

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: 001-32839

AVID BIOSERVICES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-3698422

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

2642 Michelle Drive, Suite 200, Tustin, California

(Address of principal executive offices)

92780

(Zip Code)

(714) 508-6100

(Registrant's telephone number, including area code)

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock (\$0.001 par value per share)

The NASDAQ Stock Market LLC

Preferred Stock Purchase Rights

The NASDAQ Stock Market LLC

10.50% Series E Convertible Preferred Stock (\$0.001 par value per share)

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

None

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common stock held by non-affiliates as of October 31, 2017 was \$206,312,000.

Number of shares of common stock outstanding as of July 10, 2018: 55,793,107

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates certain information by reference from the registrant's proxy statement for the annual meeting of stockholders, which proxy statement will be filed no later than 120 days after the close of the registrant's fiscal year ended April 30, 2018.

AVID BIOSERVICES, INC.

**Fiscal Year 2018
Annual Report on Form 10-K**

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PART I

In this Annual Report on Form 10-K (the “Annual Report”), unless the context otherwise indicates, the terms “we,” “us,” “our,” “Company” and “Avid” refer to Avid Bioservices, Inc. (formerly known as Peregrine Pharmaceuticals, Inc.) and its consolidated subsidiaries. In addition to historical information, this Annual Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”) and Section 21 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that involve risks and uncertainties. The inclusion of forward-looking statements should not be regarded as a representation by us or any other person that the objectives or plans will be achieved because our actual results may differ materially from any forward-looking statement. The words “may,” “should,” “plans,” “believe,” “anticipate,” “estimate,” “expect,” their opposites and similar expressions are intended to identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. We caution readers that such statements are not guarantees of future performance or events and are subject to a number of factors that may tend to influence the accuracy of the statements, including but not limited to, those risk factors outlined in the section titled “Risk Factors” as well as those discussed elsewhere in this Annual Report. You should not rely on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Annual Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports that we file from time to time with the Securities and Exchange Commission (“SEC”) after the date of this Annual Report.

Avid Bioservices® is a registered trademark of Avid Bioservices, Inc. All other brand names or trademarks appearing in this Annual Report are the property of their respective holders.

ITEM 1. BUSINESS

Overview

We are a dedicated contract development and manufacturing organization (“CDMO”) that provides a comprehensive range of services from process development to current Good Manufacturing Practices (“cGMP”) commercial manufacturing focused on biopharmaceutical products derived from mammalian cell culture. With 25 years of experience producing monoclonal antibodies and recombinant proteins in batch, fed-batch and perfusion modes, our services include cGMP clinical and commercial product manufacturing, purification, bulk packaging, stability testing and regulatory submissions and support. We also provide a variety of process development services, including cell line development and optimization, cell culture and feed optimization, analytical methods development and product characterization.

We have experience in performing process development and manufacturing of biologics since 1993 in our Franklin biomanufacturing facility (“Franklin Facility”) located at our headquarters in Tustin, California. In March 2016, we expanded our manufacturing capacity through the commissioning of our Myford biomanufacturing facility (“Myford Facility”) which more than doubled our manufacturing capacity. The 42,000 square foot facility, which is our second biomanufacturing facility, includes multiple single-use bioreactors up to the 2,000-liter manufacturing scale. The Myford Facility was designed to accommodate a fully disposable biomanufacturing process for products in clinical development to commercial. The Myford Facility is located adjacent to our Franklin Facility.

Business Transition

In the fall of 2017, we announced our intent to cease our research and development activities and to transition our business to a dedicated CDMO, which we completed during the fourth quarter of fiscal year 2018. As part of our transition efforts, we completed the following initiatives:

- In August 2017, we instituted a number of strategic actions, including the reduction of our research and development workforce, designed to reduce costs and better position ourselves as a dedicated CDMO;

- In September 2017, we named Roger J. Lias, Ph.D., who has more than 20 years of management experience in the biologics CDMO industry, as the president of our contract manufacturing subsidiary. Subsequently, in December 2017, we appointed Dr. Lias as our President and Chief Executive Officer as we transitioned to a dedicated CDMO;
- In October and November 2017, we appointed a total of six new independent members to our board of directors, each of whom has relevant CDMO industry experience;
- In November 2017, we named Tracy Kinjerski as our Vice President of Business Operations, who will focus on executing new business development initiatives with the objective of growing our commercial customer base;
- On January 5, 2018, we amended our Certificate of Incorporation to change our corporate name to Avid Bioservices, Inc. and we adopted the new ticker symbol “CDMO” on The NASDAQ Capital Market to align with the new end-market focus and strategic positioning of our business;
- By January 31, 2018, we classified our R84 technology as held for sale and abandoned our remaining research and development assets (including our intent to return the exosome technology back to the original licensor);
- On February 12, 2018, we sold our phosphatidylserine (PS)-targeting program pursuant to an Asset Assignment and Purchase Agreement (as described in Note 9 to the accompanying consolidated financial statements); and
- On February 20, 2018 we closed an underwritten public offering of our common stock pursuant to which we sold 10,294,445 shares of our common stock at an offering price of \$2.25 per share for aggregate gross proceeds of \$23,163,000 before deducting underwriting discounts, commissions and other offering related expenses of \$1,669,000 (as described in Note 4 to the accompanying consolidated financial statements).

During our transition, we established and began executing on the following near-term strategic objectives:

- Expand existing customer relationships and diversify our customer base by securing additional customers to support our potential future revenue growth beyond fiscal year 2018. Since undertaking our transition to a dedicated CDMO in the fall of 2017, we have executed service agreements with 5 new customers, as well as expanded existing client programs and added additional projects from existing customers.
- Continue to invest in manufacturing facilities and infrastructure to maximize our facility utilization and support our clients’ clinical and commercial development and manufacturing requirements. We are currently in the process of expanding and optimizing our process development capabilities and laboratory space, which includes expanding our total available process development laboratory space to more than 6,000 square feet, upgrading the infrastructure and equipment within our existing process development laboratories, and implementing new state-of-the-art technologies and equipment designed to facilitate efficient, high-throughput development of innovative upstream and downstream manufacturing processes. We are strategically conducting this work in phases to avoid disruption to current customer programs, with the first new laboratories expected to be operational during the third quarter of calendar year 2018. In addition, on May 8, 2018, we announced the appointment of Magnus Schroeder, Ph.D., as Vice President of Process Sciences, further strengthening our Process Development department and senior executive management team.
- Broaden our sales force by hiring sales representatives to execute our business development initiatives in key markets. For the first time, we have hired a business development lead on the east coast, who has more than 26 years of relevant industry experience, including a 22-year tenure with a global integrated solutions provider to the pharmaceutical and biotechnology industries. This individual will play a key role in our new customer acquisition efforts in the eastern half of North America, while supporting our existing clients in the same territory. In addition, we recently hired a business development lead for the western half of North America. This individual brings more than 25 years of sales experience, of which 18 years include direct biologics CDMO experience.

Our Competitive Strengths

We believe that we are well-positioned to address the market for outsourced development and manufacturing of biopharmaceuticals derived from mammalian biologics due to the following factors:

- *Expertise in Mammalian Biologics:* We believe that recent consolidation in the CDMO industry has resulted in a limited number of nimble, independent CDMOs with mammalian biologics development and manufacturing capabilities. The mammalian cell culture production method is highly suitable for manufacturing complex molecules and we believe the benefits of the mammalian cell culture production method have played a significant role in accelerating the proliferation of biologics therapies. We believe we are well positioned in the industry given our expertise in mammalian biologics.
- *Broad Spectrum of Services to Support Customers from Early Stage Development to Commercial:* We provide fully integrated and customized biomanufacturing services that support our clients from the early preclinical stage to commercial launch and supply. Pharmaceutical companies generally prefer to engage with CDMOs that are able to work with a product throughout its lifecycle and have long-standing track records of regulatory compliance and quality control. Our Process Development, cGMP Biomanufacturing, Project Management, Quality Systems and Quality Control are all supported by modern facilities designed to meet customer needs from early stage development to commercial supply. We further differentiate ourselves in the market as follows:
 - Customer-Centric Approach: We have an extensive track record of tailoring our development and manufacturing solutions to meet the specific demands of each of our customers.
 - Agile Manufacturing and Development: We strive to collaborate with our customers throughout the duration of their projects, enabling us to rapidly respond to evolving production requirements.
 - Cost-Effective Solutions: Our single-use bioreactors and widespread use of other disposable technologies throughout the manufacturing cycle reduce facility space and the cost of manufacturing materials, enabling us to deliver economically viable processes and enhanced manufacturing efficiency for our customers.
- *Strong Regulatory Track Record:* Historically, developing the expertise to comply with stringent regulatory audits and validation requirements has been a challenge for both pharmaceutical companies and CDMOs, and can serve as a significant barrier to entry for many CDMOs, as facilities can take years to construct and properly validate. Pharmaceutical companies place a premium on working with CDMOs that can ensure a high degree of regulatory compliance, which decreases execution risk. We have a strong regulatory track record consisting of a 15-year inspection history with no significant impact on our business. In addition, between 2005 and 2017, we completed six successful pre-approval inspections. We also completed four U.S. Food and Drug Administration (“FDA”) inspections between 2013 to the most recently completed inspection in early calendar year 2018, none of which resulted in any Form 483 observations by the FDA. Further, we have successfully complied with audits from large pharmaceutical companies.
- *Modern and Optimized Infrastructure:* As a result of the development of our Myford Facility (which we commissioned in March 2016), we have positioned our business to capitalize on increasing demand in the biologics manufacturing industry for modular cleanroom space and single-use bioreactors. Increasingly efficient manufacturing techniques with improved fundamental cell line productivity have led to higher yields, which allow manufacturers to meet customer demand while using less manufacturing capacity. These developments have driven demand among pharmaceutical companies for facilities that can match bioreactor size to smaller volume production runs. With single-use bioreactors from 200 to 2,000 liters, our Myford Facility is designed to provide our customers with the desired efficiency and flexibility.

- *Significant Manufacturing Experience and Seasoned Management Team with a Proven Track Record*: We have 25 years of experience producing monoclonal antibodies and recombinant proteins, over 13 years of cGMP commercial manufacturing experience and over 10 years of experience with single-use technology. Our management team and board of directors have a deep understanding of the CDMO industry and have contributed their collective expertise to our transition to a dedicated CDMO.
- *Strong Revenue Growth*: Although we experienced a moderate decline in revenues for fiscal year 2018, primarily due to an unanticipated decline in demand from our two largest customers, over the prior seven fiscal years our CDMO business experienced significant revenue growth, increasing from gross revenue of \$8.5 million in fiscal year 2011 to \$57.6 million in fiscal year 2017.

Our Growth Strategy

We believe we have a significant opportunity to drive organic growth by leveraging our strengths, broadening our capabilities, increasing our capacity and improving our market visibility. Further, our transition to a dedicated CDMO has allowed us to re-allocate resources previously utilized for our research and development activities and focus on the growth of our CDMO business.

We have taken and continue to take steps to diversify and expand our customer base and have developed marketing and sales strategies designed to drive new client acquisitions, while also continuing to leverage our existing relationships to pursue additional collaborations with our existing customers. We also continue to expand our process development capabilities in order to make our operations more attractive to emerging, mid-sized and large pharmaceutical companies. We also leased an additional 42,000 square feet of vacant warehouse space within the same building as our existing Myford Facility. The proximity of this space to our Myford Facility will allow us to utilize existing manufacturing and quality infrastructure that we believe should enhance our manufacturing efficiencies and reduce the overall cost and timeframe to construct a third biomanufacturing facility. This space should house a facility that can accommodate up to six additional 2,000-liter bioreactors. However, we currently do not expect to commence construction of the new facility until our manufacturing capacity at our existing facilities is close to full utilization or we determine that we require additional capacity to meet specific customer demand.

Our Facilities

Our 12,000 square-foot Franklin Facility includes stainless steel bioreactors (100-liter to 1,000-liter) and single-use bioreactors (200-liter to 1,000-liter), water-for-injection, an autoclave and depyrogenation oven, material storage (including a walk-in cold room) and cell bank cryofreezers. The Franklin Facility is located at our headquarters in Tustin, California.

Our 42,000 square-foot Myford Facility is designed to utilize single-use equipment up to the 2,000-liter manufacturing scale to accommodate a fully disposable biomanufacturing process for products from clinical development to commercial supply. Our Myford Facility includes single-use bioreactors (200-liter to 2,000-liter), quality control labs for environmental and analytical testing, warehousing and material storage (including two walk-in cold rooms) and cell bank cryofreezers. The Myford Facility is located adjacent to our Franklin Facility.

Our Capabilities

We provide a wide range of development and manufacturing services that span the product lifecycle from discovery and preclinical stages to commercialization and are continuously monitoring our processes in order to increase efficiency. We provide a wide range of development and scale-up services for our clients, including cell line development and selection of clones, upstream and downstream process development, regulatory support including investigational new drug application-ready chemistry, manufacturing, and control (“CMC”) submission package and assay development and testing. We also provide a wide range of cGMP clinical and commercial biomanufacturing services, including characterization assay development, regulatory support, comparability studies, second source supply, process characterization, analytical method validation, supporting the final Biologics License Application CMC package and commercial launch for global markets.

We differentiate our capabilities through several key criteria: (i) we employ a customer-centric approach and collaborate with our clients to tailor customized development and manufacturing services; (ii) our agile manufacturing and development capabilities allow for rapid responses to shift production requirements, leading to strong client satisfaction and retention; and (iii) our usage of single-use bioreactors contributes to enhanced manufacturing efficiency for our customers.

We have a strong and proven regulatory track record, including 15 years of inspection history with no significant impact to our business. To date, we have been audited and qualified by large and small and domestic and foreign biotechnology companies interested in the production of biologic material for clinical and commercial use. Additionally, we have been audited by several regulatory agencies, including the FDA, the European Medicines Agency (“EMA”), the Brazilian Health Surveillance Agency (“ANVISA”), the Canadian Health Authority (“Health Canada”), the California Department of Health and the Australian Department of Health.

Manufacturing and Raw Materials

We manufacture cGMP pharmaceutical-grade products for our customers. The process for manufacturing generally uses commercially available raw materials from multiple suppliers, and in some instances, from a single source supplier. We currently do not have long-term supply contracts with these suppliers. If we experience difficulties acquiring sufficient quantities of required materials or products from our existing suppliers, or if our suppliers are found to be non-compliant with the FDA’s quality system regulation, cGMPs or other applicable laws or regulations, we would be required to find alternative suppliers. If our primary suppliers become unable or unwilling to perform, any resulting delays or interruptions in the supply of raw materials required to support our manufacturing of cGMP pharmaceutical-grade products would ultimately delay our manufacture of products for our customers, which could materially and adversely affect our operating results and financial condition. To date, however, we have not experienced any significant difficulty in obtaining these raw materials.

Regulatory Matters

We are required to comply with the regulatory requirements of various local, state, national and international regulatory bodies having jurisdiction in the countries or localities where we manufacture products or where our customers’ products are distributed. In particular, we are subject to laws and regulations concerning research and development, testing, manufacturing processes, equipment and facilities, including compliance with cGMPs, labeling and distribution, import and export, and product registration and listing. As a result, our facilities are subject to regulation by the FDA, as well as regulatory bodies of other jurisdictions, such as the EMA, ANVISA, Health Canada, and the Australian Department of Health, depending on the countries in which our customers market and sell the products we manufacture and/or package on their behalf. We are also required to comply with environmental, health and safety laws and regulations, as discussed in “Environmental and Safety Matters” below. These regulatory requirements impact many aspects of our operations, including manufacturing, developing, labeling, packaging, storage, distribution, import and export and record keeping related to customers’ products. Noncompliance with any applicable regulatory requirements can result in government refusal to approve facilities for manufacturing products or products for commercialization.

Our customers’ products must undergo pre-clinical and clinical evaluations relating to product safety and efficacy before they are approved as commercial therapeutic products. The regulatory authorities having jurisdiction in the countries in which our customers intend to market their products may delay or put on hold clinical trials, delay approval of a product or determine that the product is not approvable. The FDA or other regulatory agencies can delay approval of a drug if our manufacturing facilities are not able to demonstrate compliance with cGMPs, pass other aspects of pre-approval inspections (i.e., compliance with filed submissions) or properly scale up to produce commercial supplies. The FDA and comparable government authorities having jurisdiction in the countries in which our customers intend to market their products have the authority to withdraw product approval or suspend manufacture if there are significant problems with raw materials or supplies, quality control and assurance or the product is deemed adulterated or misbranded. In addition, if new legislation or regulations are enacted or existing legislation or regulations are amended or are interpreted or enforced differently, we may be required to obtain additional approvals or operate according to different manufacturing or operating standards or pay additional fees. This may require a change in our manufacturing techniques or additional capital investments in our facilities.

The costs associated with complying with the various applicable local, state, national and international regulations could be significant and the failure to comply with such legal requirements could have an adverse effect on our results of operations and financial condition. See “Risk Factors—Risks Related to Our Business—Failure to comply with existing and future regulatory requirements could adversely affect our business, results of operations and financial condition” for additional discussion of the costs associated with complying with the various regulations.

Environmental and Safety Matters

Certain products manufactured by us involve the use, storage and transportation of toxic and hazardous materials. Our operations are subject to extensive laws and regulations relating to the storage, handling, emission, transportation and discharge of materials into the environment and the maintenance of safe working conditions. We maintain environmental and industrial safety and health compliance programs and training at our facilities.

Prevailing legislation tends to hold companies primarily responsible for the proper disposal of their waste even after transfer to third party waste disposal facilities. Other future developments, such as increasingly strict environmental, health and safety laws and regulations, and enforcement policies, could result in substantial costs and liabilities to us and could subject the handling, manufacture, use, reuse or disposal of substances or pollutants at our facilities to more rigorous scrutiny than at present.

Intellectual Property

We do not currently own any patents and do not have any patent applications pending in the United States or any foreign countries. However, we have acquired and developed and continue to acquire and develop knowledge and expertise (“know-how”) and trade secrets in the provision of process development and manufacturing services. Our know-how and trade secrets may not be patentable, but they are valuable in that they enhance our ability to provide high-quality services to our customers. We typically place restrictions in our agreements with third-parties, which contractually restrict their right to use and disclose any of our proprietary technology with which they may be involved. In addition, we have internal non-disclosure safeguards, including confidentiality agreements, with our employees.

We also own trademarks to protect the names of our services. Trademark protection continues in some countries so long as the trademark is used, and in other countries, so long as the trademark is registered. Trademark registration is for fixed terms and can be renewed indefinitely.

Segment Information

Historically, our business had been organized into two reportable operating segments: (i) our research and development segment, and (ii) our contract manufacturing services segment. However, due to the aforementioned changes in our organizational structure, which resulted in our research and development segment meeting all the conditions required in order to be classified as a discontinued operation (as described in Note 2 to the accompanying consolidated financial statements), management has determined that we now operate in one operating segment with one reporting segment. Accordingly, the accompanying consolidated financial statements for the fiscal years ended April 30, 2018, 2017 and 2016 reflect the operations and related assets and liabilities of our discontinued research and development segment as a discontinued operation. In addition, we had no foreign-based operations and no long-lived assets located in foreign countries as of and for the fiscal years ended April 30, 2018, 2017 and 2016.

Customers

Contract manufacturing revenue has historically been derived from a small customer base. For the fiscal years ended April 30, 2018 and 2017, we derived approximately 98% of our contract manufacturing revenue from six customers and three customers, respectively, and for the fiscal year ended April 30, 2016, we derived approximately 95% of our contract manufacturing revenue from two customers. While we have not entered into long-term commitments with our customers historically, we have begun to increase our effort to obtain longer-term commitments from our customers. As such, the duration of our fulfillment of customer contracts varies from a few months to more than 24 months due to the nature and size of each customer’s requirements. Our future results of operations could be adversely affected if revenue from any one of our primary customers is significantly reduced or eliminated. Refer to Note 2, “Summary of Significant Accounting Policies” to the accompanying consolidated financial statements for additional financial information regarding our customer concentration, including the name of significant customers, and geographic location of customers.

Backlog

Our backlog represents, as of a point in time, future contract manufacturing revenue from work not yet completed under signed contracts. As of April 30, 2018, our backlog was approximately \$57.8 million as compared to approximately \$57.7 million as of April 30, 2017. While we anticipate the majority of our backlog will be recognized during fiscal year 2019, our backlog is subject to a number of risks and uncertainties, including the risk that a customer timely cancels its commitments prior to our initiation of manufacturing services, in which case we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments; the risk that a customer may experience delays in its program(s) or otherwise, which could result in the postponement of anticipated manufacturing services; and the risk that we may not successfully execute on all customer projects, any of which could have a negative impact on our liquidity, reported backlog and future revenue.

Competition

Our competition in the CDMO market includes a number of full-service contract manufacturers and large pharmaceutical companies offering third-party manufacturing services to fill their excess capacity. Also, large pharmaceutical companies have been seeking to divest portions of their manufacturing capacity, and any such divested businesses may compete with us in the future. In addition, most of our competitors may have substantially greater financial, marketing, technical or other resources than we do. Moreover, additional competition may emerge and may, among other things, result in a decrease in the fees paid for our services, which would affect our results of operations and financial condition.

Human Resources

As of April 30, 2018, we employed 185 full-time employees and one part-time employee. None of our employees are covered by a collective bargaining agreement. We have not experienced employment-related work stoppages and consider our employee relations to be good.

Company Information

We were originally incorporated in the State of California in June 1981 and reincorporated in the State of Delaware on September 25, 1996. Our principal executive offices are located at 2642 Michelle Drive, Suite 200, Tustin, California, 92780 and our telephone number is (714) 508-6100. Our principal website address is www.avidbio.com. The information on, or that can be accessed through, our website is not part of this Annual Report.

Available Information

This Annual Report, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and all amendments to those reports filed with or furnished to the SEC are available, free of charge, through our website at www.avidbio.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The information on, or that can be accessed through, our website is not part of this Annual Report.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this report, including our financial statements and the related notes thereto, before making a decision to invest in our securities. 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 believe are not material, also may become important factors that affect us and impair our business operations. The occurrence of any of the events or developments discussed in the risk factors below could have a material and adverse impact on our business, results of operations, financial condition and cash flows, and in such case, our future prospects would likely be materially and adversely affected.

Risks Related to Our Business

If we cannot secure additional business, we may have to raise additional capital or further restructure, or cease, our operations.

We have expended substantial funds on our contract manufacturing business and, historically, on the research and development of pharmaceutical product candidates. As a result, we have historically experienced losses and negative cash flows from operations since our inception and, although we have discontinued our research and development segment (as described in Note 1 to the accompanying consolidated financial statements), we expect negative cash flows from operations to continue until we can generate sufficient revenue to generate positive cash flow from operations.

Our ability to fund our operations is dependent on the amount of cash on hand and our ability to generate sufficient revenue to cover our operations. At April 30, 2018, we had \$42,265,000 in cash and cash equivalents. Although it is difficult to forecast all of our future liquidity requirements, we believe that our cash and cash equivalents on hand combined with the remaining projected cash receipts from manufacturing services under our current backlog (as further discussed above under “Backlog”) and the remaining upfront payment we expect to receive from the sale of our PS-targeting program (as described in Note 9 to the accompanying consolidated financial statements) may not be sufficient to fund our operations beyond one year after the date our financial statements are issued without securing any new business, financing capital equipment, or raising additional capital in the equity markets. In addition, in the event a customer timely cancels its commitments prior to our initiation of manufacturing services, we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments, which would have a negative impact on our liquidity, reported backlog and future revenue.

In the event we are unable to secure sufficient business to support our operations, we may need to raise additional funding in the future. Additional funding may include the financing or leasing of capital equipment or raising capital in the equity markets. Our ability to raise additional capital in the equity markets to fund our obligations in future periods depends on a number of factors, including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, and adverse financial results. If we are unable to either raise sufficient capital in the equity markets or generate additional revenue, we may need to further restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

As a result, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date that our accompanying consolidated financial statements are issued.

The audit report prepared by our independent registered public accounting firm, with respect to the audited consolidated financial statements for the fiscal year ended April 30, 2018, contains an explanatory paragraph referencing our conclusion that substantial doubt exists as to our ability to continue as a going concern, and absent securing sufficient additional business or raising additional capital, we may be unable to remain a going concern.

In its report accompanying our audited consolidated financial statements for the fiscal year ended April 30, 2018, our independent registered public accounting firm included an explanatory paragraph referencing our experienced losses and negative cash flows from operations since inception and our conclusion that substantial doubt exists as to our ability to continue as a going concern. Our financial statements do not include any adjustments that may be necessary in the event we are unable to continue as a going concern. We may need to further modify our operation plans in an effort to continue as a going concern. Absent securing sufficient additional business or raising additional capital, which we may be unable to raise on commercially reasonable terms or at all, we may be unable to remain a going concern.

Our operating results will be adversely affected if we are unable to maximize our facility capacity utilization.

We have recently experienced idle manufacturing capacity due primarily to unexpected declines in commitments from existing customers, and we may continue to experience such idle manufacturing capacity until we secure substantial new revenues from existing and/or new customers. Our operating results are significantly influenced by our capacity utilization and, as such, if we are unable to utilize our facilities to capacity, our margins could be adversely affected, and our results of operations and financial condition will continue to be adversely affected. Further, while we continue to expand our manufacturing infrastructure, our revenue volume may be insufficient to ensure the economical operation of any such expanded capacity, in which case our results of operations could be adversely affected.

We have had significant losses, anticipate future losses and may never achieve profitability.

We have incurred net losses in most fiscal years since we began operations in 1981, including net losses of \$21,813,000 and \$28,159,000 for the fiscal years ended April 30, 2018 and 2017, respectively. As of April 30, 2018, we had an accumulated deficit of \$559,129,000. In addition, we expect negative cash flows from operations to continue until we can generate sufficient revenue from operations to achieve profitability. Further, if we fail to generate sufficient revenue, we may never achieve profitability.

Because a significant portion of our contract manufacturing revenue comes from a limited number of customers, any decrease in sales to these customers could harm our business, results of operations and financial condition.

Contract manufacturing revenue has historically been derived from a small customer base. For the fiscal years ended April 30, 2018 and 2017, we derived approximately 98% of our contract manufacturing revenue from six customers and three customers, respectively, and for the fiscal year ended April 30, 2016, we derived approximately 95% of our contract manufacturing revenue from two customers. In addition, typically we have not entered into long-term commitments with these third-party customers because their need for product supply depends on a variety of factors, including the product's stage of development, the timing of regulatory filings and approvals, the product needs of their collaborators, if applicable, their financial resources and the market demand with respect to commercial products. The loss or a significant reduction of business from any of our major customers could have a material adverse effect on our business, results of operations and financial condition.

Failure to comply with existing and future regulatory requirements could adversely affect our business, results of operations and financial condition.

Our industry is highly regulated. We are required to comply with the regulatory requirements of various local, state, provincial, national and international regulatory bodies having jurisdiction in the countries or localities in which we manufacture products or in which our customers' products are distributed. In particular, we are subject to laws and regulations concerning development, testing, manufacturing processes, equipment and facilities, including compliance with cGMPs, import and export, and product registration and listing, among other things. As a result, most of our facilities are subject to regulation by the FDA, as well as regulatory bodies of other jurisdictions such as the EMA and/or Health Canada, depending on the countries in which our customers market and sell the products we manufacture on their behalf. As we expand our operations and geographic scope, we may be exposed to more complex and new regulatory and administrative requirements and legal risks, any of which may require expertise in which we have little or no experience. It is possible that compliance with new regulatory requirements could impose significant compliance costs on us. Such costs could have a material adverse effect on our business, financial condition and results of operations.

These regulatory requirements impact many aspects of our operations, including manufacturing, developing, storage, distribution, import and export and record keeping related to customers' products. Noncompliance with any applicable regulatory requirements can result in government refusal to approve (i) facilities for testing or manufacturing products or (ii) products for commercialization. The FDA and other regulatory agencies can delay, limit or deny approval for many reasons, including:

- changes to the regulatory approval process, including new data requirements for product candidates in those jurisdictions, including the United States, in which our customers may be seeking approval;
- that a customer's product candidate may not be deemed to be safe or effective;
- the ability of the regulatory agency to provide timely responses as a result of its resource constraints; and
- that the manufacturing processes or facilities may not meet the applicable requirements.

In addition, if new legislation or regulations are enacted or existing legislation or regulations are amended or are interpreted or enforced differently, we may be required to obtain additional approvals or operate according to different manufacturing or operating standards. This may require a change in our development and manufacturing techniques or additional capital investments in our facilities. Any related costs may be significant. If we fail to comply with applicable regulatory requirements in the future, then we may be subject to warning letters and/or civil or criminal penalties and fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, restrictions on the import and export of our products, debarment, exclusion, disgorgement of profits, operating restrictions and criminal prosecution and the loss of contracts and resulting revenue losses. Inspections by regulatory authorities that identify any deficiencies could result in remedial actions, production stoppages or facility closure, which would disrupt the manufacturing process and supply of product to our customers. In addition, such failure to comply could expose us to contractual and product liability claims, including claims by customers for reimbursement for lost or damaged active pharmaceutical ingredients ("APIs") or recall or other corrective actions, the cost of which could be significant.

In addition, products we manufacture must undergo pre-clinical and clinical evaluations relating to product safety and efficacy before they are approved as commercial therapeutic products. The regulatory authorities having jurisdiction in the countries in which we or our customers intend to market their products may delay or put on hold clinical trials or delay approval of a product or determine that the product is not approvable. The FDA or other regulatory agencies can delay approval of a drug if our manufacturing facility, including any newly commissioned facility, is not able to demonstrate compliance with cGMPs, pass other aspects of pre-approval inspections or properly scale up to produce commercial supplies. The FDA and comparable government authorities having jurisdiction in the countries in which we or our customers intend to market their products have the authority to withdraw product approval or suspend manufacture if there are significant problems with raw materials or supplies, quality control and assurance or the product we manufacture is adulterated or misbranded. If our manufacturing facilities and services are not in compliance with FDA and comparable government authorities, we may be unable to obtain or maintain the necessary approvals to continue manufacturing products for our customers, which would materially adversely affect our results of operations and financial condition.

The failure to receive or maintain regulatory approval for our or our customers' product candidates could negatively impact our revenue and profitability.

Our contract manufacturing business materially depends upon the regulatory approval of the products we manufacture. As such, any delay in, or failure to receive, approval for any of our customers' product candidates or the failure to maintain regulatory approval for our or our customers' products could negatively impact our revenue and profitability. If the FDA or a comparable foreign regulatory authority does not approve of our facilities for the manufacture of a customer product or if it withdraws such approval in the future, our customers may choose to identify alternative manufacturing facilities and/or relationships, which could significantly impact our ability to expand our CDMO capacity and capabilities and achieve profitability.

Our manufacturing services are highly complex, and if we are unable to provide quality and timely services to our customers, our business could suffer.

The manufacturing services we offer are highly complex, due in part to strict regulatory requirements. A failure of our quality control systems in our facilities could cause problems to arise in connection with facility operations for a variety of reasons, including equipment malfunction, viral contamination, failure to follow specific manufacturing instructions, protocols and standard operating procedures, problems with raw materials or environmental factors. Such problems could affect production of a single manufacturing run or a series of runs, requiring the destruction of products, or could halt manufacturing operations altogether. In addition, our failure to meet required quality standards may result in our failure to timely deliver products to our customers, which in turn could damage our reputation for quality and service. Any such incident could, among other things, lead to increased costs, lost revenue, reimbursement to customers for lost drug substance, damage to and possibly termination of existing customer relationships, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other manufacturing runs. With respect to our commercial manufacturing, if problems are not discovered before the product is released to the market, we may be subject to regulatory actions, including product recalls, product seizures, injunctions to halt manufacture and distribution, restrictions on our operations, civil sanctions, including monetary sanctions, and criminal actions. In addition, such issues could subject us to litigation, the cost of which could be significant.

We depend on spending and demand from our customers for our contract manufacturing and development services and any reduction in spending or demand could have a material adverse effect on our business.

The amount that our customers spend on the development and manufacturing of their products or product candidates, particularly the amount our customers choose to spend on outsourcing these services to us, substantially impacts our revenue and profitability. The outcomes of our customers' research, development and marketing also significantly influence the amount that our customers choose to spend on our services and offerings. Our customers determine the amounts that they will spend on our services based upon, among other things, the clinical and market success of their products, available resources, access to capital and their need to develop new products, which, in turn, depend upon a number of other factors, including their competitors' research, development and product initiatives and the anticipated market for any new products, as well as clinical and reimbursement scenarios for specific products and therapeutic areas. Further, increasing consolidation in the pharmaceutical industry may impact such spending, particularly in the event that any of our customers choose to develop or acquire integrated manufacturing operations. Any reduction in customer spending on biologics development and related services as a result of these and other factors could have a material adverse effect on our business, results of operations and financial condition.

The consumers of the products we manufacture for our customers may significantly influence our business, results of operations and financial condition.

We depend on, and have no control over, consumer demand for the products we manufacture for our customers. Consumer demand for our customers' products could be adversely affected by, among other things, delays in health regulatory approval, the inability of our customers to demonstrate the efficacy and safety of their products, the loss of patent and other intellectual property rights protection, the emergence of competing or alternative products, including generic drugs, the degree to which private and government payment subsidies for a particular product offset the cost to consumers and changes in the marketing strategies for such products. If the products we manufacture for our customers do not gain market acceptance, our revenues and profitability may be adversely affected.

We believe that continued changes to the healthcare industry, including ongoing healthcare reform, adverse changes in government or private funding of healthcare products and services, legislation or regulations governing the privacy of patient information or patient access to care, or the delivery, pricing or reimbursement of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to purchase fewer services from us or influence the price that others are willing to pay for our services. Changes in the healthcare industry's pricing, selling, inventory, distribution or supply policies or practices could also significantly reduce our revenue and profitability.

If production volumes of key products that we manufacture for our customers continue to decline, results of operations and financial condition may continue to be adversely affected.

We may be unable to manage our future growth effectively, which could make it difficult to execute our business strategy.

Earlier in fiscal year 2018, we announced our intent to transition to a dedicated CDMO and, in connection with such transition, pursue strategic options to license or divest our research and development assets. As a result of this transition, during the fiscal quarter ended October 31, 2017, we reduced our overall workforce as part of a series of strategic actions to reduce costs and better position us to achieve potential profitability. Now that we have completed our transition to a dedicated CDMO, we intend to grow our business operations as demand increases and increase the number of our employees to accommodate such potential growth, which may cause us to experience periods of rapid growth and expansion. This potential future growth could create a strain on our organizational, administrative and operational infrastructure, including manufacturing operations, quality control, technical support and other administrative functions. Our ability to manage our growth properly will require us to continue to improve our operational, financial and management controls.

As our commercial operations and sales volume grow, we will need to continue to increase our capacity for manufacturing, customer service, billing and general process improvements and expand our internal quality assurance program, among other things. We may also need to purchase additional equipment, some of which can take several months or more to procure, set up and validate, and increase our manufacturing, maintenance, software and computing capacity to meet increased demand. These increases in scale, expansion of personnel, purchase of equipment or process enhancements may not be successfully implemented.

If we are unable to protect the confidentiality of our customers' proprietary information, we may be subject to claims.

Many of the formulations used and processes developed by us in manufacturing our customers' products are subject to trade secret protection, patents or other intellectual property protections owned or licensed by such customer. While we make significant efforts to protect our customers' proprietary and confidential information, including requiring our employees to enter into agreements protecting such information, if any of our employees breaches the non-disclosure provisions in such agreements, or if our customers make claims that their proprietary information has been disclosed, our reputation may suffer damage and we may become subject to legal proceedings that could require us to incur significant expenses and divert our management's time, attention and resources.

Our services and our customers' products may infringe on or misappropriate the intellectual property rights of third parties.

Any claims that our services infringe the rights of third parties, including claims arising from any of our customer engagements, regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. We may not prevail in such proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If such proceedings result in an adverse outcome, we could be required, among other things, to pay substantial damages, discontinue the use of the infringing technology, expend significant resources to develop non-infringing technology, license such technology from the third party claiming infringement (which license may not be available on commercially reasonable terms or at all) and/or cease the manufacture, use or sale of the infringing processes or offerings, any of which could have a material adverse effect on our business.

In addition, our customers' products may be subject to claims of intellectual property infringement and such claims could materially affect our business if their products cease to be manufactured and they have to discontinue the use of the infringing technology which we may provide. Any of the foregoing could affect our ability to compete or could have a material adverse effect on our business, financial condition and results of operations.

If we do not enhance our existing or introduce new service offerings in a timely manner, our offerings may become obsolete or uncompetitive over time, customers may not buy our offerings and our revenue and profitability may decline.

Demand for our manufacturing services may change in ways that we may not anticipate due to evolving industry standards and customer needs that are increasingly sophisticated and varied, as well as the introduction by others of new offerings and technologies that provide alternatives to our offerings. In the event we are unable to offer or enhance our service offerings or expand our manufacturing infrastructure to accommodate requests from our customers and potential customers, our offerings may become obsolete or uncompetitive over time, in which case our revenue and operating results would suffer. For example, if we are unable to respond to changes in the nature or extent of the technological or other needs of our customers through enhancing our offerings, our competition may develop offerings that are more competitive than ours and we could find it more difficult to renew or expand existing agreements or obtain new agreements. Potential innovations intended to facilitate enhanced or new offerings generally will require a substantial capital investment before we can determine their commercial viability, and we may not have financial resources sufficient to fund all desired innovations. Even if we succeed in creating enhanced or new offerings, however, they may still fail to result in commercially successful offerings or may not produce revenue in excess of our costs of development, and they may be rendered obsolete by changing customer preferences or the introduction by our competitors of offerings embodying new technologies or features. Finally, the marketplace may not accept our innovations due to, among other things, existing patterns of clinical practice, the need for regulatory clearance and/or uncertainty over market access or government or third-party reimbursement.

We operate in a highly competitive market and competition may adversely affect our business.

We operate in a market that is highly competitive. Our competition in the contract manufacturing market includes full-service contract manufacturers and large pharmaceutical companies offering third-party manufacturing services to fill their excess capacity. We may also compete with the internal operations of those pharmaceutical companies that choose to source their product offerings internally. Additionally, several large pharmaceutical companies have recently sought to divest portions of their manufacturing capacity, and any such divested businesses may compete with us in the future. In addition, most of our competitors may have substantially greater financial, marketing, technical or other resources than we do. Moreover, additional competition may emerge, particularly in lower-cost jurisdictions such as India and China, which could, among other things, result in a decrease in the fees paid for our services, which may adversely affect our results of operations and financial condition.

We rely on third parties to supply most of the necessary raw materials and supplies for the products we manufacture on behalf of our customers and our inability to obtain such raw materials or supplies may adversely impact our business, results of operations and financial condition.

Our operations require various raw materials, including proprietary media, resins, buffers, filters, in addition to numerous additional raw materials supplied primarily by third parties. We or our customers specify the raw materials and other items required to manufacture their product and, in some cases, specify the suppliers from whom we must purchase these raw materials. In certain instances, the raw materials and other items can only be supplied by a limited number of suppliers, and in some cases a single source, or in limited quantities. If third-party suppliers do not supply raw materials or other items on a timely basis, it may cause a manufacturing run to be delayed or canceled which would adversely impact our results of operations and financial condition. Additionally, we do not have long-term supply contracts with any of our single source suppliers. If we experience difficulties acquiring sufficient quantities of required materials or products from our existing suppliers, or if our suppliers are found to be non-compliant with the FDA's quality system regulation, cGMPs or other applicable laws or regulations, we would be required to find alternative suppliers. If our primary suppliers become unable or unwilling to perform, any resulting delays or interruptions in the supply of raw materials required to support our manufacturing of cGMP pharmaceutical-grade products would ultimately delay our manufacture of products for our customers, which could materially and adversely affect our operating results and financial condition.

Furthermore, third-party suppliers may fail to provide us with raw materials and other items that meet the qualifications and specifications required by us or our customers. If third-party suppliers are not able to provide us with raw materials that meet our or our customers' specifications on a timely basis, we may be unable to manufacture their product or it could prevent us from delivering products to our customers within required timeframes. Any such delay in delivering our products may create liability for us to our customers for breach of contract or cause us to experience order cancellations and loss of customers. In the event that we manufacture products with inferior quality components and raw materials, we may become subject to product liability claims caused by defective raw materials or components from a third-party supplier or from a customer, or our customer may be required to recall its products from the market.

If we use hazardous and biological materials in a manner that causes injury or violates applicable law, we may be liable for damages.

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

Potential product liability claims, errors and omissions claims in connection with services we perform and potential liability under indemnification agreements between us and our officers and directors could adversely affect us.

We manufacture products intended for use by the public. These activities could expose us to risk of liability for personal injury or death to persons using such products. We seek to reduce our potential liability through measures such as contractual indemnification provisions with customers (the scope of which may vary by customer, and the performances of which are not secured) and insurance maintained by us and our customers. We could be materially adversely affected if we are required to pay damages or incur defense costs in connection with a claim that is outside the scope of the indemnification agreements, if the indemnity, although applicable, is not performed in accordance with its terms or if our liabilities exceed the amount of applicable insurance or indemnity. In addition, we could be held liable for errors and omissions in connection with the services we perform. We currently maintain product liability and errors and omissions insurance with respect to these risks. There can be no assurance, however, that our insurance coverage will be adequate or that insurance coverage will continue to be available on terms acceptable to us.

We also indemnify our officers and directors for certain events or occurrences while the officer or director is serving at our request in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. Although we have a director and officer insurance policy that covers a portion of any potential exposure, we could be materially and adversely affected if we are required to pay damages or incur legal costs in connection with a claim above such insurance limits.

Any claims beyond our insurance coverage limits, or that are otherwise not covered by our insurance, may result in substantial costs and a reduction in our available capital resources.

We maintain property insurance, employer's liability insurance, product liability insurance, general liability insurance, business interruption insurance, and directors and officers' liability insurance, among others. Although we maintain what we believe to be adequate insurance coverage, potential claims may exceed the amount of insurance coverage or may be excluded under the terms of the policy, which could cause an adverse effect on our business, financial condition and results from operations. Generally, we would be at risk for the loss of inventory that is not within customer specifications. These amounts could be significant. In addition, in the future we may not be able to obtain adequate insurance coverage or we may be required to pay higher premiums and accept higher deductibles in order to secure adequate insurance coverage.

We depend on key personnel and the loss of key personnel could harm our business and results of operations.

We depend on our ability to attract and retain qualified scientific and technical employees as well as a number of key executives. These employees may voluntarily terminate their employment with us at any time. There can be no assurance that we will be able to retain key personnel, or to attract and retain additional qualified employees. We do not maintain key-man or similar policies covering any of our senior management or key personnel. Our inability to attract and retain key personnel would have a material adverse effect on our business.

We have federal and state net operating loss (“NOL”) carry forwards which, if we were to become profitable, could be used to offset/defer federal and state income taxes. Our ability to use such carry forwards to offset future taxable income may be subject to certain limitations related to changes in ownership of our stock.

As of April 30, 2018, we had federal and state NOL carry forwards of approximately \$434 million and \$273 million, respectively, expiring from 2019 to 2037. These NOL carry forwards could potentially be used to offset certain future federal and state income tax liabilities. However, utilization of NOL carry forwards may be subject to a substantial annual limitation pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions due to ownership changes that have occurred previously or that could occur in the future. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. We performed a detailed analysis of our NOL carry forwards through April 30, 2018 and it was determined that no change in ownership had occurred. However, ownership changes occurring subsequent to April 30, 2018 may impact the utilization of our NOL carry forwards and other tax attributes. Any limitation may result in expiration of a portion of the carry forwards before utilization. If we were not able to utilize our carry forwards, we would be required to use our cash resources to pay taxes that would otherwise have been offset, thereby reducing our liquidity.

U.S. federal income tax reform could adversely affect us.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law, significantly reforming the Internal Revenue Code of 1986, as amended (the “Code”). The Tax Act, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the expensing of capital expenditures, effectuates the migration from a “worldwide” system of taxation to a territorial system and modifies or repeals many business deductions and credits. We continue to examine the impact the Tax Act may have on our business. While we continue to evaluate the effect of the Tax Act on our business, including our projection of minimal cash taxes and our net operating losses, the impact of such tax reform could have a negative impact on our financial results and the market price of our common stock.

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

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

We may face additional liabilities associated with our prior research and development activities.

We recently sold the majority of our research and development assets, including our development-stage immunotherapy product, baviximab. As a result, we are no longer pursuing our prior research and development activities, including the clinical development associated therewith. We may still face unknown liabilities associated with these prior activities. For example, in the course of our prior development of our product candidate, baviximab, we contracted with third parties to conduct a series of clinical trials and although we maintain product liability insurance for clinical studies in the amount of \$10,000,000 per occurrence or \$10,000,000 in the aggregate on a claims-made basis, as well as country-specific coverage where required for clinical sites located in foreign countries, our coverage may not be adequate in the event we face a product liability claim due to an adverse effect resulting from any of such trials. Any liabilities arising from our prior research and development activities that are not covered by our insurance coverage could negatively impact our financial position and results of operations.

We may be subject to various litigation claims and legal proceedings.

We, as well as certain of our directors and officers, may be subject to claims or lawsuits during the ordinary course of business. Regardless of the outcome, these lawsuits may result in significant legal fees and expenses and could divert management's time and other resources. If the claims contained in these lawsuits are successfully asserted against us, we could be liable for damages and be required to alter or cease certain of our business practices. Any of these outcomes could cause our business, financial performance and cash position to be negatively impacted.

We have become increasingly dependent on information technology and any breakdown, interruption or breach of our information technology systems could subject us to liability or interrupt the operation of our business, which could have a material adverse effect on our business, financial condition, cash flows and results of operations.

We are increasingly dependent upon sophisticated information technology systems and infrastructure in connection with the conduct of our business. We must constantly update our information technology infrastructure and our various current information technology systems throughout the organization may not continue to meet our current and future business needs. Furthermore, modification, upgrade or replacement of such systems may be costly. In addition, due to the size and complexity of these systems, any breakdown, interruption, corruption or unauthorized access to or cyber-attack on these systems could create system disruptions, shutdowns or unauthorized disclosure of confidential information. While we attempt to take appropriate security and cyber-security measures to protect our data and information technology systems and to prevent such breakdowns and unauthorized breaches and cyber-attacks, these measures may not be successful and these breakdowns and breaches in, or attacks on, our systems and data may not be prevented. Such breakdowns, breaches or attacks may cause business interruption and could have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our common shares to decline, and we may suffer financial damage or other loss, including fines or criminal penalties because of lost or misappropriated information.

Our governance documents and state law provide certain anti-takeover measures which will discourage a third party from seeking to acquire us unless approved by the Board of Directors.

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

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

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

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

Our bylaws, as amended, provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our bylaws, as amended, provide that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of a fiduciary duty owed by any of our directors, officers, or other employees to us, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our certificate of incorporation or our bylaws, any action to interpret, apply, enforce, or determine the validity of our certificate of incorporation or bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees.

Risks Related to the Ownership of Our Common Stock

A significant number of shares of our common stock are issuable pursuant to outstanding options and convertible securities, and we may issue additional shares of common stock in the future. Sales or conversions of these shares will dilute the interests of other security holders and may depress the price of our common stock.

As of April 30, 2018, 5,316,526 shares of common stock were reserved for issuance under outstanding option grants and available for issuance under our stock incentive plans and we had outstanding warrants to purchase up to 39,040 shares of common stock. Additionally, as of April 30, 2018, there were 1,271,409 shares of common stock reserved for and available for issuance under our Employee Stock Purchase Plan (the "ESPP") and up to 6,826,435 shares of common stock issuable upon conversion of our outstanding Series E Preferred Stock. The issuance of additional shares of common stock upon the exercise or conversion, as applicable, of any of the foregoing securities, or the perception that such issuances may occur, would have a dilutive impact on other stockholders and could have a material negative effect on the market price of our common stock.

Our highly volatile stock price may adversely affect the liquidity of our common stock.

The market price of our common stock has generally been highly volatile and is likely to continue to be highly volatile. For instance, the market price of our common stock has ranged from \$1.97 to \$10.50 per share over the last three fiscal years ended April 30, 2018 (as adjusted to reflect the 1-for-7 reverse stock split of our issued and outstanding common stock that took effect on July 10, 2017).

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

- our loss of a significant customer;
- uncertainties about our ability to continue to fund our operations beyond the next twelve months;
- significant changes in our financial results or that of our competitors, including our ability to continue as a going concern;
- our ability to meet revenue projections;
- the offering and sale of shares of our common stock, either sold at market prices or at a discount under an equity transaction;
- significant changes in our capital structure;
- published reports by securities analysts;
- announcements of partnering transactions, licensing agreements, joint ventures, strategic alliances, and any other transaction that involves the development, sale or use of our technologies or competitive technologies;
- regulatory developments, including possible delays, and product safety concerns;
- outcomes of significant litigation, disputes and other legal or regulatory proceedings;
- general stock trends in the biotechnology and pharmaceutical industry sectors;
- public concerns as to the safety and effectiveness of the products we manufacture;
- economic trends and other external factors, including but not limited to, interest rate fluctuations, economic recession, inflation, foreign market trends, national crisis, and disasters; and
- healthcare reimbursement reform and cost-containment measures implemented by government agencies.

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

We do not intend to pay dividends on our common stock so any returns will be limited to the value of our stock.

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

If securities or industry analysts do not publish research reports about us, or if they issue adverse opinions about our business, our stock price and trading volume could decline.

The research and reports that industry or securities analysts publish about us or our business will influence the market for our common stock. If one or more analysts who cover us issues an adverse opinion about us, our stock price would likely decline. If one or more of these analysts ceases research coverage of us or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Further, if we fail to meet the market expectations of analysts who follow our stock, our stock price likely would decline.

Additional Risks Related to the Ownership of our Series E Preferred Stock

We may not be able to pay dividends on the Series E Preferred Stock.

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

The market price of the Series E Preferred Stock could be substantially affected by various factors.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate offices and manufacturing facilities are all located in close proximity in Tustin, California. We currently lease an aggregate of approximately 183,000 square feet of office, warehouse and manufacturing space in five buildings under four separate lease agreements, as summarized in the following table:

Lease #	Original Lease Execution Date	Approximate Square Footage Leased	# of Buildings Occupied	Initial Lease Term Expiration Date	# of Options to Extend Lease	Extended Lease Term Expiration Date⁽¹⁾
1	December 1998	48,000	2	12/31/27	2	12/31/37
2	July 2014	84,000	1	1/31/27	2	1/31/37
3	April 2016	26,000	1	8/31/23	2	8/31/35
4	April 2016	25,000	1	8/31/23	2	8/31/35

(1) Extended lease term expiration date assumes we execute all available option(s) to extend lease in accordance with the terms of the lease agreement.

We believe that the space we lease is adequate to meet our current needs and that, if necessary, additional space would be available to accommodate any future growth.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions, if any, are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our consolidated results of operations or financial position.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is listed on The NASDAQ Capital Market under the trading symbol "CDMO." The following table sets forth the high and low sales prices per share of our common stock for each quarter during the two years ended April 30, 2018, as adjusted to reflect the 1-for-7 reverse stock split of our issued and outstanding common stock, which took effect on July 10, 2017:

	Common Stock Sales Price	
	High	Low
Fiscal Year 2018		
Quarter Ended April 30, 2018	\$4.00	\$2.24
Quarter Ended January 31, 2018	\$5.48	\$3.35
Quarter Ended October 31, 2017	\$5.00	\$2.85
Quarter Ended July 31, 2017	\$5.78	\$3.50
Fiscal Year 2017		
Quarter Ended April 30, 2017	\$5.42	\$2.07
Quarter Ended January 31, 2017	\$2.85	\$1.97
Quarter Ended October 31, 2016	\$3.64	\$2.19
Quarter Ended July 31, 2016	\$4.69	\$2.05

Holders of Common Stock

As of June 29, 2018, we had 317 stockholders of record of our common stock.

Dividends

No dividends on our common stock have been declared or paid by us. We intend to employ all available funds for the development of our business and, accordingly, do not intend to pay any cash dividends in the foreseeable future. In addition, the Certificate of Designations governing the Series E Preferred Stock restricts us from declaring and paying any dividends on our common stock unless full cumulative dividends on the Series E Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods. Any future determinations related to dividend policy will be made at the discretion of our board of directors.

Securities Authorized for Issuance under Equity Compensation

The information included under Item 12 of Part III of this Annual Report is hereby incorporated by reference into this Item 5 of Part II of this Annual Report.

Recent Sales of Unregistered Securities

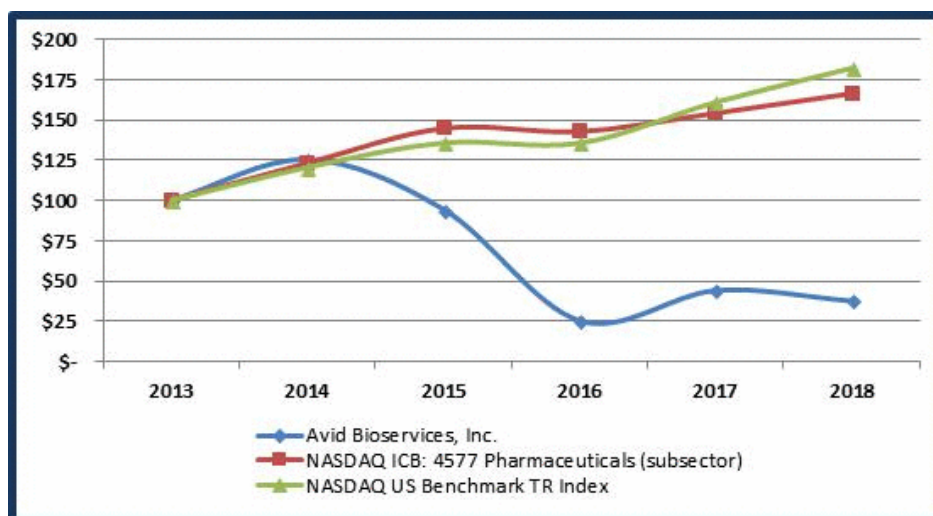
None.

Performance Graph

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed to be “filed” with the SEC or to be “soliciting material” under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and it shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.

The following chart shows the performance from April 30, 2013 through April 30, 2018 of Avid Bioservices, Inc. common stock, compared with an investment in the stocks represented in the NASDAQ ICB: 4577 Pharmaceuticals Index and the NASDAQ U.S. Benchmark TR Index assuming the investment of \$100 at the beginning of the period and the reinvestment of dividends, if any. The total return data for the comparative indexes were prepared by NASDAQ OMX Global Indexes.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
VALUE OF INVESTMENT OF \$100 ON APRIL 30, 2013**



The underlying data for the foregoing graph is as follows:

	April 30, 2013	April 30, 2014	April 30, 2015	April 30, 2016	April 30, 2017	April 30, 2018
Avid Bioservices, Inc.	\$ 100.00	\$ 125.18	\$ 94.24	\$ 25.47	\$ 44.29	\$ 37.72
NASDAQ ICB: 4577 Pharmaceuticals (subsector)	\$ 100.00	\$ 123.47	\$ 145.21	\$ 143.24	\$ 154.84	\$ 167.09
NASDAQ U.S. Benchmark TR Index	\$ 100.00	\$ 120.71	\$ 135.94	\$ 135.80	\$ 161.30	\$ 182.61

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below as of April 30, 2018 and 2017, and for the fiscal years ended April 30, 2018, 2017 and 2016, are derived from our audited consolidated financial statements included elsewhere in this Annual Report. This information should be read in conjunction with those consolidated financial statements, the notes thereto, and with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected consolidated financial data set forth below as of April 30, 2016, 2015 and 2014, and for the fiscal years ended April 30, 2015 and 2014, are derived from our audited consolidated financial statements that are contained in Annual Reports previously filed with the SEC, not included herein.

	Fiscal Year Ended April 30,				
	2018	2017	2016	2015	2014
Statement of Operations Data:					
Contract manufacturing revenue	\$ 53,621,000	\$ 57,630,000	\$ 44,357,000	\$ 26,744,000	\$ 22,294,000
Income (loss) from continuing operations	\$ (20,563,000)	\$ 1,393,000	\$ 3,597,000	\$ (6,799,000)	\$ (7,157,000)
Loss from discontinued operations ^{(a) (b)}	\$ (1,250,000)	\$ (29,552,000)	\$ (59,249,000)	\$ (43,559,000)	\$ (28,205,000)
Net loss	\$ (21,813,000)	\$ (28,159,000)	\$ (55,652,000)	\$ (50,358,000)	\$ (35,362,000)
Series E preferred stock accumulated dividends	\$ (4,686,000)	\$ (4,640,000)	\$ (4,484,000)	\$ (3,696,000)	\$ (401,000)
Net loss attributable to common stockholders ^(c)	\$ (26,499,000)	\$ (32,799,000)	\$ (60,136,000)	\$ (54,054,000)	\$ (35,763,000)
Basic and diluted net loss per common share attributable to common stockholders: ^(d)					
Continuing operations	\$ (0.53)	\$ (0.09)	\$ (0.03)	\$ (0.40)	\$ (0.33)
Discontinued operations	\$ (0.03)	\$ (0.79)	\$ (1.92)	\$ (1.67)	\$ (1.22)
Net loss per share attributable to common stockholders	<u>\$ (0.56)</u>	<u>\$ (0.88)</u>	<u>\$ (1.95)</u>	<u>\$ (2.07)</u>	<u>\$ (1.55)</u>
Basic and diluted weighted average common shares outstanding ^(d)					
	47,063,020	37,109,493	30,895,089	26,079,762	23,082,807
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 42,265,000	\$ 46,799,000	\$ 61,412,000	\$ 68,001,000	\$ 77,490,000
Working capital	\$ 29,964,000	\$ 26,943,000	\$ 24,234,000	\$ 43,192,000	\$ 63,564,000
Total assets	\$ 95,760,000	\$ 118,112,000	\$ 109,043,000	\$ 97,464,000	\$ 90,545,000
Accumulated deficit	\$ (559,129,000)	\$ (537,435,000)	\$ (509,276,000)	\$ (453,624,000)	\$ (403,266,000)
Stockholders' equity	\$ 55,738,000	\$ 53,582,000	\$ 50,074,000	\$ 59,035,000	\$ 67,699,000

(a) As of January 31, 2018, our research and development segment met all the conditions required in order to be classified as a discontinued operation (as described in Note 2 to the accompanying consolidated financial statements). Accordingly, the operating results of our research and development segment are reported as loss from discontinued operations for all periods presented.

(b) Loss from discontinued operations for fiscal year 2018 includes a gain on sale of research and development assets of \$8,000,000 (as described in Note 9 to the accompanying consolidated financial statements).

(c) Net loss attributable to common stockholders represents our net loss plus Series E Preferred Stock accumulated dividends.

(d) All share and per share amounts of our common stock presented have been retroactively adjusted to reflect the one-for-seven reverse stock split of our issued and outstanding common stock, which took effect on July 10, 2017 (as described in Note 1 to the accompanying consolidated financial statements).

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

The following discussion is included to describe our financial position and results of operations for each of the three fiscal years in the period ended April 30, 2018. The audited consolidated financial statements and notes thereto contain detailed information that should be referred to in conjunction with this discussion.

Overview

We are a dedicated contract development and manufacturing organization (“CDMO”) that provides a comprehensive range of services from process development to current Good Manufacturing Practices (“cGMP”) commercial manufacturing focused on biopharmaceutical products derived from mammalian cell culture. With 25 years of experience producing monoclonal antibodies and recombinant proteins in batch, fed-batch and perfusion modes, our services include cGMP clinical and commercial product manufacturing, purification, bulk packaging, stability testing and regulatory submissions and support. We also provide a variety of process development services, including cell line development and optimization, cell culture and feed optimization, analytical methods development and product characterization.

We have experience in performing process development and manufacturing of biologics since 1993 in our Franklin biomanufacturing facility (“Franklin Facility”), located at our headquarters in Tustin, California. In March 2016, we expanded our manufacturing capacity through the commissioning of our Myford biomanufacturing facility (“Myford Facility”), which more than doubled our manufacturing capacity. The 42,000 square foot facility, which is our second biomanufacturing facility, includes multiple single-use bioreactors up to the 2,000-liter manufacturing scale. The Myford Facility was designed to accommodate a fully disposable biomanufacturing process for products in clinical development to commercial. The Myford Facility is located adjacent to our Franklin Facility.

Business Transition

In the fall of 2017, we announced our intent to cease our research and development activities and to transition our business to a dedicated CDMO, which we completed during the fourth quarter of fiscal year 2018. As part of our transition efforts, we completed the following initiatives:

- In August 2017, we instituted a number of strategic actions, including the reduction of our research and development workforce, designed to reduce costs and better position ourselves as a dedicated CDMO;
- In September 2017, we named Roger J. Lias, Ph.D., who has more than 20 years of management experience in the biologics CDMO industry, as the president of our contract manufacturing subsidiary. Subsequently, in December 2017, we appointed Dr. Lias as our President and Chief Executive Officer as we transitioned to a dedicated CDMO;
- In October and November 2017, we appointed a total of six new independent members to our board of directors, each of whom has relevant CDMO industry experience;
- In November 2017, we named Tracy Kinjerski as our Vice President of Business Operations, who will focus on executing new business development initiatives with the objective of growing our commercial customer base;
- On January 5, 2018, we amended our Certificate of Incorporation to change our corporate name to Avid Bioservices, Inc. and we adopted the new ticker symbol “CDMO” on The NASDAQ Capital Market to align with the new end-market focus and strategic positioning of our business;
- By January 31, 2018, we classified our R84 technology as held for sale and abandoned our remaining research and development assets (including our intent to return the exosome technology back to the original licensor);
- On February 12, 2018, we sold our phosphatidylserine (PS)-targeting program pursuant to an Asset Assignment and Purchase Agreement (as described in Note 9 to the accompanying consolidated financial statements); and
- On February 20, 2018 we closed an underwritten public offering of our common stock pursuant to which we sold 10,294,445 shares of our common stock at an offering price of \$2.25 per share for aggregate gross proceeds of \$23,163,000 before deducting underwriting discounts, commissions and other offering related expenses of \$1,669,000 (as described in Note 4 to the accompanying consolidated financial statements).

Strategic Objectives

During our transition, we established and began executing on the following near-term strategic objectives:

- Expand and diversify our customer base by securing additional customers to support our future potential revenue growth beyond fiscal year 2018;
- Continue to invest in manufacturing facilities and infrastructure to maximize our facility utilization and support our customers' clinical and commercial development and manufacturing requirements; and
- Broaden our sales force by hiring sales representatives to execute our business development initiatives in key markets.

Results of Operations

The following table compares the operating results from our continuing operations for the fiscal years ended April 30, 2018, 2017 and 2016, which are further discussed below.

	Fiscal Years Ended April 30,			Fiscal Years Ended April 30,		
	2018	2017	\$ Change	2017	2016	\$ Change
Contract manufacturing revenue	\$ 53,621,000	\$ 57,630,000	\$ (4,009,000)	\$ 57,630,000	\$ 44,357,000	\$ 13,273,000
Cost of contract manufacturing	56,545,000	38,259,000	18,286,000	38,259,000	22,966,000	15,293,000
Gross profit (loss)	(2,924,000)	19,371,000	(22,295,000)	19,371,000	21,391,000	(2,020,000)
Operating expenses:						
Selling, general and administrative	16,456,000	18,079,000	(1,623,000)	18,079,000	17,904,000	175,000
Restructuring charges	1,258,000	—	1,258,000	—	—	—
Total operating expenses	17,714,000	18,079,000	(365,000)	18,079,000	17,904,000	175,000
Operating income (loss)	(20,638,000)	1,292,000	(21,930,000)	1,292,000	3,487,000	(2,195,000)
Other income (expense):						
Interest and other income	102,000	108,000	(6,000)	108,000	124,000	(16,000)
Interest and other expense	(27,000)	(7,000)	(20,000)	(7,000)	(14,000)	7,000
Income (loss) from continuing operations	\$ (20,563,000)	\$ 1,393,000	\$ (21,956,000)	\$ 1,393,000	\$ 3,597,000	\$ (2,204,000)

Contract Manufacturing Revenue

Fiscal Year 2018 Compared to Fiscal Year 2017:

The decrease in contract manufacturing revenue of \$4,009,000 (7%) during fiscal year 2018 was primarily due to fewer manufacturing runs completed and shipped compared to the prior year, which can primarily be attributed to a decrease in manufacturing demand from our two largest customers. As we seek to expand and diversify our customer base, we have secured several new customers since January 2017. However, these new customers are predominately in an earlier stage of development, and therefore, the contract manufacturing revenue from these newer customers during fiscal year 2018 only partially offset the decrease in revenue from our two largest customers.

Fiscal Year 2017 Compared to Fiscal Year 2016:

The increase in contract manufacturing revenue of \$13,273,000 (30%) during fiscal year 2017 was primarily due to manufacturing services provided to support the process validation of three separate customer products in the amount of \$15,444,000, all of which were manufactured in our Myford Facility, which we commissioned during the fourth quarter of fiscal year 2016.

Gross Profit (Loss)

Fiscal Year 2018 Compared to Fiscal Year 2017:

During fiscal year 2018, gross margins declined to a negative 5%, which was primarily driven by idle capacity costs in fiscal year 2018, compared to gross margins of 34% for fiscal year 2017, during which we incurred no idle capacity costs. Included within cost of contract manufacturing are idle capacity costs of \$13,966,000 which negatively impacted gross margin by 26 percentage points for fiscal year 2018. The fiscal year 2018 decline was further impacted by higher manufacturing costs associated with lower facility utilization in addition to the variability of manufacturing costs from product to product.

Fiscal Year 2017 Compared to Fiscal Year 2016:

During fiscal year 2017, gross margins were 34% compared to 48% for fiscal year 2016. The decline in gross margin was primarily driven by higher manufacturing costs associated the utilization of our Myford Facility to support the process validation of three separate customer products in fiscal year 2017 (the Myford Facility was commissioned during the fourth quarter of fiscal year 2016). The fiscal year 2017 decline was further impacted by the write-off of unusable work-in process inventory of \$2,063,000, which is included within cost of contract manufacturing.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses consist primarily of payroll and related expenses and share-based compensation expense (non-cash), for personnel in executive, finance, accounting, business development, legal, human resources, information technology, and other internal support functions. In addition, SG&A expenses include corporate legal fees, audit and accounting fees, investor relation expenses, non-employee director fees, facility related expenses, and other expenses relating to our general management, administration, and business development activities.

Fiscal Year 2018 Compared to Fiscal Year 2017:

The decrease in SG&A expenses of \$1,623,000 (9%) during fiscal year 2018 compared to fiscal year 2017 was primarily due to current period decreases in payroll and related costs and non-employee director fees. The decrease in payroll and related costs can primarily be attributed to a decrease in headcount and other personnel costs related to our efforts to align our cost structure to match the needs of our current CDMO operations combined with a decrease in share-based compensation expense (non-cash). The decrease in non-employee director fees is attributed to the settlement terms of a derivative and class action complaint approved by the Court of Chancery of the State of Delaware on July 27, 2017, pursuant to which our former non-employee directors agreed to pay or cause to be paid \$1,500,000 to us (as described in Note 3 to the accompanying consolidated financial statements), which non-recurring amount was applied against non-employee director fees during the fiscal quarter ended July 31, 2017. These fiscal year 2018 decreases in SG&A expenses were partially offset by non-recurring costs related to the write-off of a long-term equipment deposit, severance and other certain non-recurring costs associated with the transition of our business to a dedicated CDMO.

As discussed above, now that we have completed the transition of our business to a dedicated CDMO, we expect our SG&A expenses in the fiscal year 2019 to decrease in comparison to fiscal year 2018.

Fiscal Year 2017 Compared to Fiscal Year 2016:

SG&A expenses for fiscal year 2017 remained consistent with fiscal year 2016, but increased slightly by \$175,000 (1%). The fiscal year 2017 increase in SG&A expenses was primarily due to increases in payroll and related expenses, facility-related expenses and other general corporate expenses, offset by a decrease in share-based compensation expense (non-cash).

Restructuring Charges

During fiscal year 2018, we incurred restructuring charges of \$1,588,000 directly related to a restructuring plan we implemented in August 2017, pursuant to which we reduced our overall workforce by 57 employees in order to reduce operating costs and improve cost efficiencies while we pursued the license or sale of our research and development assets and focus our efforts on growing our CDMO business (as described in Note 8 to the accompanying consolidated financial statements). The costs incurred under this restructuring plan, which was completed in October 2017, consisted of one-time termination benefits, including severance, and other employee-related costs. Of the total restructuring charges incurred, \$1,258,000 was related to our contract manufacturing services segment and \$330,000 was related to our discontinued research and development segment. The restructuring costs associated with our discontinued research and development segment are included in loss from discontinued operations in the accompanying consolidated financial statements for the fiscal year ended April 30, 2018. We did not incur any restructuring charges during the fiscal years ended April 30, 2017 and 2016.

Discontinued Operations

As a result of the aforementioned business transition, which resulted in (i) the sale of our PS-targeting program, (ii) the held for sale classification of our R84 technology, (iii) the abandonment of our remaining research and development assets, and (iv) the strategic shift in our corporate direction to focus solely on our CDMO business, the operating results of our research and development segment have been excluded from continuing operations and reported as loss from discontinued operations in the accompanying consolidated financial statements for all periods presented (as described in Note 1 to the accompanying consolidated financial statements). In addition, the related gain of \$8 million that was recorded in connection with the sale of our PS-targeting program is included in loss from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss for the fiscal year ended April 30, 2018 (as described in Note 9 to the accompanying consolidated financial statements).

Critical Accounting Policies

Our discussion and analysis of our consolidated financial position and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We review our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate, and different assumptions or estimates about the future could change our reported results. While our significant accounting policies are more fully described in Note 2 to the accompanying consolidated financial statements, we believe the following accounting policies to be critical to the assumptions and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We derive revenue from contract manufacturing services provided to our third-party customers. For the three years ended April 30, 2018, we have recognized revenue in accordance with the authoritative guidance for revenue recognition when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. We also comply with the authoritative guidance for revenue recognition regarding arrangements with multiple elements.

Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer. When deliverables are separable, consideration received is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units, which may require the use of significant judgement. Deliverables are considered separate units of accounting if (1) the delivered item(s) has value to the customer on a stand-alone basis and (2) the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

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

On occasion, we receive requests from customers to hold product that we have manufactured on a “bill-and-hold” basis. Revenue is recognized for these “bill-and-hold” arrangements in accordance with the authoritative guidance, which requires, among other things, the existence of a valid business purpose for the arrangement; the “bill-and-hold” arrangement is at the request of the customer; title and risk of ownership must pass to the customer; the product is complete and ready for shipment; a fixed delivery date that is reasonable and consistent with the customer’s business practices; the product has been separated from our inventory; and no further performance obligations by us exist.

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

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

Share-based Compensation

We account for stock options and other share-based awards granted under our equity compensation plans in accordance with the authoritative guidance for share-based compensation. The estimated fair value of share-based payments to employees in exchange for services is measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is recognized as expense on a straight-line basis over the requisite service periods. The fair value of modifications to share-based awards, if any, is generally estimated using a Black-Scholes option valuation model, unless a lattice model is required. Forfeitures are recognized as a reduction of share-based compensation expense as they occur. As of April 30, 2018, there were no outstanding share-based awards with market or performance conditions.

The estimated fair value of stock options are measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is amortized as compensation expense on a straight-line basis over the requisite service period of the award, which is generally the vesting period. The use of a valuation model requires us to make certain estimates and assumptions with respect to selected model inputs. The expected volatility is based on the daily historical volatility of our common stock covering the estimated expected term. The expected term of options granted reflects actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options. The risk-free interest rate is based on U.S. Treasury notes with terms within the contractual life of the option at the time of grant. The expected dividend yield assumption is based on our expectation of future dividend payouts. We have never declared or paid any cash dividends on our common stock and currently do not anticipate paying such cash dividends.

If factors change and we employ different assumptions in the determination of fair value in future periods, the share-based compensation expense that we record may differ significantly from what we have recorded in the current period. There are a number of factors that affect the amount of share-based compensation expense, including the number of employee options granted during subsequent fiscal years, the price of our common stock on the date of grant, the volatility of our stock price, the estimate of the expected life of options granted and the risk-free interest rates.

Discontinued Operations

As of January 31, 2018, our research and development segment met all the conditions to be classified as a discontinued operation (as described in Note 1 to the accompanying consolidated financial statements). Accordingly, the operating results of our research and development segment are reported as a loss from discontinued operations in the accompanying consolidated financial statements for all periods presented. In addition, the assets and liabilities related to our research and development segment are reported as assets and liabilities of discontinued operations in the accompanying consolidated balance sheets at April 30, 2018 and 2017. For additional information, refer to Note 9, "Sale of Research and Development Assets" to the accompanying consolidated financial statements.

Liquidity and Capital Resources

We have expended substantial funds on our contract manufacturing business and, historically, on the research and development of pharmaceutical product candidates. As a result, we have experienced losses and negative cash flows from operations since our inception.

During fiscal year 2018, we refocused our corporate strategy, whereby we transitioned our business to operate solely as a dedicated CDMO and discontinued our research and development segment (as described in Note 1 to the accompanying consolidated financial statements). As we commence our first full fiscal year as a dedicated CDMO, our ability to continue as a going concern is dependent on the amount of cash on hand and our ability to generate positive cash flows from operations, primarily through securing new customers and diversifying our customer base, and thereby reducing our reliance on a small customer base, increasing revenues, improving gross margins and managing our operating expenses.

At April 30, 2018 we had \$42,265,000 in cash and cash equivalents. In addition, as of April 30, 2018 (as further discussed above under the "Backlog" section included in Item 1 of Part I of this Annual Report), our current backlog was approximately \$57.8 million. While we anticipate the majority of our backlog will be recognized as revenue during fiscal year 2019, our backlog is subject to a number of risks and uncertainties, including, the risk that a customer timely cancels its commitments prior to our initiation of manufacturing services, in which case we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments; the risk that a customer may experience delays in its program(s) or otherwise, which could result in the postponement of anticipated manufacturing services; and the risk that we may not successfully execute on all customer projects, any of which could have a negative impact on our liquidity, reported backlog and future revenue. As a result of these risks and uncertainties, our cash on hand as of April 30, 2018, together with our projected cash receipts under our current backlog and the remaining upfront payment due from our sale of our PS-targeting program (as described in Note 9 to the accompanying consolidated financial statements) may not be sufficient to fund our operations beyond one year after the date our financial statements are issued.

In the event we are unable to secure sufficient business to support our operations, we may need to raise additional capital in the future. Additional funding may include the financing or leasing of capital equipment or raising capital in the equity markets. Our ability to raise additional capital in the equity markets to fund our obligations in future periods depends on a number of factors, including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, and adverse financial results. If we are unable to either raise sufficient capital in the equity markets or generate additional revenue, we may need to further restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

As a result of the foregoing, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date that our financial statements are issued. Our independent registered public accounting firm included an explanatory paragraph highlighting this uncertainty in its "Report of Independent Registered Public Accounting Firm" dated July 16, 2018, which report is included in Item 15 of Part IV of this Annual Report.

Significant components of the changes in cash flows from operating, investing and financing activities for the fiscal years ended April 30, 2018, 2017 and 2016 are as follows:

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

	Fiscal Year Ended April 30,		
	2018	2017	2016
Net loss, as reported	\$ (21,813,000)	\$ (28,159,000)	\$ (55,652,000)
Less non-cash operating expenses:			
Share-based compensation	1,538,000	3,363,000	4,898,000
Depreciation and amortization	2,562,000	2,463,000	1,535,000
Loss on disposal of property and equipment and other assets	1,692,000	1,000	14,000
Gain on sale of research and development assets	(8,000,000)	—	—
Net cash used in operating activities before changes in operating assets and liabilities	<u>\$ (24,021,000)</u>	<u>\$ (22,332,000)</u>	<u>\$ (49,205,000)</u>
Net change in operating assets and liabilities	<u>\$ (2,745,000)</u>	<u>\$ (17,454,000)</u>	<u>\$ 9,614,000</u>
Net cash used in operating activities	<u>\$ (26,766,000)</u>	<u>\$ (39,786,000)</u>	<u>\$ (39,591,000)</u>

Net cash used in operating activities decreased \$13,020,000 to \$26,766,000 for fiscal year 2018 compared to net cash used in operating activities of \$39,786,000 for fiscal year 2017. This decrease in net cash used in operating activities was due to a net change in operating assets and liabilities of \$14,709,000 primarily due to the timing of cash receipts and expenditures associated with customer deposits, deferred revenue, accrued liabilities of discontinued operations, inventories, and trade and other receivables, offset by an increase of \$1,689,000 in net loss reported for fiscal year 2018 after deducting non-cash operating expenses as described in the above table.

Net cash used in operating activities increased \$195,000 to \$39,786,000 for fiscal year 2017 compared to net cash used in operating activities of \$39,591,000 for fiscal year 2016. This increase in net cash used in operating activities was due to a net change in operating assets and liabilities of \$27,068,000 due to the timing of cash receipts and expenditures primarily associated with customer deposits, deferred revenue, accrued liabilities of discontinued operations, inventories, and trade and other receivables, offset by a decrease of \$26,873,000 in net loss reported for fiscal year 2017 after deducting non-cash operating expenses as described in the above table.

Cash Used In Investing Activities. Net cash used in investing activities for the fiscal years ended April 30, 2018, 2017, and 2016, was \$19,000, \$2,992,000, and \$8,791,000, respectively.

Cash used in investing activities during fiscal year 2018 consisted of property and equipment acquisitions of \$3,019,000 related to our manufacturing operations, offset by proceeds of \$3,000,000 related to the sale of certain research and development assets associated with our discontinued research and development segment (as described in Note 9 to the accompanying consolidated financial statements).

Cash used in investing activities during fiscal year 2017 consisted of property and equipment acquisitions of \$3,560,000 related to our manufacturing operations combined with a decrease in other assets of \$568,000 primarily related to a tenant improvement allowance provided to us under a facility operating lease.

Cash used in investing activities during fiscal year 2016 consisted of property and equipment acquisitions of \$8,878,000 offset by a decrease in other assets of \$87,000. Property and equipment acquisitions during fiscal year 2016 primarily related to costs associated with the construction of our Myford Facility. The construction of the Myford Facility was completed and placed into service during fiscal year 2016.

Cash Provided By Financing Activities. Net cash provided by financing activities for the fiscal years ended April 30, 2018, 2017, and 2016, was \$22,251,000, \$28,165,000 and \$41,793,000, respectively.

Net cash provided by financing activities during fiscal year 2018 consisted of (i) \$21,494,000 in net proceeds in connection with an underwritten public offering of our common stock at a public offering price of \$2.25 per share, (ii) \$4,193,000 in net proceeds from the sale of shares of our common stock under an At Market Issuance Sales Agreement, (iii) \$317,000 in net proceeds from the purchase of shares of our common stock under our Employee Stock Purchase Plan (the "ESPP"), and (iv) \$752,000 in net proceeds from stock option exercises, which amounts were offset by dividends paid on our issued and outstanding Series E Preferred Stock of \$4,325,000 and principal payments on a capital lease of \$180,000.

Net cash provided by financing activities during fiscal year 2017 consisted of (i) \$17,759,000 in net proceeds from the sale of shares of our common stock under an At Market Issuance Sales Agreement, (ii) \$12,691,000 in net proceeds from the sale of shares of our common stock under an Equity Distribution Agreement, (iii) \$1,576,000 in net proceeds from the sale of shares of our Series E Preferred Stock under a separate At Market Issuance Sales Agreement, (iv) \$526,000 in net proceeds from the purchase of shares of our common stock under our ESPP, and (v) \$31,000 in net proceeds from stock option exercises, which amounts were offset by dividends paid on our issued and outstanding Series E Preferred Stock of \$4,279,000 and principal payments on a capital lease of \$139,000.

Net cash provided by financing activities during fiscal year 2016 consisted of (i) \$19,999,000 in net proceeds from the sale of shares of our common stock under a Common Stock Purchase Agreement, (ii) \$18,402,000 in net proceeds from the sale of shares of our common stock under two separate At Market Issuance Sales Agreements, (iii) \$6,794,000 in net proceeds from the sale of shares of our common stock under an Equity Distribution Agreement, (iv) \$540,000 in net proceeds from the purchase of shares of our common stock under our ESPP, (v) \$138,000 in net proceeds from stock option exercises, and (vi) \$59,000 in net proceeds from the sale of shares of our Series E Preferred Stock under a separate At Market Issuance Sales Agreement, which amounts were offset by dividends paid on our issued and outstanding Series E Preferred Stock of \$4,139,000.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude contractual liabilities already recorded on our consolidated balance sheet as current liabilities and contingent liabilities for which we cannot reasonably predict future payments. The following chart represents our contractual obligations as of April 30, 2018, aggregated by type:

	Payments Due by Period				
	Total	< 1 year	1-3 years	4-5 years	After 5 years
Operating leases (1)	\$ 23,309,000	\$ 3,006,000	\$ 6,152,000	\$ 5,519,000	\$ 8,632,000
Purchase obligations (2)	3,745,000	2,340,000	1,405,000	-	-
Total contractual obligations	\$ 27,054,000	\$ 5,346,000	\$ 7,557,000	\$ 5,519,000	\$ 8,632,000

(1) Represents future minimum lease payments under all non-cancelable operating leases including our facility operating leases as further described in Note 3 to the accompanying audited consolidated financial statements.

(2) Represents non-cancellable purchase orders for certain consumables associated with our single-use bioreactors in our Myford Facility.

Off Balance Sheet Arrangements.

We do not have any off balance sheet arrangements, as defined in Item 303 of Regulation S-K.

Recently Issued Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies—Pending Adoption of Recent Accounting Pronouncements*, in the accompanying Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect, if any, on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our cash and cash equivalents are primarily invested in money market funds with one major commercial bank with the primary objective to preserve our principal balance. Our deposits held with this bank exceed the amount of government insurance limits provided on our deposits and, therefore, we are exposed to credit risk in the event of default by the major commercial bank holding our cash balances. However, these deposits may be redeemed upon demand and, therefore, bear minimal risk. In addition, while changes in U.S. interest rates would affect the interest earned on our cash balances at April 30, 2018, such changes would not have a material adverse effect on our financial position or results of operations based on historical movements in interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to the financial statements set forth in Item 15 of Part IV of this Annual Report, “Exhibits and Financial Statement Schedules.”

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* The term “disclosure controls and procedures” (defined in Rule 13a-15(e) under the Exchange Act refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the required time periods. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2018. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of April 30, 2018 to ensure the timely disclosure of required information in our SEC filings.

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

(c) *Changes in Internal Control over Financial Reporting.* There have been no significant changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended April 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

AVID BIOSERVICES, INC.
MANAGEMENT'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

In connection with the preparation of the Company's annual consolidated financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting.

Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of April 30, 2018.

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

By: /s/ Roger J. Lias, Ph.D.
Roger J. Lias, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Stephen Hedberg
Stephen Hedberg
Principal Financial Officer

July 16, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Avid Bioservices, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Avid Bioservices, Inc.'s (formerly Peregrine Pharmaceuticals, Inc.) internal control over financial reporting as of April 30, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Avid Bioservices, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of April 30, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of April 30, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2018, and the related notes and our report dated July 16, 2018 expressed an unqualified opinion thereon that included an explanatory paragraph regarding the Company's ability to continue as a going concern.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Irvine, California
July 16, 2018

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item regarding our directors, executive officers and committees of our board of directors is incorporated by reference to the information set forth under the captions “Election of Directors,” “Executive Compensation” and “Corporate Governance” in our 2018 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2018 (the “2018 Definitive Proxy Statement”).

Information required by this Item regarding Section 16(a) reporting compliance is incorporated by reference to the information set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2018 Definitive Proxy Statement.

Information required by this Item regarding our code of ethics is incorporated by reference to the information set forth under the caption “Corporate Governance” in our 2018 Definitive Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the information set forth under the captions “Director Compensation,” “Compensation Discussion and Analysis” and “Executive Compensation” in our 2018 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2018.

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

Other than as set forth below, the information required by this Item is incorporated by reference to the information set forth under the caption “Security Ownership of Certain Beneficial Owners, Directors and Management” in our 2018 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2018.

Equity Compensation Plan Information

We currently maintain six equity compensation plans: the 2002 Stock Incentive Plan (the “2002 Plan”), the 2003 Stock Incentive Plan (the “2003 Plan”), the 2005 Stock Incentive Plan (the “2005 Plan”), the 2009 Stock Incentive Plan (the “2009 Plan”), the 2010 Stock Incentive Plan (the “2010 Plan”) and the 2011 Stock Incentive Plan, as amended on October 15, 2015 (the “2011 Plan”), in addition to which we maintain our Employee Stock Purchase Plan. The 2003 Plan, 2005 Plan, 2009 Plan, 2010 Plan and 2011 Plan, as well as the Employee Stock Purchase Plan, were approved by our stockholders, while we did not submit the 2002 Plan for stockholder approval.

The 2002 Plan, which expired in June 2012, was a broad-based non-qualified stock option plan for the issuance of up to 85,714 options. The 2002 Plan provided for the granting of options to purchase shares of our common stock at prices not less than the fair market value of our common stock at the date of grant and generally expired ten years after the date of grant. No additional options can be granted under the expired 2002 Plan, however, the terms of the 2002 Plan remain in effect with respect to outstanding options granted under the 2002 Plan until they are exercised, canceled or expired.

The following table sets forth certain information as of April 30, 2018 concerning our common stock that may be issued upon the exercise of options or pursuant to purchases of stock under all of our equity compensation plans approved by stockholders and equity compensation plans not approved by stockholders in effect as of April 30, 2018:

Plan Category	(a) Number of Securities to be Issued Upon the Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (\$/share)	(c) Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	3,577,703	8.71	1,718,788
Equity compensation plans not approved by stockholders	20,035	15.05	–
Employee Stock Purchase Plan approved by stockholders	–	–	1,271,409
Total	3,597,738 ⁽¹⁾	8.74 ⁽²⁾	2,990,197

(1) Represents shares to be issued upon the exercise of outstanding options. There were no shares of common stock subject to restricted stock awards as of April 30, 2018.

(2) Represents the weighted-average exercise price of outstanding options.

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

The information required by this Item is incorporated by reference to the information set forth under the captions “Certain Relationships and Related Transactions,” “Director Independence” and “Compensation Committee Interlocks and Insider Participation” in our 2018 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2018.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to the information set forth under the caption “Independent Registered Public Accounting Firm Fees” in our 2018 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2018.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

	<u>Page</u>
(a) (1) <u>Consolidated Financial Statements</u>	
Index to consolidated financial statements filed as part of this Form 10-K:	
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of April 30, 2018 and 2017</u>	F-2
<u>Consolidated Statements of Operations and Comprehensive Loss for each of the three years in the period ended April 30, 2018</u>	F-4
<u>Consolidated Statements of Stockholders' Equity for each of the three years in the period ended April 30, 2018</u>	F-5
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended April 30, 2018</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7
(2) <u>Financial Statement Schedules</u>	
All schedules are omitted as the required information is inapplicable, or the information is presented in the consolidated financial statements or related notes.	

(3) Exhibits

Exhibit Number	Description
3.1	<u>Certificate of Incorporation of Avid Bioservices, Inc., a Delaware corporation, as amended through January 5, 2018 (Incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on March 12, 2018).</u>
3.2	<u>Amended and Restated Bylaws of Avid Bioservices, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K as filed with the Commission on November 14, 2014).</u>
3.3	<u>Amendment No. 1 to Amended and Restated Bylaws of Avid Bioservices, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K as filed with the Commission on March 13, 2018).</u>
4.1	Form of Certificate for Common Stock (Incorporated by reference to Exhibit 4.1 to Registrant's Annual Report on Form 10-K for the year end April 30, 1988).
4.2	<u>Avid Bioservices, Inc. 2002 Non-Qualified Stock Option Plan (Incorporated by reference to Exhibit 4.17 to Registrant's Registration Statement on Form S-8 (File No. 333-106385)). *</u>
4.3	<u>Form of 2002 Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 4.18 to Registrant's Registration Statement on Form S-8 (File No. 333-106385)). *</u>
4.4	<u>Amended and Restated Rights Agreement, dated March 16, 2016, between Avid Bioservices, Inc. and Broadridge Corporate Issuer Solutions, Inc., as Rights Agent (Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K as filed with the Commission on March 17, 2016).</u>
4.5	<u>2003 Stock Incentive Plan Non-qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.95 to Registrant's Registration Statement on Form S-8 (File No. 333-121334)). *</u>
4.6	<u>2003 Stock Incentive Plan Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.96 to Registrant's Registration Statement on Form S-8 (File No. 333-121334)). *</u>
4.7	<u>Form of Incentive Stock Option Agreement for 2005 Stock Incentive Plan (Incorporated by reference to Exhibit 10.98 to Registrant's Current Report on Form 8-K as filed with the Commission on October 28, 2005). *</u>
4.8	<u>Form of Non-Qualified Stock Option Agreement for 2005 Stock Incentive Plan (Incorporated by reference to Exhibit 10.99 to Registrant's Current Report on Form 8-K as filed with the Commission on October 28, 2005). *</u>
4.9	<u>Avid Bioservices, Inc., 2005 Stock Incentive Plan (Incorporated by reference to Exhibit B to Registrant's Definitive Proxy Statement filed with the Commission on August 29, 2005). *</u>
4.10	<u>Form of Incentive Stock Option Agreement for 2009 Stock Incentive Plan (Incorporated by reference to Exhibit 4.14 to Registrant's Current Report on Form 8-K as filed with the Commission on October 27, 2009). *</u>
4.11	<u>Form of Non-Qualified Stock Option Agreement for 2009 Stock Incentive Plan (Incorporated by reference to Exhibit 4.15 to Registrant's Current Report on Form 8-K as filed with the Commission on October 27, 2009). *</u>
4.12	<u>2010 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement filed with the Commission on August 27, 2010). *</u>
4.13	<u>Form of Stock Option Award Agreement under 2010 Stock Incentive Plan (Incorporated by reference to Exhibit 4.17 to Registrant's Registration Statement on Form S-8 (File No. 333-171067)). *</u>
4.14	<u>2010 Employee Stock Purchase Plan (Incorporated by reference to Exhibit B to Registrant's Definitive Proxy Statement filed with the Commission on August 27, 2010). *</u>
4.15	<u>Amendment to the 2010 Employee Stock Purchase Plan (Incorporated by reference to Exhibit B to Registrant's Definitive Proxy Statement filed with the Commission on August 26, 2016). *</u>
4.16	<u>2011 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement filed with the Commission on August 26, 2011). *</u>
4.17	<u>Form of Stock Option Award Agreement under 2011 Stock Incentive Plan (Incorporated by reference to Exhibit 4.20 to Registrant's Registration Statement on Form S-8 (File No. 333-178452)). *</u>
4.18	<u>First Amendment to the Avid Bioservices, Inc., 2011 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement filed with the Commission on August 27, 2012). *</u>

Exhibit Number	Description
4.19	<u>Second Amendment to the Avid Bioservices, Inc. 2011 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement filed with the Commission on August 26, 2013). *</u>
4.20	<u>First Amendment to the Avid Bioservices, Inc., 2005 Stock Incentive Plan dated April 24, 2015 (Incorporated by reference to Exhibit 4.22 to Registrant's Annual Report on Form 10-K for the year end April 30, 2015). *</u>
4.21	<u>First Amendment to the Avid Bioservices, Inc. 2009 Stock Incentive Plan dated April 24, 2015 (Incorporated by reference to Exhibit 4.23 to Registrant's Annual Report on Form 10-K for the year end April 30, 2015)(Incorporated by reference to Exhibit 4.24 to Registrant's Annual Report on Form 10-K for the year end April 30, 2015). *</u>
4.22	<u>Third Amendment to the Avid Bioservices, Inc. 2011 Stock Incentive Plan dated April 24, 2015 (Incorporated by reference to Exhibit 4.24 to Registrant's Annual Report on Form 10-K for the year end April 30, 2015).*</u>
4.23	<u>Form of Amendment to Non-Qualified Stock Option Agreement Under the Avid Bioservices, Inc., 2005 Stock Incentive Plan related to Non-Employee Director stock option awards (Incorporated by reference to Exhibit 4.25 to Registrant's Annual Report on Form 10-K for the year end April 30, 2015). *</u>
4.24	<u>Form of Amendment to Non-Qualified Stock Option Agreement Under the Avid Bioservices, Inc., 2009 Stock Incentive Plan related to Non-Employee Director stock option awards (Incorporated by reference to Exhibit 4.26 to Registrant's Annual Report on Form 10-K for the year end April 30, 2015).*</u>
4.25	<u>Form of Amendment to Stock Option Award Agreement Under the Avid Bioservices, Inc., 2011 Stock Incentive Plan related to Non-Employee Director stock option awards (Incorporated by reference to Exhibit 4.27 to Registrant's Annual Report on Form 10-K for the year end April 30, 2015).*</u>
4.26	<u>Form of Indenture (Incorporated by reference to Exhibit 4.4 to Registrant's Registration Statement on Form S-3 filed with the Commission on January 12, 2018).</u>
10.1	<u>Lease and Agreement of Lease between TNCA, LLC, as Landlord, and Avid Bioservices, Inc., as Tenant, dated as of December 24, 1998. (Incorporated by reference to Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on March 12, 1999).</u>
10.2	<u>First Amendment to Lease and Agreement of Lease between TNCA, LLC, as Landlord, and Avid Bioservices, Inc., as Tenant, dated December 22, 2005 (Incorporated by reference to Exhibit 99.1 and 99.2 to Registrant's Current Report on Form 8-K as filed with the Commission on December 23, 2005).</u>
10.3	<u>Annual Bonus Plan for Executive Officers adopted July 12, 2011(Incorporated by reference to Exhibit 10.29 to Registrant's Annual Report on Form 10-K as filed with the Commission on July 14, 2011). *</u>
10.4	<u>Warrant to Purchase Stock issued to Oxford Finance LLC, dated August 30, 2012 (Incorporated by reference to Exhibit 10.29 to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on December 10, 2012).</u>
10.5	<u>Warrant to Purchase Stock issued to Midcap Financial SBIC LP, dated August 30, 2012 (Incorporated by reference to Exhibit 10.30 to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on December 10, 2012).</u>
10.6	<u>Warrant to Purchase Stock issued to Silicon Valley Bank, dated August 30, 2012 (Incorporated by reference to Exhibit 10.31 to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on December 10, 2012).</u>
10.7	<u>Amended and Restated Employment Agreement by and between Avid Bioservices, Inc. and Mark R. Ziebell, effective December 27, 2012 (Incorporated by reference to Exhibit 10.38 to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on March 12, 2013). *</u>
10.8	<u>At Market Issuance Sales Agreement, dated August 7, 2015, by and between Avid Bioservices, Inc. and MLV & Co. LLC (Incorporated by reference to Exhibit 10.26 to Registrant's Current Report on Form 8-K as filed with the Commission on August 7, 2015).</u>
10.9	<u>Settlement Agreement, dated November 27, 2017, by and among Avid Bioservices, Inc., Ronin Trading, LLC, Ronin Capital, LLC, SWIM Partners LP, SW Investment Management LLC, John S. Stafford, III, Stephen White and Roger Farley (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the Commission on November 28, 2017).</u>
10.10	<u>Severance Agreement and Mutual Release of all Claims between Steven W. King and Avid Bioservices, Inc. dated December 22, 2017 (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed with the Commission on March 12, 2018).</u>
10.11	<u>Asset Assignment and Purchase Agreement by and between Avid Bioservices, Inc. and Oncologie, Inc., dated February 12, 2018. (**) (***)</u>

Exhibit Number	Description
21	<u>Subsidiaries of Registrant. ***</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm. ***</u>
24	<u>Power of Attorney (included on signature page of Annual Report). ***</u>
31.1	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended. ***</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended. ***</u>
32	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350. ***</u>
101.INS	XBRL Taxonomy Extension Instance Document. ***
101.SCH	XBRL Taxonomy Extension Schema Document. ***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. ***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. ***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. ***
101.PRE	XBRL Presentation Extension Linkbase Document. ***

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVID BIOSERVICES, INC.

Dated: July 16, 2018

By: /s/ Roger J. Lias, Ph.D.
Roger J. Lias, Ph.D.,
President and Chief Executive Officer

POWER OF ATTORNEY

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

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Roger J. Lias, Ph.D.</u> Roger J. Lias, Ph. D.	President and Chief Executive Officer (Principal Executive Officer), and Director	July 16, 2018
<u>/s/ Stephen Hedberg</u> Stephen Hedberg	Principal Financial and Principal Accounting Officer	July 16, 2018
<u>/s/ Joseph Carleone, Ph. D.</u> Joseph Carleone, Ph.D.	Chairman of the Board of Directors	July 16, 2018
<u>/s/ Mark R. Bamforth</u> Mark R. Bamforth	Director	July 16, 2018
<u>/s/ Richard B. Hancock</u> Richard B. Hancock	Director	July 16, 2018
<u>/s/ Joel McComb</u> Joel McComb	Director	July 16, 2018
<u>/s/ Gregory P. Sargen</u> Gregory P. Sargen	Director	July 16, 2018
<u>/s/ Patrick D. Walsh</u> Patrick D. Walsh	Director	July 16, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Avid Bioservices, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Avid Bioservices, Inc. (formerly Peregrine Pharmaceuticals, Inc.) (the Company) as of April 30, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at April 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended April 30, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of April 30, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated July 16, 2018 expressed an unqualified opinion thereon.

The Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has experienced losses and negative cash flows from operations since inception and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1999.

Irvine, California
July 16, 2018

AVID BIOSERVICES, INC.

CONSOLIDATED BALANCE SHEETS
AS OF APRIL 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 42,265,000	\$ 46,799,000
Trade and other receivables	3,754,000	7,742,000
Inventories	16,129,000	33,099,000
Prepaid expenses	679,000	808,000
Assets of discontinued operations	5,000,000	1,426,000
Total current assets	67,827,000	89,874,000
PROPERTY AND EQUIPMENT:		
Leasehold improvements	20,686,000	20,098,000
Laboratory equipment	10,258,000	10,229,000
Furniture, fixtures, office equipment and software	4,597,000	4,385,000
Construction-in-progress	3,310,000	2,841,000
	38,851,000	37,553,000
Less accumulated depreciation and amortization	(12,372,000)	(11,508,000)
Property and equipment, net	26,479,000	26,045,000
Restricted cash	1,150,000	1,150,000
Other assets	304,000	1,043,000
TOTAL ASSETS	<u>\$ 95,760,000</u>	<u>\$ 118,112,000</u>

See accompanying notes to consolidated financial statements.

AVID BIOSERVICES, INC.

**CONSOLIDATED BALANCE SHEETS
AS OF APRIL 30, 2018 AND 2017 (continued)**

	<u>2018</u>	<u>2017</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,909,000	\$ 3,000,000
Accrued payroll and related costs	2,564,000	5,055,000
Deferred revenue	10,922,000	28,500,000
Customer deposits	17,013,000	17,017,000
Other current liabilities	905,000	636,000
Liabilities of discontinued operations	<u>4,550,000</u>	<u>8,723,000</u>
Total current liabilities	37,863,000	62,931,000
Deferred rent, less current portion	2,159,000	1,599,000
Commitments and contingencies (Note 3)		
STOCKHOLDERS' EQUITY:		
Preferred stock - \$.001 par value; authorized 5,000,000 shares; 1,647,760 shares issued and outstanding at April 30, 2018 and 2017, respectively	2,000	2,000
Common stock - \$.001 par value; authorized 500,000,000 shares; 55,689,222 and 44,014,040 shares issued and outstanding at April 30, 2018 and 2017, respectively	55,000	44,000
Additional paid-in-capital	614,810,000	590,971,000
Accumulated deficit	<u>(559,129,000)</u>	<u>(537,435,000)</u>
Total stockholders' equity	<u>55,738,000</u>	<u>53,582,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 95,760,000</u>	<u>\$ 118,112,000</u>

See accompanying notes to consolidated financial statements.

AVID BIOSERVICES, INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contract manufacturing revenue	\$ 53,621,000	\$ 57,630,000	\$ 44,357,000
Cost of contract manufacturing	<u>56,545,000</u>	<u>38,259,000</u>	<u>22,966,000</u>
Gross profit (loss)	(2,924,000)	19,371,000	21,391,000
Operating expenses:			
Selling, general and administrative	16,456,000	18,079,000	17,904,000
Restructuring charges	<u>1,258,000</u>	<u>—</u>	<u>—</u>
Total operating expenses	<u>17,714,000</u>	<u>18,079,000</u>	<u>17,904,000</u>
Operating income (loss)	(20,638,000)	1,292,000	3,487,000
Other income (expense):			
Interest and other income	102,000	108,000	124,000
Interest and other expense	<u>(27,000)</u>	<u>(7,000)</u>	<u>(14,000)</u>
Income (loss) from continuing operations	\$ (20,563,000)	\$ 1,393,000	\$ 3,597,000
Loss from discontinued operations	<u>(1,250,000)</u>	<u>(29,552,000)</u>	<u>(59,249,000)</u>
Net Loss	<u>\$ (21,813,000)</u>	<u>\$ (28,159,000)</u>	<u>\$ (55,652,000)</u>
Comprehensive loss	<u>\$ (21,813,000)</u>	<u>\$ (28,159,000)</u>	<u>\$ (55,652,000)</u>
Series E preferred stock accumulated dividends	<u>(4,686,000)</u>	<u>(4,640,000)</u>	<u>(4,484,000)</u>
Net loss attributable to common stockholders	<u>\$ (26,499,000)</u>	<u>\$ (32,799,000)</u>	<u>\$ (60,136,000)</u>
Basic and diluted weighted average common shares outstanding	<u>47,063,020</u>	<u>37,109,493</u>	<u>30,895,089</u>
Basic and diluted net loss per common share attributable to common stockholders:			
Continuing operations	\$ (0.53)	\$ (0.09)	\$ (0.03)
Discontinued operations	\$ (0.03)	\$ (0.79)	\$ (1.92)
Net loss per share attributable to common stockholders	<u>\$ (0.56)</u>	<u>\$ (0.88)</u>	<u>\$ (1.95)</u>

See accompanying notes to consolidated financial statements.

AVID BIOSERVICES, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2018**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity
	Shares	Amount	Shares	Amount			
BALANCES, April 30, 2015	1,574,764	\$ 2,000	27,620,947	\$ 28,000	\$ 512,629,000	\$ (453,624,000)	\$ 59,035,000
Series E preferred stock issued for cash under June 13, 2014 Financing, net of issuance costs of \$1,000	2,676	–	–	–	59,000	–	59,000
Series E preferred stock dividends	–	–	–	–	(4,139,000)	–	(4,139,000)
Common stock issued for cash under June 13, 2014 Financing, net of issuance costs of \$311,000	–	–	1,232,821	1,000	11,144,000	–	11,145,000
Common stock issued for cash under August 7, 2015 Financing, net of issuance costs of \$190,000	–	–	964,523	1,000	7,256,000	–	7,257,000
Common stock issued for cash under August 7, 2015 Financing, net of issuance costs of \$175,000	–	–	1,210,328	1,000	6,793,000	–	6,794,000
Common stock issued for cash under October 30, 2015 Financing, net of issuance costs of \$1,000	–	–	2,645,503	3,000	19,996,000	–	19,999,000
Common stock issued under Employee Stock Purchase Plan	–	–	147,769	–	540,000	–	540,000
Common stock issued upon exercise of options	–	–	25,322	–	138,000	–	138,000
Share-based compensation	–	–	–	–	4,898,000	–	4,898,000
Net loss	–	–	–	–	–	(55,652,000)	(55,652,000)
BALANCES, April 30, 2016	1,577,440	2,000	33,847,213	34,000	559,314,000	(509,276,000)	50,074,000
Series E preferred stock issued for cash under June 13, 2014 Financing, net of issuance costs of \$58,000	70,320	–	–	–	1,576,000	–	1,576,000
Series E preferred stock dividends	–	–	–	–	(4,279,000)	–	(4,279,000)
Common stock issued for cash under August 7, 2015 Financing, net of issuance costs of \$487,000	–	–	6,137,403	6,000	17,753,000	–	17,759,000
Common stock issued for cash under August 7, 2015 Financing, net of issuance costs of \$340,000	–	–	3,750,323	4,000	12,687,000	–	12,691,000
Common stock issued under Employee Stock Purchase Plan	–	–	270,075	–	526,000	–	526,000
Common stock issued upon exercise of options	–	–	9,026	–	31,000	–	31,000
Share-based compensation	–	–	–	–	3,363,000	–	3,363,000
Net loss	–	–	–	–	–	(28,159,000)	(28,159,000)
BALANCES, April 30, 2017	1,647,760	2,000	44,014,040	44,000	590,971,000	(537,435,000)	53,582,000
Series E preferred stock dividends	–	–	–	–	(4,325,000)	–	(4,325,000)
Cumulative-effect adjustment to accumulated deficit pursuant to adoption of ASU 2016-09	–	–	–	–	(119,000)	119,000	–
Common stock issued for cash under August 7, 2015 Financing, net of issuance costs of \$111,000	–	–	1,051,259	1,000	4,192,000	–	4,193,000
Common stock issued for cash under February 14, 2018 Public Offering, net of issuance costs of \$1,669,000	–	–	10,294,445	10,000	21,484,000	–	21,494,000
Common stock issued under Employee Stock Purchase Plan	–	–	88,327	–	317,000	–	317,000
Common stock issued upon exercise of options	–	–	222,255	–	752,000	–	752,000
Fractional shares issued pursuant to reverse stock split	–	–	18,896	–	–	–	–
Share-based compensation	–	–	–	–	1,538,000	–	1,538,000
Net loss	–	–	–	–	–	(21,813,000)	(21,813,000)
BALANCES, April 30, 2018	1,647,760	\$ 2,000	55,689,222	\$ 55,000	\$ 614,810,000	\$ (559,129,000)	\$ 55,738,000

See accompanying notes to consolidated financial statements.

AVID BIOSERVICES, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 2018**

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (21,813,000)	\$ (28,159,000)	\$ (55,652,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based compensation	1,538,000	3,363,000	4,898,000
Depreciation and amortization	2,562,000	2,463,000	1,535,000
Loss on disposal of property and equipment and other assets	1,692,000	1,000	14,000
Gain on sale of research and development assets	(8,000,000)	-	-
Changes in operating assets and liabilities:			
Trade and other receivables	3,988,000	(4,883,000)	954,000
Inventories	16,970,000	(16,913,000)	(8,832,000)
Prepaid expenses	781,000	(109,000)	4,000
Restricted cash	-	(550,000)	(600,000)
Other non-current assets	24,000	278,000	(325,000)
Accounts payable	(4,018,000)	(3,308,000)	(3,521,000)
Accrued clinical trial and related fees	(945,000)	(3,036,000)	3,684,000
Accrued payroll and related costs	(2,906,000)	263,000	1,215,000
Deferred revenue	(17,578,000)	18,470,000	3,400,000
Customer deposits	(4,000)	(7,195,000)	12,849,000
Other accrued expenses and current liabilities	383,000	(675,000)	1,051,000
Deferred rent, less current portion	560,000	204,000	(265,000)
Net cash used in operating activities	<u>(26,766,000)</u>	<u>(39,786,000)</u>	<u>(39,591,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property and equipment acquisitions	(3,019,000)	(3,560,000)	(8,878,000)
Decrease in other assets	-	568,000	87,000
Proceeds from sale of research and development assets	3,000,000	-	-
Net cash used in investing activities	<u>(19,000)</u>	<u>(2,992,000)</u>	<u>(8,791,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock, net of issuance costs of \$1,780,000, \$827,000, and \$677,000, respectively	25,687,000	30,450,000	45,195,000
Proceeds from issuance of Series E preferred stock, net of issuance costs of nil, \$58,000, and \$1,000, respectively	-	1,576,000	59,000
Proceeds from issuance of common stock under Employee Stock Purchase Plan	317,000	526,000	540,000
Proceeds from exercise of stock options	752,000	31,000	138,000
Dividends paid on preferred stock	(4,325,000)	(4,279,000)	(4,139,000)
Principal payments on capital lease	(180,000)	(139,000)	-
Net cash provided by financing activities	<u>22,251,000</u>	<u>28,165,000</u>	<u>41,793,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (4,534,000)	\$ (14,613,000)	\$ (6,589,000)
CASH AND CASH EQUIVALENTS, beginning of period	<u>46,799,000</u>	<u>61,412,000</u>	<u>68,001,000</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 42,265,000</u>	<u>\$ 46,799,000</u>	<u>\$ 61,412,000</u>
SUPPLEMENTAL INFORMATION:			
Cash paid for interest	<u>\$ 4,000</u>	<u>\$ 6,000</u>	<u>\$ -</u>
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Accounts payable and other liabilities for purchase of property and equipment and other assets	<u>\$ 180,000</u>	<u>\$ 658,000</u>	<u>\$ 1,565,000</u>
Other receivables related to the sale of research and development assets	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>
Property and equipment acquired under capital lease	<u>\$ -</u>	<u>\$ 319,000</u>	<u>\$ -</u>
Lease incentives	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 562,000</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS DESCRIPTION

We are a contract development and manufacturing organization (“CDMO”) that provides a comprehensive range of services from process development to current Good Manufacturing Practices (“cGMP”) commercial manufacturing focused on biopharmaceutical products derived from mammalian cell culture for biotechnology and pharmaceutical companies.

Corporate Name Change – Effective January 5, 2018, we changed our name from Peregrine Pharmaceuticals, Inc. to Avid Bioservices, Inc. in connection with our decision to cease our research and development activities and transition our business to a dedicated CDMO. Except where specifically noted or the context otherwise requires, references to “Avid,” “the Company,” “we,” “us,” and “our,” in this Annual Report refer to Avid Bioservices, Inc. and its consolidated subsidiaries.

Sale of Research and Development Assets – On February 12, 2018, we entered into an Asset Assignment and Purchase Agreement (“Purchase Agreement”) with Oncologie, Inc. pursuant to which we sold the majority of our research and development assets to Oncologie, Inc., which included the assignment of certain exclusive licenses related to our former phosphatidylserine (PS)-targeting program (Note 9). As a result of (i) the sale of our PS-targeting program, (ii) the held for sale classification of our R84 technology, (iii) the abandonment of our remaining research and development assets (including our intent to return the exosome technology back to the original licensor), and (iv) the strategic shift in our corporate direction to focus solely on our CDMO business, the operating results and related assets and liabilities from our research and development segment are reported as a loss from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss for all periods presented. In addition, assets and liabilities related to that segment are reported as assets and liabilities of discontinued operations in the accompanying consolidated balance sheets at April 30, 2018 and 2017 (Note 2).

Reverse Stock Split – On July 7, 2017, we effected a reverse stock split of our outstanding shares of common stock at a ratio of one-for-seven pursuant to our filed Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware. The reverse stock split took effect with the opening of trading on July 10, 2017. The primary purpose of the reverse stock split, which was approved by our stockholders at our 2016 Annual Meeting on October 13, 2016, was to enable us to regain compliance with the \$1.00 minimum bid price requirement for continued listing on The NASDAQ Capital Market. Pursuant to the reverse stock split, every seven shares of our issued and outstanding shares of common stock were automatically combined into one issued and outstanding share of common stock, without any change in the par value per share of our common stock. All share and per share amounts of our common stock included in the accompanying consolidated financial statements have been retrospectively adjusted to give effect to the reverse stock split for all periods presented, including reclassifying an amount equal to the reduction in par value to additional paid-in capital. No fractional shares were issued in connection with the reverse stock split. Any fractional share of common stock created by the reverse stock split was rounded up to the nearest whole share. The number of authorized shares of our common stock remained unchanged. The reverse stock split affected all issued and outstanding shares of our common stock, as well as the shares of common stock underlying our stock options, employee stock purchase plan, warrants and the general conversion right with respect to our 10.50% Series E Convertible Preferred Stock (the “Series E Preferred Stock”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and include the accounts of Avid Bioservices, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates – The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Discontinued Operations – As of January 31, 2018, our research and development segment met all the conditions required in order to be classified as a discontinued operation (Note 1). Accordingly, the operating results of our research and development segment are reported as a loss from discontinued operations in the accompanying consolidated financial statements for all periods presented. In addition, the assets and liabilities related to our research and development segment are reported as assets and liabilities of discontinued operations in the accompanying consolidated balance sheets at April 30, 2018 and 2017. For additional information, see Note 9, “Sale of Research and Development Assets”.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segment Reporting – Historically, our business had been organized into two reportable operating segments: (i) our research and development segment, and (ii) our contract manufacturing services segment. However, due to changes in our organizational structure associated with the aforementioned classification of our research and development segment as a discontinued operation, management has determined that the Company now operates in one operating segment with one reporting segment. The accounting policies of our one reportable segment are the same as those described in this Note 2.

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

At April 30, 2018, we had \$42,265,000 in cash and cash equivalents. Our ability to fund our operations is dependent on the amount of cash on hand and our ability to generate sufficient revenue to cover our operations. We have expended substantial funds on our contract manufacturing business and, historically, on the research and development of pharmaceutical product candidates. As a result, we have experienced losses and negative cash flows from operations since our inception, and although we have discontinued our research and development segment (Note 1), we expect negative cash flows from operations to continue until we can generate sufficient revenue to generate positive cash flow from operations.

In the event we are unable to secure sufficient business to support our operations, we may need to raise additional capital in the future. Our ability to raise additional capital in the equity markets to fund our obligations in future periods is dependent on a number of factors, including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties, including but not limited to, negative economic conditions, adverse market conditions, and adverse financial results. If we are unable to either raise sufficient capital in the equity markets or generate additional revenue, we may need to further restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

As a result, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date that our financial statements are issued.

Reclassification – Certain prior year amounts related to construction-in-progress included in other assets have been reclassified to property and equipment in our accompanying consolidated balance sheet for the fiscal year ended April 30, 2017 and in our accompanying consolidated statement of cash flows for the fiscal years ended April 30, 2017 and 2016 to conform to the current period presentation. This reclassification had no effect on previously reported net loss.

In addition, certain amounts related to corporate overhead costs that were allocated to the research and development segment have been reclassified from research and development expense to selling, general and administrative expense in our accompanying consolidated statements of operations and comprehensive loss for all periods presented (Note 9). This reclassification had no effect on previously reported net loss.

Restructuring – Restructuring charges consist of one-time termination benefits, including severance and other employee-related costs related to a workforce reduction pursuant to a restructuring plan we implemented in August 2017 (Note 8). One-time termination benefits are expensed at the date we notified the employee, unless the employee was required to provide future service, in which case the benefits are expensed ratably over the future service period.

Cash and Cash Equivalents – We consider all short-term investments readily convertible to cash with an initial maturity of three months or less to be cash equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Cash – Under the terms of three separate operating leases related to our facilities, we are required to maintain, as collateral, letters of credit during the terms of such leases (Note 3). At April 30, 2018 and 2017, restricted cash of \$1,150,000 was pledged as collateral under these letters of credit.

Trade and Other Receivables – Trade receivables represent amounts billed for contract manufacturing services and are recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. Other receivables are reported at amounts expected to be collected net of an allowance for doubtful accounts, if necessary. Trade and other receivables consist of the following at April 30,:

	<u>2018</u>	<u>2017</u>
Trade receivables	\$ 3,539,000	\$ 7,274,000
Other receivables	215,000	468,000
Trade and other receivables	<u>\$ 3,754,000</u>	<u>\$ 7,742,000</u>

Allowance for Doubtful Accounts – We continually monitor our allowance for doubtful accounts for all receivables. We apply judgment in assessing the ultimate realization of our receivables and we estimate an allowance for doubtful accounts based on various factors, such as the aging of accounts receivable balances, historical experience, and the financial condition of our customers. Based on our analysis of our receivables as of April 30, 2018 and 2017, we determined no allowance for doubtful accounts was necessary.

Inventories – Inventories are recorded at the lower of cost or market (net realizable value) and primarily include raw materials, work-in-process (comprised of raw materials, direct labor and overhead costs associated with in-process manufacturing services), and finished goods (representing manufacturing services completed and ready for shipment) associated with contract manufacturing services. Overhead costs allocated to work-in-process inventory are based on the normal capacity of our production facilities and do not include costs from abnormally low production or idle capacity, which are expensed directly to cost of contract manufacturing in the period incurred. During the fiscal year ended April 30, 2018, we expensed \$13,966,000 in idle capacity costs directly to cost of contract manufacturing in the accompanying consolidated financial statements. No idle capacity costs were incurred during the fiscal years ended April 30, 2017 and 2016. Cost is determined by the first-in, first-out method. Inventories consist of the following at April 30,:

	<u>2018</u>	<u>2017</u>
Raw materials	\$ 8,165,000	\$ 11,304,000
Work-in-process	7,964,000	13,755,000
Finished goods	–	8,040,000
Total inventories	<u>\$ 16,129,000</u>	<u>\$ 33,099,000</u>

Property and Equipment, net – Property and equipment is recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related asset, generally ranging from three to ten years. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term. Construction-in-progress, which represents direct costs related to the construction of various equipment and leasehold improvements associated with our manufacturing facilities, are not depreciated until the asset is completed and placed into service. No interest was incurred or capitalized as construction-in-progress as of April 30, 2018 and 2017. In addition, all of our property and equipment are located in the U.S.

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

Our trade receivables from amounts billed for contract manufacturing services have historically been derived from a small customer base. Most contracts require up-front payments and installment payments during the service period. We perform periodic evaluations of the financial condition of our customers and generally do not require collateral, but we can terminate any contract if a material default occurs. At April 30, 2018 and 2017, approximately 93% of our trade receivables were due from six or fewer customers.

AVID BIOSERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our contract manufacturing revenue has historically been derived from a small customer base. Historically, these customers have not entered into long-term contracts because their need for drug supply depends on a variety of factors, including a product's stage of development, the timing of regulatory filings and approvals, the product needs of their collaborators, if applicable, their financial resources and the market demand with respect to a commercial product.

The percentages below represent revenue derived from each customer (and geographical location) as a percentage of total contract manufacturing revenue during the fiscal years ended April 30, 2018, 2017 and 2016:

Customer	Geographic Location	2018	2017	2016
Halozyyme Therapeutics, Inc.	U.S.	55%	58%	69%
Coherus BioSciences, Inc.	U.S.	22	26	26
Other customers	U.S./non-U.S.	23	16	5
Total		100%	100%	100%

We attribute contract manufacturing revenue to the individual countries where the customer is headquartered. For fiscal year ended April 30, 2018, contract manufacturing revenue derived from U.S. based customers was 99% of total contract manufacturing revenue. For fiscal years ended April 30, 2017 and 2016, contract manufacturing revenue was derived solely from U.S. based customers.

Comprehensive Loss – Comprehensive loss is the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive loss is equal to our net loss for all periods presented.

Impairment – Long-lived assets are reviewed for impairment in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. Long-lived assets are reported at the lower of carrying amount or fair value less cost to sell. For the fiscal years ended April 30, 2018 and 2017, there were no indicators of impairment of the value of our long-lived assets.

Fair Value of Financial Instruments – The carrying amounts in the accompanying consolidated balance sheet for cash and cash equivalents, restricted cash, trade and other receivables, accounts payable and accrued liabilities approximate their fair values due to their short-term maturities.

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance prioritizes the inputs used in measuring fair value into the following hierarchy:

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

As of April 30, 2018 and 2017, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash equivalents, which are primarily invested in money market funds with one major commercial bank, are carried at fair value based on quoted market prices for identical securities (Level 1 input). In addition, there were no transfers between any Levels of the fair value hierarchy during the fiscal years ended April 30, 2018 and 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Customer Deposits – Customer deposits primarily represents advance billings and/or payments received for services or raw materials from our customers prior to the initiation of contract manufacturing services.

Deferred Rent – Rent expense is recorded on a straight-line basis over the initial term of our operating lease agreements and the difference between rent expense and the amounts paid is recorded as a deferred rent liability. Incentives granted under our operating leases, including tenant improvements and landlord-funded lease incentives, are recorded as a deferred rent liability, which is amortized as a reduction to rent expense over the term of the operating lease (Note 3).

Revenue Recognition – We derive revenue from contract manufacturing services provided to our third-party customers. For the three years ended April 30, 2018, we have recognized revenue in accordance with the authoritative guidance for revenue recognition when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. We also comply with the authoritative guidance for revenue recognition regarding arrangements with multiple elements.

Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer. When deliverables are separable, consideration received is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units, which may require the use of significant judgement. Deliverables are considered separate units of accounting if (1) the delivered item(s) has value to the customer on a stand-alone basis and (2) the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

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

On occasion, we receive requests from customers to hold product that we have manufactured on a "bill-and-hold" basis. Revenue is recognized for these "bill-and-hold" arrangements in accordance with the authoritative guidance, which requires, among other things, the existence of a valid business purpose for the arrangement; the "bill-and-hold" arrangement is at the request of the customer; title and risk of ownership must pass to the customer; the product is complete and ready for shipment; a fixed delivery date that is reasonable and consistent with the customer's business practices; the product has been separated from our inventory; and no further performance obligations by us exist.

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

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

Share-based Compensation – We account for stock options and other share-based awards granted under our equity compensation plans in accordance with the authoritative guidance for share-based compensation. The estimated fair value of share-based payments to employees in exchange for services is measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is recognized as expense on a straight-line basis over the requisite service periods. The fair value of modifications to share-based awards, if any, is generally estimated using a Black-Scholes option valuation model, unless a lattice model is required. Forfeitures are recognized as a reduction of share-based compensation expense as they occur. As of April 30, 2018, there were no outstanding share-based awards with market or performance conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes – We utilize the liability method of accounting for income taxes in accordance with authoritative guidance for accounting for income taxes. Under the liability method, deferred taxes are determined based on the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized (Note 7). In addition, we recognize the impact of an uncertain tax position only when it is more likely than not the tax position will be sustained upon examination by the tax authorities. We are also required to file federal, state and foreign income tax returns in various jurisdictions. The preparation of these returns requires us to interpret the applicable tax laws in effect in such jurisdictions, which could affect the amount paid by us.

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

The potential dilutive effect of stock options, shares of common stock expected to be issued under our ESPP, and warrants outstanding during the period are calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. The potential dilutive effect of our Series E Preferred Stock outstanding during the period is calculated using the if-converted method assuming the conversion of our Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. However, because the impact of stock options, shares of common stock expected to be issued under our ESPP, warrants, and Series E Preferred Stock are anti-dilutive during periods of net loss, there was no difference between basic and diluted loss per common share amounts for the three years ended April 30, 2018.

The calculation of weighted average diluted shares outstanding excludes the dilutive effect of the following weighted average outstanding stock options and shares of common stock expected to be issued under our ESPP since their impact are anti-dilutive during periods of net loss:

	2018	2017	2016
Stock options	53,978	–	252,098
ESPP	1,972	45,767	37,862
Total	<u>55,950</u>	<u>45,767</u>	<u>289,960</u>

The calculation of weighted average diluted shares outstanding also excludes the following weighted average outstanding stock options, warrants, and Series E Preferred Stock (assuming the if-converted method), as their exercise prices or conversion price were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect:

	2018	2017	2016
Stock options	3,636,699	4,156,421	2,740,922
Warrants	39,040	39,040	39,040
Series E Preferred Stock	1,978,783	1,955,588	1,893,122
Total	<u>5,654,522</u>	<u>6,151,049</u>	<u>4,673,084</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Adopted Accounting Pronouncements

Effective May 1, 2017, we adopted Accounting Standards Update (“ASU”) 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that inventory should be measured at the lower of cost and net realizable value for entities that measure inventory using the first-in, first-out method. ASU 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The adoption of ASU 2015-11 did not have a material impact on our consolidated financial statements.

Effective May 1, 2017, we adopted ASU 2015-17, Income Taxes (Topic 740): *Balance Sheet Classification of Deferred Taxes*. Under existing standards, deferred taxes for each tax-paying jurisdiction are presented as a net current asset or liability and net long-term asset or liability. To simplify presentation, the new guidance will require that all deferred tax assets and liabilities, along with related valuation allowances, be classified as long-term on the balance sheet. As a result, each tax-paying jurisdiction will now only have one net long-term deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. Due to the full valuation allowance on our U.S. deferred tax assets, the adoption of ASU 2015-17 did not have a material impact on our consolidated financial statements. No prior year periods were retrospectively adjusted.

Effective May 1, 2017, we adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 changes certain aspects of accounting for share-based payments to employees and involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Specifically, ASU 2016-09 requires that all income tax effects of share-based awards be recognized as income tax expense or benefit in the reporting period in which they occur. Additionally, ASU 2016-09 amends existing guidance to allow forfeitures of share-based awards to be recognized as they occur. Previous guidance required that share-based compensation expense include an estimate of forfeitures. Upon adoption of ASU 2016-09, we made a policy election to recognize forfeitures as they occur. The adoption of ASU 2016-09 did not have a material impact and the cumulative effect of adoption is reflected in the accompanying consolidated statements of stockholders’ equity for the fiscal year ended April 30, 2018.

Pending Adoption of Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606): *Revenue from Contracts with Customers*, which, along with subsequent amendments issued in 2015 and 2016, will replace substantially all current U.S. GAAP revenue recognition guidance. ASU 2014-09, as amended, is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services utilizing a new five-step revenue recognition model. The new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09, as amended, is effective for our annual reporting period beginning May 1, 2018, including interim periods within that reporting period. The new guidance permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach where the new standard is applied in the financial statements starting with the year of adoption. Under both approaches, cumulative impact of the adoption is reflected as an adjustment to retained earnings (accumulated deficit) as of the earliest date presented in accordance with the new standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On May 1, 2018, we adopted ASU 2014-09, as amended, for all contracts not completed as of the adoption date using the modified retrospective method. In assessing the impact, we have identified and implemented appropriate changes to our business policies, processes, and controls to support the adoption, recognition and disclosures under the new standard. We have reviewed the related critical terms and conditions of our existing contracts with customers and assessed the differences in accounting for such contracts under the new standard compared with current standards including the identification of performance obligations related to revenue generating activities, and determined the appropriate timing and measurement of revenue related to the performance obligations. Additionally, we have identified our significant revenue streams; manufacturing revenue and process development revenue. Based on our analysis, we have concluded that the new standard will have a significant impact on our revenue streams as it relates to the timing of the recognition of contract manufacturing revenue associated with goods or services provided to customers with no alternative use, that were previously recognized upon completion, as such revenue will now be recognized over time utilizing an input method that compares the cost of cumulative work in process to date to the most current estimates for the entire cost of the performance obligation. Under these customer agreements the customer retains control of the product as it is being created or enhanced by our services and/or we are entitled to compensation for progress to date that includes an element of profit margin. Contract manufacturing revenue of approximately \$9,000,000 to \$12,000,000, which would have otherwise been reflected in the consolidated statements of operations for the fiscal year ended April 30, 2019, will be recorded in equity as part of a cumulative effect adjustment as of May 1, 2018. The cumulative impact of adopting the new standard and recognizing revenue and related cost over time will result in a one-time adjustment to the opening balance of accumulated deficit of approximately \$2,000,000 to \$4,000,000 as of May 1, 2018. Additionally, we will include expanded disclosures in the notes to financial statements, including the disaggregation of revenue, significant judgments made with regard to revenue recognition, and the reconciliation of contract balances, among other disclosures.

The estimated impact of adopting ASU 2014-09, as amended, is based on our best estimates at the time of the preparation of this Annual Report. The actual impact is subject to change prior to our first quarterly filing of our fiscal year 2019.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-2 requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, which will be our fiscal year 2020 beginning May 1, 2019. Early adoption is permitted. We are currently in the process of evaluating the impact of adoption of ASU 2016-02 on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash*, which addresses diversity in practice related to the classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, which will be our fiscal year 2019 beginning May 1, 2018. Based on our restricted cash balance of \$1,150,000 at April 30, 2018 and 2017, we do not expect the adoption of ASU 2016-18 to have on material impact on our consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): *Scope of Modification Accounting*, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This pronouncement is effective for annual reporting periods beginning after December 15, 2017, which will be our fiscal year 2019 beginning May 1, 2018. We do not expect the adoption of ASU 2016-09 to have a material impact on our consolidated financial statements and related disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. COMMITMENTS AND CONTINGENCIES

Operating Leases – Our corporate offices and manufacturing facilities are all located in close proximity in Tustin, California. We currently lease office, warehouse and manufacturing space in five buildings under four separate lease agreements, as summarized in the following table:

Lease #	Original Lease Execution Date	# of Buildings Occupied	Initial Lease Term Expiration Date	# of Options to Extend Lease	Extended Lease Term Expiration Date ⁽¹⁾
1	December 1998	2	12/31/27	2	12/31/37
2	July 2014	1	1/31/27	2	1/31/37
3	April 2016	1	8/31/23	2	8/31/35
4	April 2016	1	8/31/23	2	8/31/35

(1) Extended lease term expiration date assumes we execute all available option(s) to extend lease in accordance with the terms of the lease agreement.

The following represents additional information for each of the lease agreements included in the above table:

In December 1998, we entered into our first lease agreement (the “First Lease”) with an original lease term of 12 years with two 5-year renewal options and includes scheduled rental increases of approximately 3% every two years. In December 2005, we entered into an amendment to the First Lease that extended the original lease term for seven additional years to expire on December 31, 2017. In November 2016, we entered into a second amendment to the First Lease that extends the lease term through December 31, 2027, while also maintaining our two 5-year renewal options that could extend the lease term to December 31, 2037.

In July 2014, we entered into a second lease agreement (the “Second Lease”) to expand our manufacturing capacity (the “Myford Facility”). The Second Lease includes an option to extend the lease term in two 5-year periods to extend the lease to July 31, 2031 and includes scheduled annual rent increases of approximately 3%. In addition, the Second Lease provided for 12.5 months of free rent, lessor improvements of \$250,000 and a tenant improvement allowance of \$365,000. Upon completion of the Myford Facility build-out during fiscal year 2016, certain of these improvements were classified as leasehold improvements and are being amortized over the shorter of the estimated useful life of the improvements or the remaining life of the Second Lease, as amended.

In February 2017, we entered into a lease amendment to the Second Lease (the “Second Lease Amendment”), pursuant to which we secured additional vacant warehouse space (the “Expansion Space”) within the same building as our existing Myford Facility. The purpose of the Expansion Space was to expand our biomanufacturing capacity, which we believe could support the growth of our contract manufacturing business. The Second Lease Amendment extends the initial lease term to January 31, 2027 and maintains our two 5-year renewal options that could extend the lease term to January 31, 2037. Our scheduled annual rent increases of approximately 3% are also maintained under the Second Lease Amendment. In addition, with respect to the Expansion Space, the Second Lease Amendment provided for eight (8) months of free rent and a tenant improvement allowance of \$1,269,000, which is subject to certain performance contingencies, as defined in the Second Lease Amendment. As a result, the tenant improvement allowance, is accounted for as contingent rent and will be recorded when the tenant improvement allowance is received. Additionally, under the terms of the Second Lease Amendment, we are required to maintain, as collateral for the lease, a letter of credit in the amount of \$550,000 during the entire term of the Second Lease, as amended, which amount is included in restricted cash in the accompanying consolidated balance sheets as of April 30, 2018 and 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 2016, we entered into a third lease agreement (the “Third Lease”) to lease additional office space. The Third Lease includes two separate option periods to extend the lease term to August 31, 2035 and includes annual scheduled rent increases of approximately 3%. In addition, the Third Lease provided for four months of free rent and a tenant improvement allowance of \$562,000. The tenant improvements classified as leasehold improvements are being amortized over the shorter of the estimated useful life of the improvements or the remaining life of the Third Lease. Additionally, under the terms of the Third Lease, we are required to maintain, as collateral for the lease, a letter of credit in the amount of \$350,000 during the entire term of the Third Lease, which amount is included in restricted cash in the accompanying consolidated balance sheets as of April 30, 2018 and 2017.

In April 2016, we entered into a fourth lease agreement (the “Fourth Lease”) to support our manufacturing operations. The Fourth Lease includes two separate option periods to extend the lease term to August 31, 2035 and includes annual scheduled rent increases of approximately 3%. In addition, under the terms of the Fourth Lease, we are required to maintain, as collateral for the lease, a letter of credit in the amount of \$250,000 during the entire term of the Fourth Lease, which amount is included in restricted cash in the accompanying consolidated balance sheets as of April 30, 2018 and 2017.

Under each of the aforementioned facility operating leases, we record rent expense on a straight-line basis over the initial term of the lease. The difference between rent expense and the amounts paid under the operating leases is recorded as a deferred rent liability in the accompanying consolidated financial statements. Annual rent expense under facility operating lease agreements totaled \$2,935,000, \$2,180,000, and \$1,265,000 for the fiscal years ended April 30, 2018, 2017, and 2016, respectively.

At April 30, 2018, future minimum lease payments under all non-cancelable operating leases are as follows:

Year ending April 30,:	Minimum Lease Payments
2019	\$ 3,006,000
2020	3,036,000
2021	3,116,000
2022	2,789,000
2023	2,730,000
Thereafter	8,632,000
	<u>\$ 23,309,000</u>

Legal Proceedings - In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions, if any, are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. We currently are not a party to any legal proceedings, the adverse outcome of which, in management’s opinion, individually or in the aggregate, would have a material adverse effect on our consolidated results of operations or financial position.

On October 10, 2013, a derivative and class action complaint, captioned *Michaeli v. Steven W. King, et al.*, C.A. No. 8994-VCL, was filed in the Court of Chancery of the State of Delaware (the “Court”), purportedly on behalf of the Company, which was named a nominal defendant, against certain of our current and former executive officers and our three former non-employee directors (collectively, the “Defendants”). On December 1, 2015, the plaintiffs filed an amended and supplemental derivative and class action complaint (the “Amended Complaint”). The Amended Complaint alleged that the Defendants breached their respective fiduciary duties in connection with certain purportedly improper compensation decisions made by our former board of directors during the past four fiscal years ended April 30, 2015 and that our former board of directors breached their fiduciary duty of candor by filing and seeking stockholder action on the basis of an allegedly materially false and misleading proxy statement for our 2013 annual meeting of stockholders. On May 15, 2017, the parties filed with the Court a Stipulation and Agreement of Compromise, Settlement and Release (the “Settlement”) setting forth the terms of the proposed settlement of the claims in the Amended Complaint. At a hearing on July 27, 2017, the Court issued an order approving the Settlement, which provided, among other things, that the three former non-employee directors agreed to pay or cause to be paid \$1,500,000 to us, which amount is included as a reduction to selling, general and administrative expense in the accompanying consolidated financial statements for the fiscal year ended April 30, 2018. We received such payment in full in August 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**4. STOCKHOLDERS' EQUITY****Stockholder Rights Agreement**

On March 16, 2006, our Board of Directors adopted a Stockholder Rights Agreement, which was amended and restated on March 16, 2016 (the "Rights Agreement"), that is designed to strengthen the ability of the Board of Directors to protect the interests of our stockholders against potential abusive or coercive takeover tactics and to enable all stockholders the full and fair value of their investment in the event that an unsolicited attempt is made to acquire Avid. The Rights Agreement is not intended to prevent an offer the Board of Directors concludes is in the best interest of Avid and its stockholders.

Under the Rights Agreement, the Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each share of our common stock held by stockholders of record as of the close of business on March 27, 2006. Each Right entitles holders of each share of our common stock to buy seven one thousandths (7/1,000th) of a share of Avid's Series D Participating Preferred Stock, par value \$0.001 per share, at an exercise price of \$77.00 per share, subject to adjustment. The Rights are neither exercisable nor traded separately from our common stock. The Rights will become exercisable and will detach from the common shares if a person or group acquires 15% or more of our outstanding common stock, without prior approval from our Board of Directors, or announces a tender or exchange offer that would result in that person or group owning 15% or more of our common stock. Each Right, when exercised, entitles the holder (other than the acquiring person or group) to receive our common stock (or in certain circumstances, voting securities of the acquiring person or group) with a value of twice the Rights' exercise price upon payment of the exercise price of the Rights.

Avid will be entitled to redeem the Rights at \$0.007 per Right at any time prior to a person or group achieving the 15% threshold. The Rights will expire on March 16, 2021.

Sales of Common Stock

During the three fiscal years ended April 30, 2018, we issued shares of our common stock under various financing transactions, as summarized in the following table:

Description of Financing Transaction	Shares of Common Stock Issued	Gross Proceeds Raised
<i>Fiscal Year 2016</i>		
At Market Issuance Sales Agreement dated June 13, 2014	1,232,821	\$ 11,456,000
At Market Issuance Sales Agreement dated August 7, 2015	964,523	\$ 7,447,000
Equity Distribution Agreement dated August 7, 2015	1,210,328	\$ 6,969,000
Common Stock Purchase Agreement dated October 30, 2015	2,645,503	\$ 20,000,000
	<u>6,053,175</u>	<u>\$ 45,872,000</u>
<i>Fiscal Year 2017</i>		
At Market Issuance Sales Agreement dated August 7, 2015	6,137,403	\$ 18,246,000
Equity Distribution Agreement dated August 7, 2015	3,750,323	\$ 13,031,000
	<u>9,887,726</u>	<u>\$ 31,277,000</u>
<i>Fiscal Year 2018</i>		
At Market Issuance Sales Agreement dated August 7, 2015	1,051,259	\$ 4,304,000
Public Offering dated on February 14, 2018	10,294,445	\$ 23,163,000
	<u>11,345,704</u>	<u>\$ 27,467,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following represents additional information for each of the financing transactions included in the above table:

June 2014 AMI Sales Agreement – On June 13, 2014, we entered into an At Market Issuance Sales Agreement with MLV & Co. LLC (“MLV”), as amended on April 13, 2015 (“June 2014 AMI Sales Agreement”), pursuant to which we were able to sell shares of our common stock through MLV, as agent, for aggregate gross proceeds of up to \$25,000,000 in registered transactions from our shelf registration statement on Form S-3 (File No. 333-201245), which was declared effective by the Securities and Exchange Commission (“SEC”) on January 15, 2015 (“January 2015 Shelf”). Sales of our common stock through MLV were made by any method that was deemed an “at the market offering” as defined in Rule 415 of the Securities Act. We paid MLV a commission equal to 2.5% of the gross proceeds from the sale of our common stock pursuant to the June 2014 AMI Sales Agreement. As of April 30, 2016, we had raised the full amount of gross proceeds available to us under the June 2014 AMI Sales Agreement.

August 2015 AMI Sales Agreement – On August 7, 2015, we entered into an At Market Issuance Sales Agreement (“August 2015 AMI Sales Agreement”) with MLV, pursuant to which we were able to sell shares of our common stock through MLV, as agent, for aggregate gross proceeds of up to \$30,000,000, in registered transactions from our January 2015 Shelf. Sales of our common stock through MLV were made by any method that was deemed an “at the market offering” as defined in Rule 415 of the Securities Act. We paid MLV a commission equal to 2.5% of the gross proceeds from the sale of our common stock pursuant to the August 2015 AMI Sales Agreement. As of April 30, 2018, we had raised the full amount of gross proceeds available to us under the August 2015 AMI Sales Agreement.

Equity Distribution Agreement – On August 7, 2015, we entered into an Equity Distribution Agreement, with Noble International Investments, Inc., doing business as Noble Life Science Partners, a division of Noble Financial Capital Markets (“Noble”), pursuant to which we were able to sell shares of our common stock through Noble, as agent, for aggregate gross proceeds of up to \$20,000,000, in registered transactions from our January 2015 Shelf. Sales of our common stock through Noble were made by any method that was deemed an “at the market offering” as defined in Rule 415 of the Securities Act. We paid Noble a commission equal to 2.5% of the gross proceeds from the sale of our common stock pursuant to the Equity Distribution Agreement. As of April 30, 2017, we had raised the full amount of gross proceeds available to us under the Equity Distribution Agreement.

Common Stock Purchase Agreement – On October 30, 2015, we entered into a Common Stock Purchase Agreement with Eastern Capital Limited, pursuant to which we issued and sold 2,645,503 shares of our common stock, at a purchase price of \$7.56 per share for aggregate gross proceeds of \$20,000,000 before deducting issuance costs of \$1,000. These shares of common stock were sold under our January 2015 Shelf pursuant to a prospectus supplement filed with the SEC on October 30, 2015.

February 2018 Public Offering – On February 14, 2018, we entered into an underwriting agreement (the “Underwriting Agreement”) with Wells Fargo Securities, LLC, as representative for the underwriters identified therein (collectively, the “Underwriters”), relating to the issuance and sale in an underwritten public offering of 9,000,000 shares of our common stock, par value \$0.001 per share, at a public offering price of \$2.25 per share (the “Offering”). In addition, pursuant to the Underwriting Agreement, we also granted the Underwriters a 30-day option to purchase up to an additional 1,350,000 shares of our common stock under this Offering at the public offering price of \$2.25 per share less the underwriting discounts and commissions to cover over-allotments, if any (the “Over-allotment Option”).

On February 20, 2018, we completed the Offering pursuant to which we sold 10,294,445 shares of our common stock, including 1,294,445 shares sold pursuant to the Underwriter’s Over-allotment Option at the public offering price of \$2.25 per share. The aggregate gross proceeds we received from the Offering, including the shares sold pursuant to the Over-allotment Option, was \$23,163,000, before deducting underwriting discounts and commissions and other offering related expenses of \$1,669,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Offering was made pursuant to a prospectus supplement filed with the SEC on February 14, 2018 to our shelf registration statement on Form S-3 (File No. 333-222548), which was declared effective by the SEC on January 25, 2018 ("January 2018 Shelf"). As of April 30, 2018, aggregate gross proceeds of up to \$101,837,000 remained available to us under the January 2018 Shelf.

Sales of Series E Preferred Stock

On June 13, 2014, we entered into an At Market Issuance Sales Agreement ("Series E AMI Sales Agreement") with MLV, pursuant to which we may sell shares of our Series E Preferred Stock through MLV, as agent, for aggregate gross proceeds of up to \$30,000,000, in registered transactions from our shelf registration statement on Form S-3 (File No. 333-193113), which was declared effective by the SEC on January 16, 2014 ("January 2014 Shelf"). Sales of our Series E Preferred Stock through MLV were to be made by any method that was deemed an "at the market offering" as defined in Rule 415 of the Securities Act. We paid MLV a commission of up to 5% of the gross proceeds from the sale of our Series E Preferred Stock pursuant to the Series E AMI Sales Agreement. During the fiscal years ended April 30, 2017 and 2016, we sold 70,320 and 2,676 shares of our Series E Preferred Stock, respectively, at market prices under the Series E AMI Sales Agreement, for aggregate gross proceeds of \$1,634,000 and \$60,000, respectively. During January 2017, the underlying January 2014 Shelf expired, and therefore, we do not plan to issue and sell any additional shares of our Series E Preferred Stock under the Series E AMI Sales Agreement.

Series E Preferred Stock Rights and Preferences

On February 12, 2014, we filed with the Secretary of State of the State of Delaware a Certificate of Designations of Rights and Preferences (the "Certificate of Designations") to designate the Series E Preferred Stock. The Certificate of Designations designated 2,000,000 shares of Series E Preferred Stock out of our 5,000,000 shares of authorized but unissued shares of preferred stock. In addition, the Series E Preferred Stock is classified as permanent equity in accordance with FASB Accounting Standards Codification Topic 480, *Distinguishing Liabilities from Equity*. Certain terms of the Series E Preferred Stock include:

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

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

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

(iv) On and after February 11, 2017, we may redeem the Series E Preferred Stock for cash at our option, from time to time, in whole or in part, at the redemption price;

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(viii) There is a general conversion right with respect to the Series E Preferred Stock with a current conversion price of \$21.00 (as adjusted to reflect the 1-for-7 reverse stock split of our issued and outstanding common stock, which took effect on July 10, 2017), a special conversion right upon a change of control, and a market trigger conversion at our option in the event of Market Trigger (as defined in the Certificate of Designations); and

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

Series E Preferred Stock Dividends

The following table summarizes the Series E Preferred Stock quarterly dividend payments during the three fiscal years ended April 30, 2018:

Declaration Date	Record Date	Payment Date	Dividends Paid		Dividend Per Share
Fiscal Year 2016					
6/5/2015	6/19/2015	7/1/2015	\$	1,034,000	\$ 0.65625
9/8/2015	9/18/2015	10/1/2015	\$	1,035,000	\$ 0.65625
12/7/2015	12/18/2015	1/4/2016	\$	1,035,000	\$ 0.65625
3/7/2016	3/18/2016	4/1/2016	\$	1,035,000	\$ 0.65625
			\$	4,139,000	\$ 2.62500
Fiscal Year 2017					
6/2/2016	6/17/2016	7/1/2016	\$	1,036,000	\$ 0.65625
9/6/2016	9/16/2016	10/3/2016	\$	1,081,000	\$ 0.65625
12/6/2016	12/16/2016	1/3/2017	\$	1,081,000	\$ 0.65625
3/9/2017	3/20/2017	4/3/2017	\$	1,081,000	\$ 0.65625
			\$	4,279,000	\$ 2.62500
Fiscal Year 2018					
6/6/2017	6/19/2017	7/3/2017	\$	1,081,000	\$ 0.65625
9/5/2017	9/18/2017	10/2/2017	\$	1,081,000	\$ 0.65625
12/7/2017	12/18/2017	1/2/2018	\$	1,081,000	\$ 0.65625
3/7/2018	3/19/2018	4/2/2018	\$	1,082,000	\$ 0.65625
			\$	4,325,000	\$ 2.62500

Shares of Common Stock Authorized and Reserved For Future Issuance

We are authorized to issue up to 500,000,000 shares of our common stock. As of April 30, 2018, 55,689,222 shares of our common stock were issued and outstanding. In addition, our common stock outstanding as of April 30, 2018 excluded the following shares of common stock reserved for future issuance:

- 5,316,526 shares of common stock reserved for issuance under outstanding option grants and available for issuance under our stock incentive plans;
- 1,271,409 shares of common stock reserved for and available for issuance under our ESPP;
- 39,040 shares of common stock issuable upon exercise of outstanding warrants; and
- 6,826,435 shares of common stock issuable upon conversion of our outstanding Series E Preferred Stock ⁽¹⁾.

(1) The Series E Preferred Stock is convertible into a number of shares of our common stock determined by dividing the liquidation preference of \$25.00 per share by the conversion price, currently \$21.00 per share. If all of our outstanding Series E Preferred Stock were converted at the \$21.00 per share conversion price, the holders of our Series E Preferred Stock would receive an aggregate of 1,961,619 shares of our common stock. However, we have reserved the maximum number of shares of our common stock that could be issued upon a change of control event assuming our shares of common stock are acquired for consideration of \$5.985 per share or less. In this scenario, each outstanding share of our Series E Preferred Stock could be converted into 4.18 shares of our common stock, representing the Share Cap.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. EQUITY COMPENSATION PLANS

Stock Incentive Plans

We currently maintain six stock incentive plans referred to as the 2011 Plan, the 2010 Plan, the 2009 Plan, the 2005 Plan, the 2003 Plan, and the 2002 Plan (collectively referred to as the “Stock Plans”). The 2011, 2010, 2009, 2005 and 2003 Plans were approved by our stockholders while the 2002 Plan was not submitted for stockholder approval. The Stock Plans provide for the granting of stock options, restricted stock awards and other forms of share-based awards to purchase shares of our common stock at exercise prices not less than the fair market value of our common stock at the date of grant.

As of April 30, 2018, we had an aggregate of 5,316,526 shares of our common stock reserved for issuance under the Stock Plans, of which, 3,597,738 shares were subject to outstanding options and 1,718,788 shares were available for future grants of share-based awards.

Stock Options – Stock options granted under our Stock Plans are granted at an exercise price not less than the fair market value of our common stock on the date of grant. The options generally vest over a two to four year period and expire ten years from the date of grant, if unexercised. However, certain option awards provide for accelerated vesting if there is a change in control (as defined in the Stock Plans).

The estimated fair value of stock options are measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is amortized as compensation expense on a straight-line basis over the requisite service period of the award, which is generally the vesting period. The use of a valuation model requires us to make certain estimates and assumptions with respect to selected model inputs. The expected volatility is based on the daily historical volatility of our common stock covering the estimated expected term. The expected term of options granted reflects actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options. The risk-free interest rate is based on U.S. Treasury notes with terms within the contractual life of the option at the time of grant. The expected dividend yield assumption is based on our expectation of future dividend payouts. We have never declared or paid any cash dividends on our common stock and currently do not anticipate paying such cash dividends. The fair value of stock options on the date of grant and the weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model for fiscal years ended April 30, 2018, 2017 and 2016, were as follows:

	Fiscal Year Ended April 30,		
	2018	2017	2016
Risk-free interest rate	2.21%	1.32%	1.66%
Expected life (in years)	6.19	6.12	5.96
Expected volatility	110.43%	111.30%	104.74%
Expected dividend yield	–	–	–

The following summarizes our stock option transaction activity for fiscal year ended April 30, 2018:

Stock Options	Shares	Weighted Average Exercisable Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ⁽¹⁾
Outstanding, May 1, 2017	4,081,548	\$ 8.77		
Granted	686,097	\$ 4.16		
Exercised	(222,255)	\$ 3.38		
Canceled or expired	(947,652)	\$ 8.90		
Outstanding, April 30, 2018	<u>3,597,738</u>	\$ 8.74	4.12	\$ 335,000
Exercisable and expected to vest	3,597,738	\$ 8.74	4.11	\$ 335,000
Exercisable, April 30, 2018	2,891,282	\$ 9.86	2.87	\$ 219,000

(1) Aggregate intrinsic value represents the difference between the exercise price of an option and the closing market price of our common stock on April 30, 2018, which was \$3.67 per share.

AVID BIOSERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted-average grant date fair value of options granted to employees during the fiscal years ended April 30, 2018, 2017 and 2016 was \$3.50, \$2.86 and \$7.09 per share, respectively.

The aggregate intrinsic value of stock options exercised during the fiscal years ended April 30, 2018, 2017 and 2016 was \$173,000, \$11,000 and \$93,000, respectively. Cash received from stock options exercised during fiscal years ended April 30, 2018, 2017 and 2016, totaled \$752,000, \$31,000 and \$138,000, respectively.

We issue shares of common stock that are reserved for issuance under the Stock Plans upon the exercise of stock options, and we do not expect to repurchase shares of common stock from any source to satisfy our obligations under our compensation plans.

As of April 30, 2018, the total estimated unrecognized compensation cost related to non-vested employee stock options was \$2,232,000. This cost is expected to be recognized over a weighted average vesting period of 2.63 years based on current assumptions.

Employee Stock Purchase Plan

We have reserved a total of 2,142,857 shares of our common stock to be purchased under our Employee Stock Purchase Plan (the "ESPP"), of which 1,271,409 shares remained available to purchase at April 30, 2018, and are subject to adjustment as provided in the ESPP for stock splits, stock dividends, recapitalizations and other similar events. Under the ESPP, we sell shares to participants at a price equal to the lesser of 85% of the fair market value of our common stock at the (i) beginning of a six-month offering period, or (ii) end of the six-month offering period. The ESPP provides for two six-month offering periods each fiscal year; the first offering period begins on the first trading day on or after each May 1; the second offering period begins on the first trading day on or after each November 1. During the fiscal years ended April 30, 2018, 2017 and 2016, 88,327, 270,075 and 147,769 shares of our common stock were purchased, respectively, under the ESPP at a weighted average purchase price per share of \$3.59, \$1.95 and \$3.65, respectively.

The fair value of the shares purchased under the ESPP were determined using a Black-Scholes option pricing model (see explanation of valuation model inputs above under "Stock Options"), and is recognized as expense on a straight-line basis over the requisite service period (or six-month offering period). The weighted average grant date fair value of purchase rights under the ESPP during fiscal years ended April 30, 2018, 2017 and 2016 was \$1.65, \$1.07 and \$2.40, respectively, based on the following Black-Scholes option valuation model inputs:

	Fiscal Year Ended April 30,		
	2018	2017	2016
Risk-free interest rate	1.10%	0.46%	0.18%
Expected life (in years)	0.50	0.50	0.50
Expected volatility	75.18%	105.27%	46.14%
Expected dividend yield	-	-	-

Share-based Compensation Expense

Total share-based compensation expense related to share-based awards issued under our equity compensation plans for the fiscal years ended April 30, 2018, 2017 and 2016 was comprised of the following:

	2018	2017	2016
Cost of contract manufacturing	\$ 378,000	\$ 108,000	\$ 41,000
Selling, general and administrative	820,000	1,553,000	2,599,000
Discontinued operations	340,000	1,702,000	2,258,000
Total	<u>\$ 1,538,000</u>	<u>\$ 3,363,000</u>	<u>\$ 4,898,000</u>
Share-based compensation from:			
Stock options	\$ 1,402,000	\$ 3,094,000	\$ 4,720,000
ESPP	136,000	269,000	178,000
	<u>\$ 1,538,000</u>	<u>\$ 3,363,000</u>	<u>\$ 4,898,000</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**6. WARRANTS**

No warrants were issued or exercised during fiscal years ended April 30, 2018, 2017 and 2016. As of April 30, 2018, warrants to purchase 39,040 shares of our common stock at an exercise price of \$17.29 were outstanding and are exercisable through August 30, 2018.

7. INCOME TAXES

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

In addition, in accordance with authoritative guidance, we are required to recognize the impact of an uncertain tax position in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained upon examination by the tax authorities. We had no unrecognized tax benefits from uncertain tax positions as of April 30, 2018 and 2017. It is also our policy, in accordance with authoritative guidance, to recognize interest and penalties related to income tax matters in interest and other expense in our consolidated statements of operations and comprehensive loss. We did not recognize interest or penalties related to income taxes for fiscal years ended April 30, 2018, 2017, and 2016, and we did not accrue for interest or penalties as of April 30, 2018 and 2017.

At April 30, 2018, we had net deferred tax assets of \$123,555,000. Due to uncertainties surrounding our ability to generate future taxable income to realize these tax assets, a full valuation has been established to offset our net deferred tax assets. Additionally, the future utilization of our net operating loss carry forwards to offset future taxable income may be subject to an annual limitation, pursuant to Internal Revenue Code Section 382, as a result of ownership changes that may have occurred previously or that could occur in the future. A Section 382 analysis was completed as of the fiscal year ended April 30, 2018 and it was determined that no change in ownership had occurred. Ownership changes occurring subsequent to April 30, 2018 may impact the utilization of net operating loss carry forwards and other tax attributes.

At April 30, 2018, we had federal net operating loss carry forwards of approximately \$433,705,000. The net operating loss carry forwards expire in fiscal years 2019 through 2037. We also have California state net operating loss carry forwards of approximately \$273,091,000 at April 30, 2018, which begin to expire in fiscal year 2029.

On May 1, 2018, we adopted ASU 2016-09 (Note 2). Upon adoption, we have excess tax benefits for which a benefit could not previously be recognized of approximately \$2.4 million. The balance of the unrecognized excess tax benefits has been reversed with the impact recorded to retained earnings including any change to the valuation allowance as a result of the adoption. Due to the full valuation allowance on the U.S. deferred tax assets, there was no impact to the accompanying consolidated financial statements as a result of adopting ASU 2016-09 other than what is reflected in the accompanying consolidated statements of stockholders' equity for the fiscal year ended April 30, 2018.

The provision for income taxes on our loss from continuing operations consists of the following for the three years ended April 30,:

	2018	2017	2016
Federal income taxes at statutory rate	\$ (6,112,000)	\$ 475,000	\$ 1,223,000
State income taxes	155,000	309,000	413,000
Expiration and adjustments of deferred tax assets	1,840,000	1,693,000	1,580,000
Change in valuation allowance	(57,599,000)	(2,616,000)	(3,511,000)
Share-based compensation	1,584,000	-	-
Other, net	6,000	139,000	295,000
Tax Cuts and Jobs Act	60,126,000	-	-
Income tax (expense) benefit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and deferred tax liabilities at April 30, 2018 and 2017 are as follows:

	2018	2017
Share-based compensation	\$ 4,828,000	\$ 9,583,000
Deferred revenue	2,852,000	12,157,000
Deferred rent	568,000	738,000
Other	879,000	2,984,000
Net operating losses	<u>115,236,000</u>	<u>154,030,000</u>
Total deferred tax assets	124,363,000	179,492,000
Less valuation allowance	<u>(123,555,000)</u>	<u>(178,400,000)</u>
Total deferred tax assets, net of valuation allowance	\$ 808,000	\$ 1,092,000
Deferred tax liabilities:		
Fixed assets	<u>(808,000)</u>	<u>(1,092,000)</u>
Total deferred tax liabilities	<u>(808,000)</u>	<u>(1,092,000)</u>
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

In December 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. The Tax Act includes a number of changes to existing U.S. tax laws that impact us, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years. The rate reduction is effective on January 1, 2018. However, as our fiscal year end is April 30, 2018, the statutory corporate tax rate for the fiscal year ended April 30, 2018 will be prorated to 29.73% with the statutory rate for fiscal year 2019 and beyond at 21%.

We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, our deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 35 percent to 21 percent, resulting in a provisional \$60.1 million increase in tax expense for the fiscal year ended April 30, 2018 and a corresponding provisional \$60.1 million decrease in net deferred tax assets as of April 30, 2018. The impact was fully offset by a valuation allowance.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. As discussed above, for the fiscal year ended April 30, 2018, we recognized provisional tax impacts related to the revaluation of deferred tax assets and liabilities, which amounts were fully offset by a valuation allowance. The ultimate impact may differ from these provisional amounts, due to among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act. The accounting is expected to be complete when our 2017 U.S. corporate income tax return is filed in calendar year 2018.

8. RESTRUCTURING

On August 9, 2017, our Board of Directors approved, and our management implemented, a restructuring plan intended to reduce operating costs and improve cost efficiencies while we pursued strategic options for our research and development assets and focused our efforts on growing our CDMO business. Under this restructuring plan, which we completed in October 2017, we reduced our overall workforce by 57 employees. As a result, during the fiscal quarter ended October 31, 2017, we incurred an aggregate of \$1,588,000 in restructuring costs consisting of one-time termination benefits, including severance, and other employee-related costs, of which \$330,000 related to our discontinued research and development segment and \$1,258,000 related to our contract manufacturing services segment. The restructuring costs associated with our discontinued research and development segment are included in loss from discontinued operations in the accompanying consolidated financial statements for the fiscal year ended April 30, 2018 (Note 9). The restructuring costs associated with our contract manufacturing services segment are included in operating expenses in the accompanying consolidated financial statements for the fiscal year ended April 30, 2018. All restructuring costs were paid as of the fiscal quarter ended January 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. SALE OF RESEARCH AND DEVELOPMENT ASSETS

Asset Assignment and Purchase Agreement

On February 12, 2018, we entered into an Asset Assignment and Purchase Agreement (the "Purchase Agreement") with Oncologie, Inc. ("Oncologie") pursuant to which we sold to Oncologie the majority of our research and development assets, which included the assignment of certain exclusive licenses related to our former PS-targeting program, as well as certain other licenses and assets useful and/or necessary for the potential commercialization of bavituximab.

Pursuant to the Purchase Agreement, we are entitled to receive an aggregate of \$8 million from Oncologie, payable in three installments over a period of approximately six and one-half months following the date of the Purchase Agreement, of which \$3 million was received in March 2018 (first installment) and \$3 million was received in June 2018 (second installment). We are also eligible to receive up to an additional \$95 million in the event that Oncologie achieves certain development, regulatory and commercialization milestones with respect to bavituximab. In addition, we are eligible to receive royalties on net sales that are upward tiering into the mid-teens in the event that Oncologie commercializes and sells products utilizing bavituximab or the other transferred assets. As of April 30, 2018, no development, regulatory and commercialization milestones as defined in the Purchase Agreement have been achieved by Oncologie. Oncologie is responsible for all future research, development and commercialization of bavituximab, including all related intellectual property costs and all other future liabilities and obligations arising out of the ownership of the transferred assets (i.e., we remain obligated for all liabilities associated with the research and development assets associated with the Purchase Agreement incurred or arising prior to February 13, 2018). In addition, during May 2018, we entered into a separate services agreement with Oncologie to provide contract development and manufacturing services, at our commercial rates, in support of the research and development assets sold under the Purchase Agreement. To date no services have been committed to under the separate services agreement.

Discontinued Operations

As a result of (i) the sale of our PS-targeting program, (ii) the held for sale classification of our R84 technology, (iii) the abandonment of our remaining research and development assets (including our intent to return the exosome technology back to the original licensor), and (iv) the strategic shift in our corporate direction to focus solely on our CDMO business that will have a major effect on our operations and financial results, the operating results from our research and development segment are reported as a loss from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss for all periods presented (Note 1). Accordingly, the accompanying consolidated financial statements for the fiscal years ended April 30, 2018, 2017 and 2016 reflect the operations and related assets and liabilities of our research and development segment as a discontinued operation. During the fiscal quarter ended April 30, 2018, we recorded a gain of \$8 million upon the completion of the Purchase Agreement, which amount is included in loss from discontinued operations in the accompanying consolidated statements of operations and comprehensive loss for the fiscal year ended April 30, 2018. The results of operations presented below include certain allocations that management believes fairly reflect the utilization of services to the research and development segment. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the research and development segment do not necessarily reflect what the results of operations would have been had the research and development segment operated as a stand-alone segment.

The following table summarizes the results of discontinued operations for the fiscal years ended April 30, 2018, 2017 and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
License revenue	\$ 25,000	\$ –	\$ 329,000
Operating expenses:			
Research and development	6,782,000	27,992,000	58,660,000
Selling, general and administrative	2,163,000	1,560,000	1,516,000
Restructuring charges	330,000	–	–
Total operating expenses	<u>9,275,000</u>	<u>29,552,000</u>	<u>60,176,000</u>
Other income	–	–	598,000
Gain on sale of research and development assets	8,000,000	–	–
Loss from discontinued operations	<u>\$ (1,250,000)</u>	<u>\$ (29,552,000)</u>	<u>\$ (59,249,000)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the assets and liabilities of discontinued operations as of April 30, 2018 and 2017:

	2018	2017
Assets:		
Other receivables	\$ 5,000,000	\$ –
Prepaid expenses	–	652,000
Property and equipment, net	–	470,000
Other assets	–	304,000
Total assets of discontinued operations	<u>\$ 5,000,000</u>	<u>\$ 1,426,000</u>
Liabilities:		
Accounts payable	\$ 32,000	\$ 2,779,000
Accrued clinical trial and related fees	3,613,000	4,558,000
Accrued payroll and related costs	614,000	1,029,000
Other liabilities	291,000	357,000
Total liabilities of discontinued operations	<u>\$ 4,550,000</u>	<u>\$ 8,723,000</u>

The carrying value of the assets and liabilities deemed a component of the discontinued research and development segment were not classified as “held for sale” in the accompanying consolidated balance sheets at April 30, 2018 and 2017 as Oncologie did not purchase or assume any of the reported assets or liabilities under the Purchase Agreement.

10. BENEFIT PLAN

During fiscal year 1997, we adopted a 401(k) benefit plan (the “Plan”) for all full-time employees who are at least the age of 21 and have three or more months of continuous service. The Plan provides for employee contributions of up to 100% of their compensation on a tax deferred basis up to the maximum amount permitted by the Internal Revenue Code. We are not required to make matching contributions under the Plan, and prior to January 2010, we did not make any matching contributions from the Plan’s inception. Presently, we have voluntarily agreed to match 50% of employee contributions of up to 6% of their annual eligible compensation, subject to certain IRS limitations.

Under the Plan, each participating employee is fully vested in his or her contributions to the Plan and our contributions to the Plan will fully vest after six years of service. The expense related to our matching contributions to the Plan was \$564,000, \$845,000, and \$543,000 for the fiscal years ended April 30, 2018, 2017, and 2016, respectively.

11. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	Quarter Ended			
	July 31, 2017	October 31, 2017	January 31, 2018	April 30, 2018
Contract manufacturing revenue	\$ 27,077,000	\$ 12,782,000	\$ 6,819,000	\$ 6,943,000
Gross profit (loss) (a)	\$ 6,629,000	\$ (3,460,000)	\$ (4,132,000)	\$ (1,961,000)
Income (loss) from continuing operations	\$ 2,800,000	\$ (8,301,000)	\$ (8,928,000)	\$ (6,134,000)
Income (loss) from discontinued operations (b)(c)	\$ (4,005,000)	\$ (4,323,000)	\$ (2,076,000)	\$ 9,154,000
Net income (loss)	\$ (1,205,000)	\$ (12,624,000)	\$ (11,004,000)	\$ 3,020,000
Series E preferred stock accumulated dividends (d)	\$ (1,442,000)	\$ (1,442,000)	\$ (1,442,000)	\$ (1,442,000)
Net income (loss) attributable to common stockholders	\$ (2,647,000)	\$ (14,066,000)	\$ (12,446,000)	\$ 1,578,000
Basic and diluted weighted average common shares outstanding	44,773,727	45,097,474	45,225,804	53,360,424
Basic and diluted net income (loss) per common share attributable to common stockholders (e)				
Continuing operations	\$ 0.03	\$ (0.21)	\$ (0.23)	\$ (0.14)
Discontinued operations	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>	<u>\$ (0.05)</u>	<u>\$ 0.17</u>
Net income (loss) per common share attributable to common stockholders	\$ (0.06)	\$ (0.31)	\$ (0.28)	\$ 0.03

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Quarter Ended			
	July 31, 2016	October 31, 2016	January 31, 2017	April 30, 2017
Contract manufacturing revenue	\$ 5,609,000	\$ 23,370,000	\$ 10,747,000	\$ 17,904,000
Gross profit	\$ 2,547,000	\$ 7,929,000	\$ 2,773,000	\$ 6,122,000
Income (loss) from continuing operations	\$ (2,018,000)	\$ 3,303,000	\$ (1,569,000)	\$ 1,677,000
Loss from discontinued operations (b)	\$ (9,039,000)	\$ (7,359,000)	\$ (6,205,000)	\$ (6,949,000)
Net loss	\$ (11,057,000)	\$ (4,056,000)	\$ (7,774,000)	\$ (5,272,000)
Series E preferred stock accumulated dividends (d)	\$ (1,380,000)	\$ (1,442,000)	\$ (1,442,000)	\$ (1,442,000)
Net loss attributable to common stockholders	\$ (12,437,000)	\$ (5,498,000)	\$ (9,216,000)	\$ (6,714,000)
Basic and diluted weighted average common shares outstanding	34,227,870	34,973,681	37,258,794	42,141,720
Basic and diluted net income (loss) per common share attributable to common stockholders (e)				
Continuing operations	\$ (0.10)	\$ 0.05	\$ (0.08)	\$ 0.01
Discontinued operations	\$ (0.26)	\$ (0.21)	\$ (0.17)	\$ (0.17)
Net income (loss) per common share attributable to common stockholders	\$ (0.36)	\$ (0.16)	\$ (0.25)	\$ (0.16)

- (a) Gross profit (loss) for the first, second, third, and fourth quarters of fiscal year 2018 includes idle capacity costs of \$900,000, \$4,938,000, \$5,344,000 and \$2,784,000, respectively, which amounts were expensed directly to cost of contract manufacturing. No idle capacity costs were incurred during the same prior year periods.
- (b) As of January 31, 2018, our research and development segment met all the conditions required in order to be classified as a discontinued operation (Note 2). Accordingly, the operating results of our research and development segment are reported as income (loss) from discontinued operations for all periods presented.
- (c) Income from discontinued operations for the quarter ended April 30, 2018 includes a gain on sale of research and development assets of \$8,000,000 (Note 9).
- (d) Series E preferred stock accumulated dividends include dividends declared for the period (regardless of whether or not the dividends have been paid) and dividends accumulated for the period (regardless of whether or not the dividends have been declared).
- (e) Basic and diluted net income (loss) per common share attributable to common stockholders calculations for each of the quarters are based on the basic and diluted weighted average common shares outstanding for each period. As such, the sum of the quarters may not necessarily equal the basic and diluted net income (loss) per common share amount for the fiscal year.

12. SUBSEQUENT EVENTS

On June 6, 2018, our Board of Directors declared a quarterly cash dividend of \$0.65625 per share on our Series E Preferred Stock. The dividend payment is equivalent to an annualized 10.50% per share, based on the \$25.00 per share stated liquidation preference, accruing from April 1, 2018 through June 30, 2018. The cash dividend of \$1,081,000 was paid on July 2, 2018 to holders of the Series E Preferred Stock of record on June 18, 2018.

ASSET ASSIGNMENT AND PURCHASE AGREEMENT

THIS ASSET ASSIGNMENT AND PURCHASE AGREEMENT (this "Agreement") is made and entered into as of this 12th day of February, 2018 (the "Signing Date") by and between Avid Bioservices, Inc., formerly known as Peregrine Pharmaceuticals, Inc., a corporation organized under the laws of the State of Delaware, having its principal place of business at 2642 Michelle Drive, Tustin, California 92780 ("Seller"), and Oncologie, Inc., a corporation organized under the laws of the State of Delaware, with a mailing address of Post Office Box 650022 West Newton, Massachusetts 02465 ("Buyer"). Seller and Buyer are each referred to herein individually as a "Party" and collectively as the "Parties."

WHEREAS, Seller has been granted licenses to certain patent rights relating to certain technologies by the Board of Regents of the University of Texas System ("Licensor"), on behalf of the University of Texas Southwestern Medical Center at Dallas; and

WHEREAS, Purchaser desires to purchase from Seller, and Seller desires to assign and sell to Purchaser, in accordance with the terms and subject to the conditions set forth in this Agreement, all of Seller's right, title and interest in and to (i) certain licenses that have been granted to Seller by Licensor and (ii) certain assets primarily used in commercializing the Technologies that are the subject of such licenses;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, do hereby agree as follows:

ARTICLE I
DEFINITIONS

"1N11" has the meaning set forth in Section 2.3(j).

"AAA" has the meaning set forth in Section 10.2(a).

"Affiliate" means, with respect to a subject entity, another entity that, directly or indirectly, controls, is controlled by, or is under common control with such subject entity, for so long as such control exists. For purposes of this definition only, "control" means ownership, directly or indirectly, of at least 50% of the equity securities of the entity entitled to vote in the election of directors (or, in the case of an entity that is not a corporation, in the election of the corresponding managing authority, or in the case of a partnership, the status of the general partner), or, if not meeting the preceding, the maximum voting right that may be held under the laws of the country where such entity exists, or any other arrangement whereby an entity controls or has the right to control the board of directors or equivalent governing body or management of a corporation or other entity.

"Allocation Firm" has the meaning set forth in Section 3.4.

"Allocation Schedule" has the meaning set forth in Section 3.4.

"Ancillary License Agreements" has the meaning set forth in 2.1(h).

"Assumed Liabilities" has the meaning set forth in Section 2.4.

"Basket Amount" has the meaning set forth in Section 8.5(a)(i).

"Betabody Technology" means (a) the Betabody[®] patent rights set forth on Schedule 2.2(b) and transferred to Buyer pursuant to Section 2.2(b) and (b) the Betabody Cell Lines transferred to Buyer pursuant to Section 2.3(f).

“Books and Records” has the meaning set forth in Section 7.3.

“Business Day” means any day of the year on which national banking institutions in the State of California are open to the public for conducting business and are not required to close.

“Buyer Indemnified Parties” has the meaning set forth in Section 8.2.

“Claim Information” has the meaning set forth in Section 8.4(a).

“Closing” has the meaning set forth in Section 5.1.

“Closing Date” has the meaning set forth in Section 5.1.

“Code” means the Internal Revenue Code of 1986, as amended.

“Combination Therapy” has the meaning set forth in the definition of “Product.”

“Competing Products” means antibodies to phosphatidylserine or Beta2glycoprotein1 intended for research or clinical development.

“Confidential Information” has the meaning set forth in Section 9.1.

“Development Data” means reports of pre-clinical and clinical studies, and all other documentation containing or embodying any non-clinical data, clinical data or CMC data, pharmacovigilance data, results and analysis relating to the development activities of any Products under the UTSW License Agreements, including but not limited to, registration dossiers and other Regulatory Documentation. Development Data shall include any data and reports generated by Seller and Licensor under any of the UTSW License Agreements.

“Diligent Efforts” means a good faith and sustained application by Buyer of timely diligent efforts (including the application of sufficient financial, staffing and material resources) and the exercise of prudent business and scientific judgment, all at least consistent with high industry standards that a similar biotechnology company devotes to development and commercialization of products with similar scientific and commercial potential, including: (i) promptly assigning responsibility for such obligation to specific employees who are held accountable for progress and monitoring such progress on an ongoing basis; (ii) setting and consistently seeking to achieve specific, meaningful and measurable objectives for carrying out such obligations; and (iii) making and implementing decisions and allocating resources designed to advance progress with respect to such objectives.

“Excluded Liabilities” has the meaning set forth in Section 2.5.

“Final Allocation Schedule” has the meaning set forth in Section 3.4.

“First Installment Payment” has the meaning set forth in Section 3.1(a)(i).

“Fundamental Representations” has the meaning set forth in Section 8.1(a).

“General Representations” means the representations and warranties of Seller set forth in Section 6.1(e) and (f) and Section 6.2.

“Governmental Authority” means any United States or non-United States national, federal, state or local governmental, regulatory or administrative authority, agency or commission or any judicial or arbitral body.

“Indemnified Party” has the meaning set forth in Section 8.4(a).

“Indemnifying Party” has the meaning set forth in Section 8.4(a).

“Law” means any statute, law, ordinance, regulation, rule, code, injunction, judgment, decree or order of any Governmental Authority.

“License Agreements” has the meaning set forth in Section 2.1.

“Licensor” has the meaning set forth in the Recitals.

“Losses” has the meaning set forth in Section 8.2.

“Milestone” has the meaning set forth in Section 3.1(b).

“Milestone Payment” has the meaning set forth in Section 3.1(b).

“MSA” has the meaning set forth in Section 3.3.

“Net Sales” means, on a Product-by-Product basis, the aggregate gross invoice price of Buyer or its Affiliates for the marketing and sale of a Product, less the following to the extent actually allowed or expressly allocated to such Product:

- (a) rebates, credits and cash, trade and quantity discounts, actually taken;
- (b) excise taxes, sales, use, value added, and other consumption taxes and other compulsory payments to Governmental Authorities, actually paid;
- (c) the cost of shipping packages and packing, if billed separately;
- (d) insurance costs and outbound transportation charges prepaid or allowed;
- (e) import or export duties and tariffs actually paid; and
- (f) amounts allowed or credited due to returns.

If a Product is invoiced for a discounted price substantially lower than customary in the trade, Net Sales shall be based on the customary amount received for such Product; provided that the foregoing shall not apply in the case of shipments made by Buyer or its Affiliates to third parties at no or low cost in connection with compassionate use or sales or indigent programs, for which no amount shall be due to Seller.

Notwithstanding the foregoing, if a Product is sold as a Combination Therapy, Net Sales shall be calculated by multiplying the Net Sales of the Combination Therapy by the fraction $A/(A+B)$, where A is the gross invoice price of the Product if sold separately in any country or territory and B is the gross invoice price of the other approved or additional therapies included in the Combination Therapy if sold separately in such country or territory. If no such separate sales are made by Buyer or its Affiliates in a country or territory, Net Sales of the Combination Therapy shall be calculated in a manner to be negotiated and agreed upon by the Parties, reasonably and in good faith, prior to any sale of such Combination Therapy, which shall be based upon the respective cost of goods sold of the active components of such Combination Therapy.

“Person” means an individual, corporation, partnership, limited liability company, limited liability partnership, syndicate, person, trust, association, organization or other entity, including any Governmental Authority, and including any successor, by merger or otherwise, of any of the foregoing.

“Phase II Sublicensing Revenue” means any amounts (including any up-front fees, royalties, milestone payments, and annual maintenance payments), received by Buyer or any of its Affiliates from the grant to any Sublicensee by Buyer or its Affiliates of any right(s) under any UTSW License Agreement prior to a Phase II/III or Phase III clinical trial of any right, asset or Product sublicensed under such License Agreement.

“Phase III Sublicensing Revenue” means any amounts (including any up-front fees, royalties, milestone payments, and annual maintenance payments), received by Buyer or any of its Affiliates from (a) the grant to any Sublicensee by Buyer or its Affiliates of any right(s) under any UTSW License Agreement or (b) any right, asset or Product sublicensed under such License Agreement, during or after (i) a Phase III clinical trial, (ii) a trial initiated as an earlier phase trial but resulting in a registration trial, or (iii) any trial designed from the outset to result in registration of a Product.

“Product” means a therapeutic or diagnostic product or treatment regimen utilizing (a) the Seller Therapy as a monotherapy, (b) the Seller Therapy in a treatment for human patients comprised of concurrent or sequential administration of the Seller Therapy and one or more of the following approved or additional therapies (any such Product, a “Combination Therapy”): chemotherapies, radiation, cytokines, vaccines, antibodies, immunotherapies, and/or other pharmaceutical or biological agents, or (c) the Betabody Technology in or as a diagnostic.

“Quarterly Report” has the meaning set forth in Section 4.1.

“Regulatory Approval” means, with respect to a country or regulatory jurisdiction, any and all approvals, licenses, registrations or authorizations of any Regulatory Authority necessary for the development, manufacture, use, storage, import, transport and commercialization of a Product in such country or regulatory jurisdiction, including, where applicable, (a) pricing or reimbursement approval in such country or regulatory jurisdiction, (b) marketing authorizations in such country or regulatory jurisdiction (including any prerequisite manufacturing approval or authorization related thereto), (c) labeling approval and (d) technical, medical and scientific licenses.

“Regulatory Authority” means any applicable supra-national, federal, national, regional, state, provincial or local regulatory agencies, departments, bureaus, commissions, councils or other government entities regulating or otherwise exercising authority with respect to the development, manufacturing, commercialization or use of Products under the UTSW License Agreements.

“Regulatory Documentation” means all applications, registrations, licenses, authorizations and approvals, including all Regulatory Approvals, all correspondence submitted to or received from Regulatory Authorities and all supporting documents and all clinical studies and tests, relating to Products under the UTSW License Agreements and all data contained in any of the foregoing, including all investigational new drug applications, drug approval applications, regulatory drug lists, advertising and promotion documents, clinical data, adverse event files and complaint files.

“Revenue Share Payment Date” means the 45th day following the end of the calendar quarter for which a Revenue Share Payment is due hereunder.

“Royalty Payment” has the meaning set forth in Section 3.1(c).

“Royalty Payment Date” means the 45th day following the end of the calendar quarter for which a Royalty Payment is due hereunder.

“Second Installment Payment” has the meaning set forth in Section 3.1(a)(ii).

“Seller Consideration” means the aggregate amount of the First Installment Payment, the Second Installment Payment, the Third Installment Payment, and Milestone Payments, Royalty Payments and Sublicensing Revenue Share Payments actually received by Seller hereunder.

“Seller Indemnified Parties” has the meaning set forth in Section 8.3.

“Seller Therapy” means Seller’s proprietary baviximab antibody therapy and Seller’s fully human PS-targeting antibodies.

“Sublicensee” means any third party to whom Buyer or any of its Affiliates grants a sublicense under any License Agreement.

“Sublicensing Revenue Share Payment” has the meaning set forth in Section 3.2.

“Tax” means all taxes of any kind imposed by federal, state, local or foreign Government Authority, including those on, or measured by or referred to as, income, gross receipts, financial operation, sales, use, value added, franchise, profits, license, excise, stamp premium, property, transfer or windfall profits taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by such Governmental Authority with respect to such amounts.

“Technology Transfer Period” has the meaning set forth in Section 7.1(a).

“Third Installment Payment” has the meaning set forth in Section 3.1(a)(iii).

“Third Party Claim” has the meaning set forth in Section 8.4(a).

“Third Party Service Providers” has the meaning set forth in Section 7.7(a).

“Transferred Assets” has the meaning set forth in Section 2.3.

“Transition Services” has the meaning set forth in Section 7.7(a).

“UTSW License Agreements” has the meaning set forth in Section 2.1(d).

“Valid Claim” shall mean shall mean an unexpired claim in (a) an issued and unexpired patent which has not been revoked or held unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction from which no appeal can be or has been taken within the time allowed for appeal, and which has not been disclaimed, donated to the public or admitted to be invalid or unenforceable through reissue, re-examination or disclaimer or otherwise, (b) an issued and unexpired supplementary protection certificate or equivalent instrument, or (c) a pending patent application which was filed and is being prosecuted in good faith and has not been abandoned or finally disallowed without the possibility of appeal or re-filing or the application, in each case within the patents under the UTSW License Agreements.

ARTICLE II
ASSIGNMENT AND SALE

2.1. Assignment of License Agreements. Upon the terms and subject to the conditions of this Agreement, Seller hereby sells, assigns, conveys and delivers to Buyer all of Seller’s rights, title and interest in, to and under, delegates and assigns its obligations, duties and liabilities under, the following agreements (collectively, the “License Agreements”):

(a) that certain Exclusive Patent License Agreement between Seller and The University of Texas System, effective August 1, 2001 (UTSW Reference No. L0549), as amended (the “2001 UTSW License Agreement”);

(b) that certain Coagulation Patent License Agreement between University of Texas System and Techniclone Corporation, effective October 8, 1998, as amended by Amendment No. 1, entered into as of January 1, 2000, as amended (the “1998 UTSW License Agreement”);

(c) that certain Exclusive Patent License Agreement between University of Texas System and Peregrine Pharmaceuticals, Inc., effective August 18, 2005, as amended (the “2005 UTSW License Agreement”);

(d) that certain Patent and Technology License Agreement between the University of Texas System and Peregrine Pharmaceuticals, Inc., effective March 1, 2015 (the “2015 UTSW License Agreement” and together with the 1998 UTSW License Agreement, the 2001 UTSW License Agreement, and the 2005 UTSW License Agreement, the “UTSW License Agreements”);

(e) that certain Research Collaboration Agreement between Aeres Biomedical Limited and Peregrine Pharmaceuticals, dated December 9, 2003, as amended (the "Aeres Agreement");

(f) that certain Commercial License Agreement, by and between Avanir Pharmaceuticals, Inc. and Peregrine Pharmaceuticals, Inc., effective December 1, 2003, as amended (the "Avanir License Agreement");

(g) that certain Non-Exclusive Cabilly Patent License Agreement by and between Genentech, Inc. and Peregrine Pharmaceuticals, Inc., effective November 5, 2003 (the "Genentech License Agreement"); and

(h) that certain License Agreement between Lonza Biologics PLC and Peregrine Pharmaceuticals, Inc., effective March 1, 2005, as modified and amended (the "Lonza License" and together with the Aeres Agreement, the Avanir License Agreement and the Genentech License Agreement, the "Ancillary License Agreements").

2.2 Assigned Patents and Trademarks. Seller hereby sells, assigns and transfers to Buyer Seller's whole right, title and interest in and to the following:

- Closing Date;
- (a) the proprietary trade name for bavituximab, "Talceptrx" and all trademarks and regulatory filings therefor;
 - (b) Seller's interest in the patents jointly owned by Licensor and Seller listed on Schedule 2.2(b) attached hereto, as existing on the Closing Date;
 - (c) the unpublished patent applications listed on Schedule 2.2(c) attached hereto, as existing on the Closing Date; and
 - (d) the word marks "Betabody," "Talrimza," "Yuvizo," and "Talon," and all trademark and regulatory filings therefor.

This agreement to assign the foregoing patents and trademarks shall be made effective by execution of the assignment documents collectively attached hereto as Schedule 2.2.

2.3 Transferred Assets. Upon the terms and subject to the conditions of this Agreement, Seller hereby sells, assigns, conveys and delivers to Buyer all of Seller's rights, title and interests in, to and under, the following assets rights and properties (collectively with the License Agreements, and Seller's interest in the jointly owned patents, unpublished patent applications and trademarks referred to under Section 2.2, the "Transferred Assets"):

- 2.3(a);
- (a) Seller's entire inventory of bavituximab, as set forth on the drug product and supply inventory list attached hereto as Schedule 2.3(a);
 - (b) to the extent in Seller's possession or control, all cell banks (including master cell banks, research cell banks, and working cell banks) with respect to bavituximab, 3G4, 2aG4 and mch1N11, as set forth on the cell bank inventory list attached hereto as Schedule 2.3(b);
 - (c) manufacturing instructions for bavituximab, in the form described in Section 5.2(d);
 - (d) all Development Data, and preclinical, clinical data and all Regulatory Documentation under all UTSW License Agreements in Seller's possession;
 - (e) the US Adopted Names Council nonproprietary drug name "bavituximab";
 - (f) all of Seller's right, title and interest in and to Seller's inventory of those certain Betabody molecules and cell lines developed by Seller (the "Betabody Cell Lines");

- (g) proprietary assay for Beta2Glycoprotein1-Bavituximab Interaction;
- (h) know-how, including protocol(s) with respect to all quality release assays for the manufacture of bavituximab, to the extent owned by, or in the possession or control of Seller;
- (i) clinical trial biospecimens of interest, subject to and in accordance with Section 7.6, below;
- (j) that certain antibody known as 24MC1N11 or PGN635 or 1N11 (hereafter, "1N11"); and
- (k) that certain antibody known as 11.31, jointly owned by Seller and Affitech Research AS.

2.4 Acceptance of Assignment and Assumption of Assumed Liabilities. Upon the terms and subject to the conditions of this Agreement, Buyer hereby:

- (a) accepts the foregoing sale, transfer, assignment, conveyance and delivery of all of Seller's rights, title and interest in, to and under the Transferred Assets (including the License Agreements);
- (b) assumes and agrees to pay, perform and discharge fully as and when due, as a direct obligation to Licensor, all obligations, liabilities and conditions arising and imposed on Seller under the License Agreements;
- (c) agrees to be bound by and perform the License Agreements in accordance with each of their terms; and
- (d) assumes and agrees to satisfy, pay, perform and discharge when due, the following liabilities and obligations of Seller, of every kind and nature, whether accrued or fixed, known or unknown, express or implied, primary or secondary, direct or indirect, absolute or contingent, matured or unmatured or determined or determinable as of the Closing Date:
 - (i) those liabilities and obligations to be arising or accruing, after the Closing Date under the License Agreements; and
 - (ii) all liabilities and obligations arising out of, relating to or otherwise in respect of the ownership, operation or use of the Transferred Assets on or after, or in respect of periods following, the Closing Date.

The liabilities described in the foregoing clauses (b), (c) and (d)(i) and (ii) are collectively referred to herein as the "Assumed Liabilities."

2.5 Excluded Liabilities. Notwithstanding Section 2.4, Buyer shall not assume or be obligated to satisfy, pay, perform or otherwise discharge any liability or obligation of Seller, of any kind or nature, whether accrued or fixed, known or unknown, express or implied, primary or secondary, direct or indirect, absolute or contingent, matured or unmatured or determined or determinable as of the Closing Date, other than the Assumed Liabilities (all such liabilities and obligations not being assumed by Buyer, collectively, the "Excluded Liabilities"), and neither Buyer nor any of its Affiliates shall assume or be deemed to have assumed any Excluded Liabilities. Seller shall retain and be fully responsible for paying, performing and discharging when due any and all Excluded Liabilities, including, without limitation, any liability for Taxes to the extent attributable to the Transferred Assets for any taxable period ending on or prior to the Closing Date.

2.6 Consents to Certain Assignments.

(a) Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to transfer or assign any asset, permit, claim or right or any benefit arising thereunder or resulting therefrom if an attempted assignment thereof, without the consent of a third party, would constitute a breach or other contravention under any agreement or Law to which Seller is a party or by which it is bound, or in any way adversely affect the rights of Seller or, upon transfer, Buyer under such asset, permit, claim or right. Seller shall use its commercially reasonable efforts to obtain any consents or waivers required to assign to Buyer any Transferred Asset that requires the consent of a third party, without any conditions to such transfer or changes or modifications of terms thereunder. Buyer agrees that the Seller shall not have any liability to the Buyer arising out of or relating to the failure to obtain any such consent that may be required in connection with the transactions contemplated by this Agreement or because of any circumstances resulting therefrom. Buyer further agrees that no representation, warranty or covenant of Seller herein shall be breached or deemed breached, and no condition shall be deemed not satisfied, as a result of (i) the failure to obtain any such consent or any circumstances resulting therefrom or (ii) any suit, action, proceeding or investigation commenced or threatened by or on behalf of any Person arising out of or relating to the failure to obtain any such consent or any circumstances resulting therefrom.

(b) If any such consent is not obtained Seller shall cooperate with Buyer (at Buyer's expense) in any lawful and commercially reasonable arrangement reasonably proposed by Buyer under which (i) the Buyer shall obtain (without infringing upon the legal rights of such third party or violating any applicable Law) the economic claims, rights and benefits (net of the amount of any related tax costs imposed on Seller or any of its Affiliates) under the asset, claim or right with respect to which the consent has not been obtained in accordance with this Agreement and (ii) Buyer shall assume any related economic burden (including the amount of any related tax costs imposed on the Seller or any of its Affiliates) with respect to the asset, claim or right with respect to which the consent has not been obtained in accordance with this Agreement.

ARTICLE III
PAYMENTS; ALLOCATION

3.1 Payments. As total consideration for the sale, transfer, assignment, conveyance and delivery of the License Agreements and the Transferred Assets, Buyer is assuming the Assumed Liabilities and shall make the following payments:

(a) Cash payments to Seller, by wire transfer of immediately available funds, in the following amounts and at the following times:

(i) \$3 million, within thirty (30) calendar days after the Closing Date (the "First Installment Payment");

(ii) \$3 million, within fourteen (14) calendar days after the expiration of the Technology Transfer Period (the "Second Installment Payment"); and

(iii) \$2 million within one hundred ninety-four calendar days after the Closing Date (the "Third Installment Payment").

(b) Milestone Payments. One-time payments upon the achievement of the milestones (each, a "Milestone" and collectively, the "Milestones") described in this Section 3.1(b), by wire transfer of immediately available funds within thirty (30) calendar days after the achievement of each such Milestone (each, a "Milestone Payment" and collectively, the "Milestone Payments");

(i) [*];

(ii) [*];

(iii) [*];

(iv) [*];

(v) [*];

(vi) [*];

(vii) [*];

(viii) [*]; and

(ix) [*].

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

(c) Royalty Payments. On a Product-by-Product basis, royalty payments as described in this Section 3.1(c) (each, a “Royalty Payment” and collectively, the “Royalty Payments”) on a quarterly basis on each applicable Royalty Payment Date for each calendar quarter, as follows:

- (i) an amount equal to [%] of aggregate Net Sales (in all countries and territories) of up to \$[*] of each Product;
- (ii) an amount equal to [%] of aggregate Net Sales (in all countries and territories) from \$[*] to \$[*] of each Product;
- (iii) an amount equal to [%] of aggregate Net Sales (in all countries and territories) from \$[*] to \$[*] of each Product;
- (iv) an amount equal to [%] of aggregate Net Sales (in all countries and territories) from \$[*] to \$[*] for each Product; and
- (v) an amount equal to [%] of aggregate Net Sales (in all countries and territories) equal to or greater than \$[*] for each Product.

3.2 Sublicensing Revenue Share. In the event Buyer sublicenses any of the UTSW License Agreements, or any right(s) thereunder to a third party, from the effective date of the sublicense agreement entered into between the Buyer and such third party, on a Product-by-Product basis, and country-by-country or territory-by-territory basis, as the case may be, Buyer’s payment obligations set forth in Sections 3.1(a) and 3.1(b), above, shall be waived and such payment obligations shall not apply to any Product developed, manufactured, used, sold or held out for sale by such Sublicensee in such country or territory, and for each such Product and with respect to each such applicable country or territory. In lieu of such Milestone and/or Royalty Payment, Buyer shall pay to Seller the following Sublicensing Revenue share percentage payments (each, a “Sublicensing Revenue Share Payment”) as follows:

- (i) An amount equal to (.30) multiplied by aggregate Phase II Sublicensing Revenue received by Buyer and its Affiliates (from or in all countries and territories) during the applicable quarter; or
- (ii) An amount equal to (.15) multiplied by aggregate Phase III Sublicensing Revenue received by Buyer and its Affiliates (from or in all countries and territories) during the applicable quarter.

Sublicensing Revenue Share Payments are payable on a quarterly basis on each applicable Revenue Share Payment Date for each calendar quarter.

By way of illustration, but non-binding limitation, if Buyer sublicenses to a third party drug development company the right to develop, manufacture, use, import, sell or offer for sale baviximab in a combination therapy (a Product, as defined) in the country of Spain, then Buyer shall not be obligated to or responsible to pay (a) Milestone Payments to Seller for any milestones achieved by Buyer’s Sublicensee in Spain for such Product, or (b) Royalty Payments on any Net Sales made by Buyer’s Sublicensee in Spain for such Product. Rather, for such Product developed and/or sold in Spain, Buyer shall owe to Seller the applicable percentage of Sublicensing Revenue Share received from Seller’s sublicensee in Spain, in accordance with the foregoing. In all other countries and territories, Buyer would remain obligated and liable to Seller for Milestone and Royalty payments pursuant to and in accordance with Sections 3.1(b) and (c).

3.3 Manufacturing Agreement. Immediately after the execution of this Agreement, the parties shall commence negotiation in good faith of terms and conditions with respect to a Manufacturing and Clinical Supply Master Services Agreement (the “MSA”), for the manufacture of baviximab, in form reasonably satisfactory to Seller, and the parties agree to diligently work in good faith to execute such MSA within 90 days after the Closing Date, and in any event prior to the expiration of the Technology Transfer Period.

3.4 Allocation. Within 20 days after the Closing Date, Buyer shall provide to Seller a schedule (the “Allocation Schedule”) allocating the purchase price (as reasonably determined by Buyer) for the Transferred Assets among the Transferred Assets. The Allocation Schedule shall be reasonable and shall be prepared in accordance with Section 1060 of the Code. If Seller does not provide notice of disagreement to Buyer within 15 days of receiving the Allocation Schedule, the Allocation Schedule shall be binding as the final Allocation Schedule (the “Final Allocation Schedule”). If Seller provides notice of disagreement to Buyer within such 30-day period, Seller and Buyer shall discuss in good faith Seller’s disagreement and, if Seller and Buyer resolve such disagreement within 15 days (or longer prior as agreed between the parties) of Seller receiving the Allocation Schedule, the Allocation Schedule shall be revised to reflect such resolution and as so revised shall be the Final Allocation Schedule. The Parties agree (and agree to cause each of their respective Affiliates) to utilize the allocation set forth in the Final Allocation Schedule for all tax purposes, including the filing of all tax returns and in the course of all tax-related proceedings, unless otherwise required by applicable Law pursuant to a final determination in connection therewith. If Seller and Buyer are unable to resolve such disagreements within such 15 days (or longer period as agreed between the parties), then the parties shall submit any remaining disagreed items to an internationally recognized, independent accounting or valuation firm reasonably acceptable to both parties (the “Allocation Firm”). The Allocation Firm shall be requested to render a determination with respect to such remaining disagreed items within 15 days after referral of the matter to such Allocation Firm, which determination shall be in writing and set forth, in reasonable detail, the basis therefor. The Allocation Schedule, as modified by the determination of the Allocation Firm, shall be the Final Allocation Schedule. Any fees payable to the Allocation Firm shall be borne equally by Buyer and Seller.

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

ARTICLE IV
PAYMENTS, REPORTS AND AUDIT

4.1. **Reports and Payments.** After the first commercial sale of a Product by Buyer or any of its Affiliates, or any Sublicensees, Buyer shall make quarterly written reports (each, a "**Quarterly Report**") to Seller within 30 days after the end of each calendar quarter, stating in each such report with respect to such calendar quarter and on a Product-by-Product and country-by-country basis: (a) the number of Products manufactured and sold, segregating Buyer's and its Affiliates' sales and sales by Sublicensees; (b) gross amounts billed for Products sold, segregating Buyer's and its Affiliates' sales and sales by Sublicensees; (c) deductions applicable to the calculation of Net Sales; (d) the royalties paid by any Sublicensee to Buyer on the Net Sales of such Sublicensee; (e) the total amount due to Seller in Royalty Payments; and (f) the total amount due to Seller with respect to Sublicensing Revenue Share Payments.

4.2. **Inspection of Books and Records; Audit.** Buyer shall maintain accurate books and records that enable Seller to calculate Royalty Payments and Revenue Share Payments, and to determine whether each Milestone has been achieved. Buyer shall retain the books and records for each calendar quarter for four years after the submission of the corresponding Quarterly Report pursuant to Section 4.1 hereof. Upon 30 days' prior notice to Buyer, Seller or its designee shall be permitted access to the books and records of Buyer to conduct a review or audit once per calendar year for the sole purpose of determining the accuracy of the Quarterly Reports, whether any Milestone has occurred, and whether Buyer has complied with this Agreement. Seller's failure to exercise its audit right in a given year shall not be considered a waiver of any right to object to or dispute the amount of any Royalty Payment or Revenue Share Payment, or the occurrence of a Milestone. Any such review or audit shall be at Seller's expense, except that, if the audit results show that for any calendar quarter there has been an underpayment by Buyer of more than 5% of the aggregate amount of payments actually due to Seller hereunder, then Buyer will pay for the reasonable audit expenses incurred by Seller. In all cases, Buyer shall pay to Seller any such underpaid amounts promptly and with interest on the sum outstanding at a rate per annum equal to the prime rate as quoted in the *Wall Street Journal*, New York edition, on the day such payment is due, plus a premium of 2% calculated on the basis of a 365 day year, the interest period commencing on the due date ending on the payment date. Interest shall be compounded and the interest rate shall be adjusted each month in arrears, such interest being also due and payable on the payment date.

4.3. **Taxes.** All payments made to Seller shall be made free and clear of and without deduction or deferment in respect of any demand, set-off, counterclaim, or other dispute, and so far as is legally possible.

4.4. **Transfer Taxes.** Buyer shall pay (a) all transfer and documentary taxes and fees imposed with respect to instruments of conveyance applicable to the transaction, and (b) all sales, excise and other transfer or similar taxes on the sale, transfer, assignment, conveyance and delivery of the Transferred Assets.

ARTICLE V
THE CLOSING

5.1. **Closing Date.** The consummation of the transactions contemplated by this Agreement ("**Closing**") shall occur on the Signing Date. The Closing shall be deemed to have become effective as of 11:59 p.m. Pacific Standard Time, on the Signing Date, and such time and date are sometimes referred to herein as the "**Closing Date**."

5.2. **Seller's Deliverables.** At the Closing, Seller shall deliver to Buyer the following:

(a) Subject to Section 2.6, written consents from each of the Licensors under the Ancillary License Agreements specified in Section 2.1, which require prior consent approving the assignment from Seller to Buyer of such Ancillary License Agreements from Seller to Buyer.

(b) A current excerpt from Seller's inventory management system regarding all of Seller's inventory of bavituximab drug supply and/or drug product, and all master cell banks and working cell banks with respect to bavituximab, 3G4 and mch1N11, in Seller's possession and control.

(c) All Development Data and preclinical and clinical data and all Regulatory Documentation under all UTSW License Agreements in Seller's possession.

(d) A full copy of an executed batch record for the manufacture of bavituximab, of a run date of Buyer's choice, including a list of all quality release assays and release specifications.

(e) The Assignment contemplated by Section 2.2(a), duly executed by an authorized officer of Seller, with respect to the assignment from Seller to Buyer the trademark "Talceptrx," "Betabody," "Talrimza," "Yuvizo," and "Talon."

(f) The Assignment contemplated by Section 2.2(b), duly executed by an authorized officer of Seller, with respect to Seller's interests in the jointly owned patents listed on Schedule 2.2(b).

(g) The Assignment contemplated by Section 2.2(c), duly executed by an authorized officer of Seller, with respect to the unpublished patent applications listed on Schedule 2.2(c).

(h) A schedule of amounts of annuities due in 2018 for intellectual property and milestone payments due to all licensors (as maintained in Seller's normal course of business) under the License Agreements listed in Section 2.1, a copy of which is attached hereto as Schedule 5.2(h).

ARTICLE VI **REPRESENTATIONS AND WARRANTIES**

6.1. **Mutual Representations and Warranties.** Each Party hereby represents and warrants to the other Party that:

(a) Such Party is a corporation duly formed, validly existing, and in good standing under the laws of the state or country of its incorporation.

(b) Such Party has all necessary corporate power and authority to execute, deliver and perform under this Agreement, and to consummate the transactions contemplated hereby.

(c) The execution, delivery and performance by such Party of this Agreement, and the consummation by such Party of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of such Party.

(d) This Agreement has been duly executed and delivered by such Party and, assuming the due authorization, execution and delivery of this Agreement by each other party hereto, is a legal, valid and binding obligation of such Party, enforceable against such Party in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors generally and to equitable principles.

(e) There is no action, suit, investigation or proceeding pending or, to the knowledge of such Party, threatened against or affecting such Party before any Governmental Authority that in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated hereby or that could reasonably be expected to materially and adversely affect such Party's ability to perform its obligations under this Agreement.

(f) The execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, and the compliance by such Party with, or the fulfillment of such Party of, the terms, conditions and provision hereof, do not and will not: (i) violate any provision of the charter or bylaws (or similar organizational documents) of such Party; (ii) violate or conflict with any law that is either applicable to, binding upon, or enforceable against such Party; or (iii) require the consent, approval, or authorization of, or the registration, recording, filing or qualification with, or notice to, or the taking of any other action in respect of, any Governmental Authority or any other Person.

6.2. Seller's Representations and Warranties. Seller hereby represents and warrants to Buyer that:

(a) To Seller's reasonable belief, there are Valid Claims under each of the UTSW License Agreements as set forth in Section 2.1 above.

(b) Seller has valid title to its interest in the patents and trademarks set forth in Section 2.2 above, and is free to dispose of its interest in the Transferred Assets and to transfer unencumbered title to its interest in the Transferred Assets.

6.3. "AS IS" Sale. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS ARTICLE VI, BUYER ACKNOWLEDGES AND AGREES THAT THE LICENSE AGREEMENTS AND THE OTHER TRANSFERRED ASSETS ARE BEING ACQUIRED "AS IS, WHERE IS," THAT BUYER IS RELYING ON ITS OWN EXAMINATION OF THE LICENSE AGREEMENTS AND THE OTHER TRANSFERRED ASSETS AND THAT SELLER MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE PERFORMANCE OF THE LICENSE AGREEMENTS AND THE OTHER TRANSFERRED ASSETS, INCLUDING THEIR SAFETY, EFFECTIVENESS OR COMMERCIAL VIABILITY. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, AND EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE VI, NEITHER PARTY MAKES ANY REPRESENTATIONS OR EXTENDS ANY WARRANTIES OF ANY KIND, EITHER EXPRESS OF IMPLIED, TO THE OTHER PARTY WITH RESPECT TO ANY LICENSE AGREEMENT OR OTHER TRANSFERRED ASSET OR OTHER SUBJECT MATTER OF THIS AGREEMENT, AND EACH PARTY HEREBY DISCLAIMS ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT WITH RESPECT TO ANY AND ALL OF THE FOREGOING.

ARTICLE VII ADDITIONAL COVENANTS

7.1. Technology Transfer.

(a) Within five (5) Business Days following receipt by Seller of the First Installment Payment, Seller will deliver to Buyer the information described on Schedule 7.1(a)(i) by making such information available in a virtual data room for ninety (90) days (such 90-day period, the "Technology Transfer Period"). Within ninety (90) days following the Closing Date, Seller will use commercially reasonable efforts to deliver to Buyer the information described on Schedule 7.1(a)(ii) by making such information available in a virtual data room. For the avoidance of doubt, Buyer shall have the right to print, make copies of, download and save the information described in this Section 7.1(a) for its further use.

(b) All transfers of information under this Section 7.1 will be made in the form in which such information exists, without any obligation to convert information into a different format than that used by Seller.

7.2. Diligent Efforts. Buyer commits to and will use "Diligent Efforts" to initiate a clinical trial utilizing or incorporating the Seller Therapy within [*] after the Closing Date, with a goal, but not the obligation, [*]. Buyer acknowledges and agrees that this provision is a material term of the Agreement, on which Seller relied and forms a part of the material inducement to Seller to enter into this Agreement. A breach of this provision by Buyer shall constitute a material breach of this Agreement, for which Seller will be entitled to all remedies available to Seller at law and/or equity, including rescission of this Agreement.

7.3. Maintenance of and Access to Books and Records. Following the Closing Date, Buyer shall assume all legal responsibility for, and shall preserve and retain, any and all books and records included in or relating to the Transferred Assets, including all regulatory and clinical filings and records and all data related to that certain clinical trial conducted by Seller entitled "Phase III Study of Baviximab Plus Docetaxel Versus Docetaxel Alone in Patients with Late-Stage Non-Squamous Non-Small-Cell Lung Cancer ("SUNRISE") (collectively, "Books and Records") for the greater of (a) seven (7) years or (b) such longer period as may be required by applicable Law. During normal business hours and upon reasonable notice, Buyer shall grant Seller and its representatives access to such Books and Records (with an opportunity to make copies). Buyer shall cooperate fully with Seller and its representatives with respect to providing necessary data and information and making available for inspection and copying all Books and Records at no expense to Seller or its representatives.

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

7.4. Seller's Cooperation. With respect to the Transferred Assets listed in Section 2.2, Seller (i) shall fully cooperate with Buyer and Governmental Authorities, as necessary, in the registration of the change of applicant/owner from Seller to Buyer and shall give Buyer's patent counsel power of attorney thereto, (ii) shall execute any assignment or other document necessary to evidence the transfer and assignment of the UTSW License Agreements, Seller's interest in jointly owned patents, and patent applications to Buyer, and (iii) until the registration of the change of applicant/owner from Seller to Buyer has become effective, Seller shall coordinate any communication with relevant official bodies and other activities relating to the prosecution of the relevant patents and patent applications with Buyer reasonably in advance, and the Buyer will reimburse Seller for such costs directly related thereto.

7.5. Access to Development Data. Following the Closing Date, and for ninety (90) days thereafter, Seller shall grant Buyer and Buyer's representatives and consultants access to the Development Data (with an opportunity to make copies) during normal business hours and upon reasonable notice. Seller shall cooperate fully with Buyer and Buyer's representatives and consultants with respect to providing necessary data and information and making available for inspection and copying all such Development Data at no expense to Buyer or its representatives or consultants.

7.6. Clinical Trial Biospecimen List. Prior to the expiration of the Technology Transfer Period, Buyer shall deliver to Seller a list of all clinical trial biospecimens Buyer wishes Seller to retrieve or otherwise save from destruction by Seller's third party biospecimen storage service providers.

7.7. Transition Services.

(a) During the Technology Transfer Period and subject to the terms and conditions of this Agreement, Seller shall provide and/or shall cause its third party service providers with respect to biospecimen and cell bank storage and biomanufacturing and production services, who have historically provided such services (collectively, "Third Party Service Providers") to provide, to Buyer certain services to be identified and reasonably agreed between the Parties during the Technology Transfer Period (collectively, the "Transition Services"). The Parties shall negotiate in good faith the provision of the Transition Services, the terms and conditions of the Transition Services, and the fees and costs to be paid by Buyer pursuant to this Agreement for the Transition Services.

(b) Notwithstanding the provision of any Transition Services hereunder, (i) Buyer shall have no charge, management or control of the Third Party Service Providers the Technology Transfer Period, nor shall this Agreement be deemed in any way to convey to or grant Buyer any third party beneficiary rights under any services or commercial contracts between Seller and any Third Party Service Provider, and, (ii) Buyer shall not have and shall not be deemed to have any control over or responsibility for the employees, consultants, or advisors of Seller or any Third Party Service Provider with respect to such Transition Services.

(c) At the end of every calendar month during the Technology Transfer Period, Seller shall invoice Buyer for the costs incurred with respect to the Transition Services provided to or managed by Seller on behalf of Buyer by the Third Party Service Providers. Seller shall remit payment for such invoices within ten (10) Business Days after receipt thereof.

7.8. Non-Competition. Without the express written consent of Buyer, neither Seller nor any of Seller's successors or assigns, shall at any time during the period beginning on the Closing Date and ending 10 years thereafter, directly or indirectly, itself or on behalf of or in conjunction with any other Person, own, manage, control, participate or engage in the ownership, management or control of any business relating to, or engage in seeking regulatory approval for, the development, importation, marketing, commercialization, offering for sale or sale in any territory of any Competing Products. For avoidance of doubt, this provision does not apply to and hereby expressly excludes Seller's development, manufacturing and fill-finish of Competing Products for Seller's third-party clients, and nothing in this section or elsewhere in this Agreement shall preclude such activities or enterprise by, for or on behalf of Seller.

ARTICLE VIII
INDEMNIFICATION

8.1. Survival of Representations, Warranties and Covenants.

(a) The representations and warranties of Seller and Buyer shall survive for 12 months after the Closing Date; provided, that the representations and warranties of Seller and Buyer contained in Section 6.1(a), (b), (c) and (d) (collectively, the "Fundamental Representations") shall survive for a period of four (4) years after the Closing Date.

(b) The covenants and agreements of Seller and Buyer contained herein shall survive for a period of 30 days after the date that performance of each such covenant or agreement was due.

(c) The survival periods set forth in this Section 8.1 are in lieu of, and the parties expressly waive, any otherwise applicable statute of limitations, whether arising at law or in equity. Any claim for breach of any representation or warranty hereunder shall be deemed to have accrued as of the Closing Date. No claim for breach of any representation, warranty, covenant or agreement may be brought after the expiration of the survival periods set forth in this Section 8.1.

8.2. Indemnification by Seller. From and after the Closing Date, Seller shall indemnify and hold harmless the Buyer, its Affiliates, and its and their respective officers, directors, employees and agents (collectively, the “Buyer Indemnified Parties”) from and against any actual and reasonable out-of-pocket losses, liabilities, damages and expenses (hereinafter collectively, “Losses”) to the extent arising out of or resulting directly from:

- (a) any breach of any representation or warranty made by Seller contained in Article VI;
- (b) any breach of any covenant or agreement of Seller requiring performance by Seller after the Closing Date; and
- (c) any Excluded Liability.

8.3. Indemnification by Buyer. From and after the Closing Date, Buyer shall indemnify and hold harmless the Seller, its Affiliates, and its and their respective officers, directors, employees and agents (collectively, the “Seller Indemnified Parties”) from and against any and all Losses to the extent arising out of or resulting directly from:

- (a) any breach of any representation or warranty made by Buyer contained in Article VI;
- (b) any breach of any covenant or agreement of Buyer requiring performance by Buyer after the Closing Date; and
- (c) any Assumed Liability.

8.4 Indemnification Procedure.

(a) In order for a Buyer Indemnified Party or Seller Indemnified Party (the “Indemnified Party”) to be entitled to any indemnification provided for under this Agreement as a result of a Loss or a claim or demand made by any Person against the Indemnified Party (a “Third Party Claim”), such Indemnified Party shall deliver notice thereof to the party against whom indemnity is sought (the “Indemnifying Party”) promptly after receipt by such Indemnified Party of written notice of the Third Party Claim, describing in reasonable detail (i) the facts giving rise to any claim for indemnification hereunder, (ii) the amount or method of computation of the amount of such claim, (iii) each individual item of Loss included in the amount so stated, to the extent known, (iv) the date such item was paid or properly accrued, and (v) the nature of the breach of representation, warranty, covenant or agreement with respect to which such Indemnified Party claims to be entitled to indemnification hereunder (all of the foregoing, the “Claim Information”), and shall provide any other information with respect thereto as the Indemnifying Party may reasonably request. The failure to provide such notice, however, shall not release the Indemnifying Party from any of its obligations under this Article VII except to the extent that the Indemnifying Party is prejudiced by such failure.

(b) The Indemnifying Party shall have the right, upon written notice to the Indemnified Party within 30 days of receipt of notice from the Indemnified Party of the commencement of such Third Party Claim, to assume the defense thereof at the expense of the Indemnifying Party with counsel selected by the Indemnifying Party and reasonably satisfactory to the Indemnified Party. If the Indemnifying Party assumes the defense of such Third Party Claim, the Indemnified Party shall have the right to employ separate counsel and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party; provided, that if in the reasonable opinion of counsel for the Indemnified Party, there is a conflict of interest between the Indemnified Party and the Indemnifying Party, the Indemnifying Party shall be responsible for the reasonable fees and expenses of one counsel to such Indemnified Party in connection with such defense. If the Indemnifying Party assumes the defense of any Third Party Claim, the Indemnified Party shall cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party all witnesses, pertinent records, materials and information in the Indemnified Party’s possession or under the Indemnified Party’s control relating thereto as is reasonably required by the Indemnifying Party. If the Indemnifying Party assumes the defense of any Third Party Claim, the Indemnified Party shall agree to any settlement, compromise or discharge of such Third Party Claim that the Indemnifying Party may recommend that by its terms obligates the Indemnifying Party to pay the full amount of the liability in connection with such Third Party Claim, and which releases the Indemnified Party completely in connection with such Third Party Claim. Whether or not the Indemnifying Party assumes the defense of a Third Party Claim, the Indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge, or offer to settle, compromise or discharge, such Third Party Claim without the Indemnifying Party’s prior written consent (which consent shall not be unreasonably withheld).

(c) In the event any Indemnified Party should have a claim against any Indemnifying Party hereunder that does not involve a Third Party Claim being asserted against or sought to be collected from such Indemnified Party, the Indemnified Party shall deliver notice of such claim containing the Claim Information promptly to the Indemnifying Party, and shall provide any other information with respect thereto as the Indemnifying Party may reasonably request. The failure to provide such notice, however, shall not release the Indemnifying Party from any of its obligations under this Article VIII except to the extent that the Indemnifying Party is prejudiced by such failure. The Indemnified Party shall reasonably cooperate and assist the Indemnifying Party in determining the validity of any claim for indemnity by the Indemnified Party and in otherwise resolving such matters. Such assistance and cooperation shall include providing reasonable access to and copies of information, records and documents relating to such matters, furnishing employees to assist in the investigation, defense and resolution of such matters and providing legal and business assistance with respect to such matters. For the avoidance of doubt, the Indemnified Party shall not be entitled to commence any Action against the Indemnifying Party for indemnification pursuant to this Section 8.4(c) unless the notice and procedural provisions set forth herein shall have been satisfied prior thereto.

8.5 Limits on Indemnification.

(a) Notwithstanding anything to the contrary contained in this Agreement:

(i) Seller shall not be liable to any Buyer Indemnified Party for any claim for indemnification unless and until the aggregate amount of indemnifiable Losses that may be recovered from the Seller equals or exceeds \$100,000 (the "Basket Amount"), in which case the Seller shall be liable only for the Losses in excess of the Basket Amount;

(ii) the maximum aggregate amount of indemnifiable Losses that may be recovered from Seller by Buyer Indemnified Parties pursuant to Section 8.2 shall not exceed the Seller Consideration;

(iii) the maximum aggregate amount of indemnifiable Losses that may be recovered from Seller by Buyer Indemnified Parties pursuant to Section 8.2(a) for any breach of any General Representation shall not exceed \$400,000;

(iv) any indemnity provided hereunder shall be applied so as to avoid double counting and no Indemnified Party shall be entitled to obtain indemnification more than once for the same Losses pursuant to this Agreement or any other agreement, instrument or document contemplated hereby; and

(v) no party hereto shall have any liability under any provision of this Agreement for any punitive, incidental, consequential, special or indirect damages, including business interruption, diminution of value, loss of future revenue, profits or income, or loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement and, in particular, no "multiple of profits" or "multiple of cash flow" or other valuation methodology will be used in calculating the amount of any Losses; regardless of the legal theory under which such liability or obligation may be sought to be imposed, whether sounding in contract or tort, or whether at law or in equity, or otherwise.

(b) The amount of any and all Losses under this Article VIII shall be determined net of (i) the net present value of any Tax benefit reasonably anticipated to be realizable by any party seeking indemnification hereunder arising in connection with the accrual, incurrence or payment of any such Losses and (ii) any insurance, indemnity, reimbursement arrangement, contract or other recovery available to the Indemnified Party or its Affiliates in connection with the facts giving rise to the right of indemnification (each, an "Alternative Recovery"). The Indemnified Party will seek full recovery under all such Alternative Recoveries with respect to any Loss to the same extent as such Indemnified Party would if such Loss were not subject to indemnification hereunder. Each party hereby waives, to the extent permitted under its applicable insurance policies, any subrogation rights that its insurer may have with respect to any indemnifiable Losses. In the event that the Indemnified Party receives recovery of any amount pursuant to an Alternative Recovery for which it has already been indemnified by the Indemnifying Party hereunder, the Indemnified Party will promptly refund an equal amount to the Indemnifying Party.

8.6 Exclusive Remedy.

(a) Except as specifically set forth in this Agreement, Buyer, on behalf of itself and the other Buyer Indemnified Parties, waives any rights and claims any Buyer Indemnified Party may have against Seller, regardless of the Law or legal theory under which such liability or obligation may be sought to be imposed, whether at law, in equity, contract, tort or otherwise, relating to the Business and/or the transactions contemplated by this Agreement. The rights and claims waived by the Buyer, on behalf of itself and the other Buyer Indemnified Parties, include, to the fullest extent permitted under applicable Law, claims for contribution or other rights of recovery arising out of or relating to any Law, claims for breach of contract, for breach (negligent or otherwise) of representation or warranty, and claims for breach of duty. After the Closing Date, this Article VIII will provide the exclusive remedy against Seller for any breach of any representation, warranty, covenant or other claim arising out of or relating to this Agreement and/or the transactions contemplated hereby.

(b) The parties hereto agree that the provisions in this Agreement relating to indemnification, and the limits imposed on Buyer's remedies with respect to this Agreement and the transactions contemplated hereby were specifically bargained for between sophisticated parties and were specifically taken into account in the determination of the amounts to be paid to Seller hereunder.

8.7 No Right of Set-off. Buyer, for itself and for its Affiliates, successors and assigns, hereby unconditionally and irrevocably waives any rights of set-off, netting, offset, recoupment, or similar rights that Buyer or any of its Affiliates, successors and assigns has or may have with respect to any payments to be made by Buyer pursuant to this Agreement or any other document or instrument delivered by Buyer in connection herewith.

ARTICLE IX **CONFIDENTIALITY**

9.1. Confidentiality. Except as expressly provided in this Agreement, neither Party shall use for its own benefit or the benefit of any third party except in connection with the activities contemplated by this Agreement, or disclose to any third party, any confidential, proprietary, or trade secret information (the "Confidential Information") received from the other Party hereto. The terms and conditions of this Section 9.1 shall continue until 10 years after the first commercial sale by any Buyer, any of its Affiliates or any Sublicensee of any Product; provided that (a) in the case of any Confidential Information that constitutes a "trade secret," such obligations shall continue for the longer of such 10-year period or for so long as such trade secret Confidential Information remains a trade secret; and (b) in the case of Confidential Information that consists of financial data, such obligation shall continue only for two years from the time of disclosure of such financial data to the receiving Party.

9.2. Permitted Disclosures. Notwithstanding Section 9.1, above, Confidential Information shall not include any of the following information that the receiving Party can demonstrate by competent evidence:

- (a) was already known to the receiving Party, other than under an obligation of confidentiality, at the time of disclosure;
- (b) was generally available to the public or otherwise part of the public domain at the time of the disclosure to the receiving Party;
- (c) became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the receiving Party in breach of this Agreement;
- (d) was independently developed by the receiving Party, without use of, reference to or reliance upon any information or materials disclosed by the disclosing Party; or
- (e) was subsequently disclosed to the receiving Party by a Person other than the disclosing Party without breach of any legal obligation to the disclosing Party.

In addition, either Party may disclose Confidential Information of the other:

(f) to such receiving Party's and its Affiliates' legal representatives, employees, consultants, and Sublicensees, to the extent such disclosure is reasonably necessary to exercise such receiving Party's rights hereunder, and provided (i) such legal representatives and employees are informed of the confidential nature of the Confidential Information and the restrictions on disclosure and use contained herein and (ii) such consultants and Sublicensees have agreed in writing to obligations of confidentiality with respect to such Confidential Information no less stringent than those set forth herein; and

(g) if Confidential Information is compelled to be disclosed by Law or order of a Governmental Authority (including the rules and regulations of the Securities and Exchange Commission or any national securities exchange), provided that the Party compelled to make such disclosure (i) requests confidential treatment of such information, (ii) provides the other Party with sufficient advance notice of the compelled disclosure to provide adequate time to seek a protective order, and (iii) discloses only that Confidential Information necessary to comply with the requirement to disclose.

The receiving Party shall be responsible for all breaches of this Agreement by the receiving Party's and its Affiliates' legal representatives, employees, consultants and Sublicensees.

9.3. Press Release; Disclosure of Agreement. Neither Party shall make a public announcement of the execution of this Agreement without the prior written consent of the other Party. The text of any press release to be issued by either Party concerning this Agreement as well as the precise date and timing of the press release shall be agreed between the Parties in writing in advance, such agreement not to be unreasonably withheld or delayed. Notwithstanding the foregoing, this restriction shall not apply to announcements required by Law (including the Securities and Exchange Commission or any other national securities exchange), except that, in such event, the Parties shall coordinate to the extent possible with respect to the details of any such announcement.

9.4. Publicity. Neither Party shall use the name of the other Party in connection with any written publicity, news release, or other announcement or statement relating to this Agreement or to the performance hereunder or the existence of an arrangement between the Parties without prior written approval from such Party.

ARTICLE X ARBITRATION

10.1. Procedure. The Parties shall make diligent and reasonable efforts to amicably settle all disputes, controversies or differences that may arise between the Parties hereto out of, in relation to, or in connection with this Agreement, including the performance or interpretation thereof. Upon the occurrence of a dispute between the Parties, including any breach of this Agreement or any obligation relating thereto, the matter shall be referred to the chief executive officers of Seller and Buyer, or their designees. The chief executive officers, or their designees, as the case may be, shall negotiate in good faith to resolve such dispute in a mutually satisfactory manner for a period of ten days, or such longer period of time to which the chief executive officers may agree. If such efforts do not result in a mutually satisfactory resolution, the dispute shall be finally settled by arbitration, held in New York, New York, USA.

10.2. Choice of Arbitrators and Governing Procedural Rules.

(a) Any arbitration conducted pursuant to this Article X shall be in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA") in effect on the date of commencement of the arbitration, subject to the provisions of this Article X.

(b) In its demand for arbitration, the Party initiating the arbitration shall provide a statement setting forth the nature of the dispute, the names and addresses of all other parties, an estimate of the legal damages (money amount) claimed, if any, the remedy sought, otherwise specifying the issue to be resolved. The responding Party shall file its answering statement within 15 days after confirmation of the notice of filing of the demand is sent by the AAA.

(c) The Parties shall use reasonable efforts to mutually agree upon one arbitrator; provided, however, that if the Parties have not done so within ten days after initiation of arbitration hereunder, or such longer period of time as the Parties have agreed to in writing, then there shall be three arbitrators as follows: (i) one neutral nominee of each of Seller and Buyer, each to be selected within twenty days after confirmation of the notice of filing of the demand is sent by the AAA, and (ii) one neutral nominee to serve as chairman and to be selected by the first two nominees within 15 days from the date that Seller's and Buyer's nominees are selected. If a Party fails to make the appointment of an arbitrator as provided in this Section 10.2(c), the AAA shall make the appointment. If the appointed arbitrators fail to appoint a chairperson within the time specified in this section and there is no agreed extension of time, the AAA may appoint the chairperson. Each arbitrator will by training, education, or experience have knowledge of the research, development and commercialization of biological pharmaceutical products in the United States.

(d) The Parties shall use their commercially reasonable and good faith efforts to conduct all dispute resolution procedures under this Agreement to expeditiously, efficiently, and cost-effectively as possible. The arbitrator(s) shall determine what discovery will be permitted, based on the principle of limiting the cost and time that the Parties must expend on discovery; provided, that the arbitrator(s) shall permit such discovery as it (they) deem necessary to achieve an equitable resolution of the dispute.

(e) The decision or award rendered by the arbitrator(s) shall be written, final, and non-appealable and may be entered in any court of competent jurisdiction.

(f) The costs of any arbitration, including administrative fees and fees of the arbitrator(s) shall be shared equally by the Parties, and each Party shall bear the cost of its own counsel and expert fees; provided, that the arbitrator(s), in their discretion, will have the authority to award the prevailing Party reasonable attorneys' fees and costs in amounts fixed by the arbitrator(s). The arbitrator(s) will have the authority to grant specific performance. The arbitrator(s) will have no authority to award damages in contravention of this Agreement, and each Party irrevocably waives any claims to such damages in contravention of this Agreement.

(g) Notwithstanding anything herein to the contrary, nothing in this Agreement shall restrict either Party at any time from seeking equitable relief to prevent irreparable harm that may be caused by the other Party's actual or threatened breach of this Agreement.

ARTICLE XI
GENERAL PROVISIONS

11.1. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to principles of conflicts of laws. Each Party hereby submits itself for the purpose of this Agreement and, subject to Article XI, any controversy arising hereunder to the exclusive jurisdiction of the state and federal courts located in the Central District of California, and any courts of appeal therefrom, and waives any objection on the grounds of lack of jurisdiction (including venue) to the exercise of such jurisdiction over it by any such courts.

11.2. **Independent Contractors.** The relationship of the Parties hereto is that of independent contractors. The Parties hereto are not deemed to be agents, partners, or joint venturers of the other for any purpose as a result of this Agreement or the transactions contemplated hereby.

11.3. **Assignment.** Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, in whole or in part, by operation of law or otherwise (including, with respect to Buyer, through a direct or indirect change of control), by either party without the prior written consent of the other party, and any such assignment without such prior written consent shall be null and void;

11.4. **Notices.** All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or if by e-mail, upon written confirmation of receipt by e-mail or otherwise, (b) on the first Business Day following the date of dispatch if delivered utilizing a next-day service by a recognized next-day courier or (c) on the earlier of confirmed receipt or the fifth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered to the addresses set forth below, or pursuant to such other instructions as may be designated in writing by the Party to receive such notice:

If to Seller:

Avid Bioservices, Inc.
2642 Michelle Drive, 2nd Floor
Tustin, California 92780
Attention: General Counsel
Email: [*]

with a copy to:

K&L Gates LLP
1 Park Plaza, 12th Floor
Irvine, California 92614
Attention: Michael A. Hedge
Email: michael.hedge@klgates.com

If to Buyer:

Oncologie, Inc.
Post Office Box 650022
West Newton, Massachusetts 02465
Attention: Chief Executive Officer
Email: [*]

with a copy to:

Nutter McClennen & Fish LLP
155 Seaport Boulevard
Boston, Massachusetts 02210
Attention: James E. Dawson, Esq.
Email: jdawson@nutter.com

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

In the event that either party's notice information shall change following the date of this Agreement, such party shall notify the other party thereof and update such notice information within three Business Days.

11.5. Further Assurances. At any time or from time to time on and after the date of this Agreement, each Party shall at the written request of the other Party (a) deliver to the other Party such records, data, or other documents consistent with the provisions of this Agreement, (b) execute and deliver or cause to be delivered all such consents, documents or further instruments of transfer or license, and (c) take or cause to be taken all such actions, as the other Party may reasonably deem necessary or desirable in order for the other Party to obtain the full benefits of this Agreement and the transactions contemplated hereby.

11.6. Severability. If any provision hereof should be held invalid, illegal, or unenforceable in any respect in any jurisdiction, the Parties hereto shall substitute, by mutual consent, valid provisions for such invalid, illegal, or unenforceable provisions, which valid provisions in their economic effect are sufficiently similar to the invalid, illegal, or unenforceable provisions and that it can be reasonably assumed that the Parties would have entered into this Agreement with such valid provisions. In case such valid provisions cannot be agreed upon, the invalid, illegal, or unenforceable of one or several provisions of this Agreement shall not affect the validity of this Agreement as a whole, unless the invalid, illegal, or unenforceable provisions are of such essential importance to this Agreement that it is to be reasonably assumed that the Parties would not have entered into this Agreement without the invalid, illegal, or unenforceable provisions.

11.7. Waiver. The failure of a Party to enforce any provision of this Agreement shall not be construed to be a waiver of the right of such Party to thereafter enforce that provision or any other provision or right.

11.8. Entire Agreement; Amendment. This Agreement (including the Exhibits and Schedules hereto) sets forth the entire agreement and understanding of the Parties with respect to the subject matter hereof and supersedes all prior discussions, agreements, and writings relating thereto (including, but not limited to any prior confidentiality and non-disclosure agreements). This Agreement may not be altered, amended, or modified in any way except by a writing signed by both Parties.

11.9. Equitable Relief. Each Party acknowledges that a breach by it of the provisions of this Agreement may not reasonably or adequately be compensated in damages in an action at law and that such a breach may cause the other Party irreparable injury and damage. By reason thereof, each Party agrees that the other Party is entitled to seek, in addition to any other remedies it may have under this Agreement or otherwise, preliminary and permanent injunctive and other equitable relief to prevent or curtail any breach of this Agreement by the other Party.

11.10. Interpretation. Except as otherwise explicitly specified to the contrary (a) reference to a Section, Article, Exhibit or Schedule means a Section or Article of, or Schedule or Exhibit to this Agreement, unless another agreement is specified, (b) the word "including" will be construed as "including without limitation," (c) references to a particular statute or regulation include all rules and regulations thereunder and any predecessor or successor statute, rules or regulations, in each case, as amended or otherwise modified from time to time, (d) words in the singular or plural form include the plural and singular form, respectively, (e) words of any gender include each other gender, (f) "or" is disjunctive but not necessarily exclusive, (g) the word "will" shall be construed to have the same meaning and effect as the word "shall," (h) whenever this Agreement refers to a number of days, such number shall refer to calendar days unless business days are specified, and (i) references to a particular Person include such Person's successors and assigns to the extent not prohibited by this Agreement. This Agreement has been prepared jointly and shall not be strictly construed against either Party. Ambiguities, if any, in this Agreement shall not be construed against any Party, irrespective of which Party may be deemed to have authored the ambiguous provision. The headings of each Article and Section in this Agreement have been inserted for convenience of reference only and are not intended to limit or expand on the meaning of the language contained in the particular Article or Section.

11.11 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each Party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any Person other than the Parties and their respective successors and permitted assigns any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, except with respect to the provisions of Article VII, which shall inure to the benefit of the Persons benefiting therefrom who are intended to be third-party beneficiaries thereof.

11.12 Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11.13. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original and which together shall constitute one instrument. This Agreement may be executed by facsimile or .pdf signature and a facsimile or .pdf signature shall constitute an original for all purposes.

IN WITNESS WHEREOF, Seller and Buyer have caused this Asset Assignment and Purchase Agreement to be executed by their respective duly authorized representatives.

AVID BIOSERVICES, INC.

ONCOLOGIE, INC.

By: /s/ Roger Lias, Ph.D.
Name: Roger Lias, Ph.D.
Title: Chief Executive Officer

By: /s/ Laura Benjamin, Ph.D.
Name: Laura Benjamin, Ph.D.
Title: Chief Executive Officer

APPENDIX OF SCHEDULES

Schedule 2.2	Assignment Forms
Schedule 2.2(b)	Patents Jointly Owned by Seller
Schedule 2.2(c)	Unpublished Patent Applications
Schedule 2.3(a)	Bavituximab Drug Product and Supply Inventory
Schedule 2.3(b)	Cell Bank Inventory
Schedule 5.2(h)	Schedule of Annuities and Annual License Fees Due in 2018
Schedule 7.1(a)	Description of Information to be Transferred During Technology Transfer Period

Schedule 2.2(b)
Jointly Owned Patents

Betabody® Patent Rights
Jointly Owned by UT and Peregrine

U.S. Provisional Patent Application Number 60/646,333, filed January 24, 2005, now lapsed, entitled “Constructs Binding to Phosphatidylserine and Related Phospholipids and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 PZ1 US; Peregrine File Reference 4001.003290);

U.S. Patent Number 8,956,616, issued February 17, 2015, based on Application Number 11/339,392, filed January 24, 2006, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 US-1; Peregrine File Reference 4001.003200);

U.S. Patent Application Number 14/611,634, filed February 02, 2015, now abandoned, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment and Imaging” (UT SOUTHWESTERN File Reference UTSD:1784-1 US DIV; Peregrine File Reference 4001.003282);

U.S. Patent Application Number 15/207,955 filed July 12, 2016, now abandoned, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment and Imaging” (UT SOUTHWESTERN File Reference UTSD:1784-1 US DIV CON; Peregrine File Reference 4001.003283);

International Patent Application Number PCT/US2006/002964, filed January 24, 2006, now lapsed, entitled “Fc-Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 WO; Peregrine File Reference 4001.003210);

Australian Patent Number 2006206187, issued June 23, 2011, entitled “Fc-Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 AU; Peregrine File Reference 4001.003201);

Canadian Patent Number 2,591,914, issued April 25, 2017, entitled “Fc-Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 CA; Peregrine File Reference 4001.003202);

Chinese Patent Application Number 200680007064.8, effective filing date January 24, 2006, now abandoned, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 CN; Peregrine File Reference 4001.003212);

Chinese Patent Number ZL 201410301233.5, issued June 08, 2016, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 CN DIV 1; Peregrine File Reference 4001.033212);

Hong Kong Patent Number 1198255, issued April 07, 2017, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 HK; Peregrine File Reference 4001.033265);

Chinese Patent Application Number 201410333397.6, effective filing date January 24, 2006, now abandoned, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 CN DIV 2; Peregrine File Reference 4001.333212);

Hong Kong Patent Application Number 15105389.1, effective filing date January 24, 2006, now abandoned, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 HK DIV; Peregrine File Reference 4001.333265);

European Patent Number 1 853 631 B1, issued March 09, 2016, 2006, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 EP; Peregrine File Reference 4001.003203);

EP-CH/LI, Swiss/Liechtenstein Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 CH; Peregrine File Reference 4001.003211);

EP-DE, German Patent No. 602006048137.3 (EP 1 853 631 B1), issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 DE; Peregrine File Reference 4001.003214);

EP-DK, Danish Patent No. DK/EP 1 853 631 T3, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 DK; Peregrine File Reference 4001.003215);

EP-ES, Spanish Patent No. ES 2 565 543 T3 (EP 1 853 631 B1), issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 ES; Peregrine File Reference 4001.003217);

EP-FI, Finnish Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 FI; Peregrine File Reference 4001.003218);

EP-FR, French Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 FR; Peregrine File Reference 4001.003219);

EP-GB, United Kingdom Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 GB; Peregrine File Reference 4001.003204);

EP-IE, Irish Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 IE; Peregrine File Reference 4001.003270);

EP-IS, Icelandic Patent No. EP 1 853 631 B1, issued March 09, 2016, to lapse on February 01, 2018, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 IS; Peregrine File Reference 4001.003213);

EP-IT, Italian Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 IT; Peregrine File Reference 4001.003225);

EP-LT, Lithuanian Patent No. EP 1 853 631 B1, issued March 09, 2016, to lapse on January 26, 2018, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 LT; Peregrine File Reference 4001.003253);

EP-LU, Luxembourg Patent No. EP 1 853 631 B1, issued March 09, 2016, to lapse on February 01, 2018, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 LU; Peregrine File Reference 4001.003231);

EP-LV, Latvian Patent No. EP 1 853 631 B1, issued March 09, 2016, to lapse on February 01, 2018, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 LV; Peregrine File Reference 4001.003252);

EP-MC, Monaco Patent No. EP 1 853 631 B1, issued March 09, 2016, to lapse on February 01, 2018, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 MC; Peregrine File Reference 4001.003271);

EP-NL, Dutch Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 NL; Peregrine File Reference 4001.003259);

EP-SE, Swedish Patent No. EP 1 853 631 B1, issued March 09, 2016, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 SE; Peregrine File Reference 4001.003243);

EP-SI, Slovenian Patent No. EP 1 853 631 B1, issued March 09, 2016, to lapse on January 25, 2018, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 SI; Peregrine File Reference 4001.003247);

Israeli Patent Number 184406, issued March 01, 2015, entitled “Constructs Binding to Phosphatidylserine, Compositions Containing Them And Uses Thereof” (UT SOUTHWESTERN File Reference UTSD:1784 IL; Peregrine File Reference 4001.003223);

Indian Patent Number 285554, issued July 24, 2017, to lapse on January 25, 2018, entitled “A Construct Comprising An Antibody Fc Region Operatively Attached to β 2-Glycoprotein I Polypeptides and Compositions Thereof” (UT SOUTHWESTERN File Reference UTSD:1784 IN; Peregrine File Reference 4001.003263);

Japanese Patent Number 5127043, issued November 09, 2012, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 JP; Peregrine File Reference 4001.003205);

Japanese Patent Application Number 2012-57880, effective filing date January 24, 2006, now abandoned, entitled “Fc Fusion Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 JP-2 DIV; Peregrine File Reference 4001.003257);

New Zealand Patent Number 556065, issued August 13, 2009, entitled “Fc-Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 NZ; Peregrine File Reference 4001.003238);

Singapore Patent Application Number 200704601-4, effective filing date January 24, 2006, now abandoned, entitled “Fc-Fusion Constructs Binding to Phosphatidylserine and Their Therapeutic Use” (UT SOUTHWESTERN File Reference UTSD:1784 SG; Peregrine File Reference 4001.003244); and

Singapore Patent Number 158919, issued August 30, 2013, entitled “Constructs Binding to Phosphatidylserine and Their Use in Disease Treatment” (UT SOUTHWESTERN File Reference UTSD:1784 SG DIV; Peregrine File Reference 4001.003245).

Schedule 2.2(c)
Unpublished Patent Applications

Beta-2 as a Biomarker for Baviximab (including Beta-2 Assay)

1. United States Provisional Application Number 62/400,589, filed September 27, 2016, now lapsed, entitled “Methods for Treating Cancer with Baviximab Based on Levels of β 2-Glycoprotein 1” (Peregrine File Reference 4015.000990);
2. United States Provisional Application Number 62/406,727, filed October 11, 2016, now lapsed, entitled “Methods for Treating Cancer with Baviximab Based on Levels of β 2-Glycoprotein 1” (Peregrine File Reference 4015.000991);
3. United States Provisional Application Number 62/480,994, filed April 03, 2017, now lapsed, entitled “Methods for Treating Cancer with Baviximab Based on Levels of β 2-Glycoprotein 1” (Peregrine File Reference 4015.000993);
4. United States Provisional Application Number 62/507,580, filed May 17, 2017, now lapsed, entitled “Methods for Treating Cancer with Baviximab Based on Levels of β 2-Glycoprotein 1” (Peregrine File Reference 4015.000994);
5. International Patent Application No. PCT/US2017/53370, filed September 26, 2017, entitled “Methods for Treating Cancer with Baviximab Based on Levels of β 2-Glycoprotein 1, and Assays Therefor” (Peregrine File Reference 4015.000910);

Baviximab IO Combinations

6. United States Provisional Application Number 62/481,064, filed April 03, 2017, entitled “Methods for Treating Cancer Using Baviximab in Combination with Immuno-Oncology Agents” (Peregrine File Reference 4015.001290); and
7. United States Provisional Application Number 62/507,545, filed May 17, 2017, entitled “Methods for Treating Cancer Using Baviximab in Combination with Immuno-Oncology Agents” (Peregrine File Reference 4015.001291).

AVID BIOSERVICES, INC.
Subsidiaries of Registrant

Peregrine (Beijing) Pharmaceutical Technology Ltd.

PPHM, Inc.

Vascular Targeting Technologies, Inc.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-208466, No. 333-192794, No. 333-185423, No. 333-178452) pertaining to the 2011 Stock Incentive Plan of Avid Bioservices, Inc.,
- (2) Registration Statement (Form S-8 No. 333-171067) pertaining to the 2011 Stock Incentive Plan and 2010 Employee Stock Purchase Plan of Avid Bioservices, Inc.,
- (3) Registration Statement (Form S-8 No. 333-215053) pertaining to the 2010 Employee Stock Purchase Plan of Avid Bioservices, Inc.,
- (4) Registration Statement (Form S-8 No. 333-164026) pertaining to the 2009 Stock Incentive Plan of Avid Bioservices, Inc.,
- (5) Registration Statement (Form S-8 No. 333-130271) pertaining to the 2005 Stock Incentive Plan of Avid Bioservices, Inc.,
- (6) Registration Statement (Form S-8 No. 333-121334) pertaining to the 2003 Stock Incentive Plan of Avid Bioservices, Inc.,
- (7) Registration Statement (Form S-8 No. 333-106385) pertaining to the 2002 Non-Qualified Stock Option Plan of Avid Bioservices, Inc., and
- (8) Registration Statement (Form S-3 No. 333-222548) of Avid Bioservices, Inc.;

of our reports dated July 16, 2018 with respect to the consolidated financial statements of Avid Bioservices, Inc. (formerly Peregrine Pharmaceuticals, Inc.) and the effectiveness of internal control over financial reporting of Avid Bioservices, Inc., and to the reference to our firm under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report (Form 10-K) of Avid Bioservices, Inc. for the year ended April 30, 2018.

/s/ Ernst & Young LLP

Irvine, California
July 16, 2018

Certification of Principal Executive Officer

I, Roger J. Lias, certify that:

1. I have reviewed this annual report on Form 10-K of Avid Bioservices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 16, 2018

Signed: /s/ Roger J. Lias, Ph.D.

Roger J. Lias, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

Certification of Principal Financial Officer

I, Stephen Hedberg, certify that:

1. I have reviewed this annual report on Form 10-K of Avid Bioservices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 16, 2018

Signed: /s/ Stephen Hedberg
Stephen Hedberg
Principal Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roger J. Lias, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Avid Bioservices, Inc. on Form 10-K for the fiscal year ended April 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report of Avid Bioservices, Inc. on Form 10-K fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc.

By: /s/ Roger J. Lias, Ph.D.
Name: Roger J. Lias, Ph.D.
Title: President and Chief Executive Officer
(Principal Executive Officer)
Date: July 16, 2018

I, Stephen Hedberg, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Avid Bioservices, Inc. on Form 10-K for the fiscal year ended April 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report of Avid Bioservices, Inc. on Form 10-K fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc.

By: /s/ Stephen Hedberg
Name: Stephen Hedberg
Title: Principal Financial Officer
Date: July 16, 2018

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

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

