements or rules to be included in any proxy statements, information statements or other documents, and approve disclosures required to be included in periodic filings with the Securities and Exchange Commission with respect to audit, audit-related and non-audit services, and reports and attestations regarding internal controls.
8. Approve the fees to be paid to the outside auditors in connection with the Company's annual audit and any approved auditing and non-audit services.
9. Review with the outside auditors their audit plan, the scope of their audit, the auditors' report and their recommendations.
10. Discuss with the outside auditors matters identified by the auditors for discussion with the Audit Committee in accordance with applicable AICPA statements on auditing standards (particularly Statement on Auditing Standards No. 61), securities laws or stock market listing requirements or rules.

11. Review and discuss with management and the Company's outside auditors, the integrity of the Company's financial reporting process.
12. Review and discuss with management and the Company's outside auditors, the quality and adequacy of the Company's internal accounting controls. Review and discuss with management and the Company's outside auditors any material communications between them, including any management letter.
13. Review and discuss reports from the outside auditors concerning all critical accounting policies and practices used by the Company and alternative accounting treatments within GAAP related to material items that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the outside auditor.
14. Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
15. Discuss with the outside auditors whether they are aware of any action by an officer, director, or person acting under their direction which would violate Rule 13b2-2(b)(1) under the Securities Exchange Act of 1934 which prohibits improper influence on the conduct of audits.
16. Review and approve (a) any change or waiver in the Company's Code of Business Conduct and Ethics for executive officers, including the president and chief executive officer, the chief operating officer and senior financial officers (including the chief financial officer) and (b) any public disclosure made regarding such change or waiver.
17. Review and approve related-party and conflict of interest transactions.
18. Review, at least annually, with management, the outside auditors and the Company's outside counsel, as appropriate, any material pending or threatened litigation, and any legal, accounting, regulatory or compliance matters that could have a significant impact on the Company's financial position or results of operations.
19. Report regularly to the full Board of Directors and review with the full Board of Directors any issues that have arisen with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's outside auditors.
20. Establish policies for the hiring of employees and former employees of the independent auditor.

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21. Perform any other activities consistent with this Charter, the Company's By-laws and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

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While the Audit Committee has the responsibilities and powers set forth in this Charter, the Company's management is responsible for preparing the Company's financial statements and the outside auditors are responsible for auditing them. The Audit Committee is responsible for overseeing the conduct of these activities and is not expected to audit the Company, to define the scope of the audit, to control the Company's accounting practices or to define the standards to be used in the preparation of the Company's financial statements. Nor is it the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations or the Company's Code of Business Conduct and Ethics. The Audit Committee may rely, without independent verification, on the information provided to it and on the representations made by management that the financial statements have been prepared in conformity with generally accepted accounting principles and the corresponding reports of the outside auditors prepared in connection with their reviews and audits. Consequently, in carrying out its responsibilities, the Audit Committee is not determining that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, nor is the Audit Committee providing any expert or special assurance as to the Company's financial statements or any professional certification as to the outside auditors' work.