

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, 2019

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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	CDMO	The NASDAQ Stock Market LLC
Preferred Stock Purchase Rights	—	—
10.50% Series E Convertible Preferred Stock, \$0.001 par value per share	CDMOP	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 shares of common stock held by non-affiliates of the registrant as of October 31, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$293,016,000, calculated based on the closing price of the registrant's common stock as reported by The NASDAQ Capital Market.

As of June 14, 2019, the number of shares of registrant's common stock outstanding was 56,137,724.

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 to which this report relates.

AVID BIOSERVICES, INC.

Form 10-K
For the Fiscal Year Ended April 30, 2019

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Cautionary Note on Forward-Looking Statements

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. 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 duly 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.

PART I

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 over 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 one-half of our 84,000 square foot Myford biomanufacturing facility (“Myford Facility”), our second biomanufacturing facility, which 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

During fiscal year 2018, 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 during fiscal year 2018, we instituted a number of strategic actions designed to reduce costs and better position ourselves as a dedicated CDMO, including the following: (i) 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; (ii) we classified our r84 technology as held for sale, which we subsequently sold in fiscal year 2019 pursuant to an Asset Assignment and Purchase Agreement (as described in Note 10 to the accompanying consolidated financial statements) and abandoned our remaining research and development assets; (iii) we sold our phosphatidylserine (PS)-targeting program pursuant to an Asset Assignment and Purchase Agreement (as described in Note 10 to the accompanying consolidated financial statements); and (iv) 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 \$23.2 million before deducting underwriting discounts, commissions and other offering related expenses of \$1.7 million.

Business Strategy

Following the completion of our business transition to a dedicated CDMO, 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 2019.
- Continue to invest in manufacturing facilities and infrastructure to maximize our facility utilization and support our customers’ development and clinical and commercial manufacturing requirements.
- Broaden our sales force by hiring sales representatives to execute our business development initiatives in key markets.

Our Competitive Strengths

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

- *Expertise in Mammalian Cell Culture Manufacturing:* We believe that consolidation in the CDMO industry over the past several years has resulted in a limited number of nimble, independent CDMOs with mammalian cell culture-based 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 cell culture for biologics manufacturing.
- *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. We believe 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 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 shifting production requirements, leading to strong client satisfaction and retention; and (iii) our single-use bioreactors contributes to enhanced manufacturing efficiency for our customers and reduces our capital spending needs.
- *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 has been as a significant barrier to entry for many CDMOs, as facilities can take years to construct and properly validate. We believe 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 16-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 and 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, we have positioned our business to capitalize on increasing demand in the biologics manufacturing industry for modular cleanroom space and single-use bioreactors. 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 with a Proven Track Record:* We have 26 years of experience producing monoclonal antibodies and recombinant proteins, over 14 years of CGMP commercial manufacturing experience and over 11 years of experience with single-use bioreactor technology. Our management team and board of directors have a deep understanding of the CDMO industry and have contributed their collective expertise to our recent transition to a dedicated CDMO.

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.

- *Diversify Customer Base.* 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.
- *Expand Process Development Capabilities.* 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 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.
- *Expand Manufacturing Footprint and Enhance Efficiencies.* We lease an additional 42,000 square feet of vacant warehouse space within the same building as our existing Myford Facility, which 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 could 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 the manufacturing capacity at our existing facilities is close to full utilization or we determine that we require additional capacity to meet specific customer demand.
- *Increase Operating Margins.* We believe we have the opportunity to drive operating margin expansion by increasing manufacturing throughput, filling our available capacity, process efficiencies and continued process improvements. We believe increased facility capacity utilization resulting from the growth strategies described herein will permit us to generate more favorable operating margins. We expect to improve operating margins through investment in our facilities, people, process and technology.
- *Reinvest in Equipment and Facilities.* We believe that re-investing in our laboratory and manufacturing equipment and facilities is strategically important to meet future 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 and has an additional 42,000 square-feet of space available for future expansion.

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. See “Risk Factors—Risks Related to Our Business—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” for additional discussion of raw materials supplied by third party vendors for the products we manufacture for our customers.

Regulatory Matters

We have a strong and proven regulatory track record, including 16 years of inspection history with no significant impact to our business. To date, we have been successfully 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.

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. 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. 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

Our business had historically been organized into two reportable operating segments: (i) our contract manufacturing services segment and (ii) our former research and development segment. However, as a result of the aforementioned strategic shift in our corporate direction to focus solely on our CDMO business, which resulted in the discontinuation of our research and development segment (as described in Note 10 to the accompanying consolidated financial statements), management has determined that we operate in one operating segment with one reporting segment. Accordingly, the operating results of our former research and development segment and the related assets and liabilities have been presented as discontinued operations in the accompanying consolidated financial statements for all periods presented. 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, 2019, 2018 and 2017.

Customers

Revenues have historically been derived from a small customer base. For the fiscal years ended April 30, 2019, 2018 and 2017, we derived approximately 64%, 86% and 98% of our revenues from the top three customers, respectively. While we have been able to expand and diversify our customer base since we became a dedicated CDMO in January 2018, we continue to be dependent on a limited number of customers for a substantial majority of our revenue. In addition, 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. The loss of, or a significant reduction of business from, any of our primary customers could have a material adverse effect on our business, results of operations and financial condition. 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, 2019, our backlog was approximately \$46 million as compared to approximately \$48 million as of April 30, 2018. While we anticipate the majority of our backlog will be recognized during fiscal year 2020, 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. Some of our competitors 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.

Employees

As of April 30, 2019, we employed 211 full-time employees and 4 part-time employees. 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 the SEC's website at www.sec.gov and 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 our research and development business, which we discontinued in fiscal year 2018. As a result, we have historically experienced losses and negative cash flows from operations since our inception and 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 positive cash flow to sustain our current operations. At April 30, 2019, we had \$32.4 million 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 our projected cash receipts from services generated under our customer contracts will be sufficient to fund our operations beyond one year after the date our financial statements are issued without securing any additional manufacturing services projects, capital equipment financing, 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 advance payments made to us 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 current operations, we may need to raise additional capital in the future. There can be no assurance that equity financing will be available on acceptable terms or at all. Our ability to raise additional capital in the equity markets to fund our future operations 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, our financial results and economic and market conditions. If we are unable to fund our continuing operations through these sources 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.

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

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. We have experienced idle manufacturing capacity due primarily to declines in commitments from certain of our existing customers, and we may continue to experience such idle manufacturing capacity until we secure substantial additional revenues from existing and/or new customers.

We have a history of 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 \$4.2 million and \$21.8 million for the fiscal years ended April 30, 2019 and 2018, respectively. As of April 30, 2019, we had an accumulated deficit of \$560.6 million. We expect negative cash flows from operations to continue until we can generate sufficient additional revenue from operations to achieve profitability and positive cash flows. If we fail to generate sufficient additional revenue, we may never achieve profitability.

Because a significant portion of our 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.

Revenue has historically been derived from a small customer base. For the fiscal years ended April 30, 2019, 2018 and 2017, we derived approximately 64%, 86% and 98% of our revenue from the top three customers, respectively. While we have been able to expand and diversify our customer base since we became a dedicated CDMO in January 2018, we continue to be dependent on a limited number of customers for a substantial majority of our revenue. The loss of, 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, ANVISA 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 or recall or other corrective actions, the cost of which could be significant.

In addition, certain 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.

Our customer's failure to receive or maintain regulatory approval for their 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, if our customers experience a delay in, or failure to receive, approval for any of their product candidates or fail to maintain regulatory approval of their products, our revenue and profitability could be adversely affected. Additionally, 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 manufacture 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.

During fiscal year 2018 we completed our transition to a dedicated CDMO and, in connection with the transition we divested our research and development assets and reduced our overall workforce to reduce costs and better position us to achieve potential profitability. We intend to continue to grow our business operations as demand for our services 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 we expect our commercial operations and sales volume to 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, install and validate, and increase our manufacturing, maintenance, software and computing capacity to meet increased demand. We may not be able to successfully implement the increase in scale, expansion of personnel, purchase and validation of equipment or process enhancements, which could adversely affect our ability to increase revenues.

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 the manufacture of 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 expense 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 revenues 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. 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, and 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 recently discontinued research and development activities 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 in humans. 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, 2019, we had federal and state NOL carry forwards of approximately \$426 million and \$274 million, respectively, expiring from 2020 to 2038. 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. A Section 382 analysis was completed as of the fiscal year ended April 30, 2018 and we subsequently reviewed such activity through April 30, 2019, which we determined that no such change in ownership has occurred. However, ownership changes occurring subsequent to April 30, 2019 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.

In December 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. While we have completed the accounting for the income tax effects of the Tax Act on our financial statements as of April 30, 2019, we continue to examine the impact the Tax Act may have on our business. As the overall impact of the Tax Act is evolving, 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 facilities are 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.

In 2018, we sold the majority of our research and development assets, including our development-stage immunotherapy product, bavituximab (as described in Note 10 to the accompanying consolidated financial statements). 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, bavituximab, 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 million per occurrence or \$10 million 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, restricted stock units 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, 2019, an aggregate of 7,264,713 shares of common stock were reserved for issuance under outstanding stock options and restricted stock units, or available for future issuance under our stock incentive plans. Additionally, as of April 30, 2019, there were 1,196,261 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 10.50% Series E Convertible Preferred Stock (the “Series E Preferred Stock”). The issuance of additional shares of common stock upon the exercise, release 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 \$8.44 per share over the last three fiscal years ended April 30, 2019 (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;
- significant changes in our financial results or that of our competitors, including our ability to continue as a going concern;
- our ability to meet our revenue guidance;
- 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, 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 in the regulatory approval of our customers’ products which we manufacture;
- 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.

We lease approximately 26,000 square feet for our corporate headquarters under a non-cancellable operating lease agreement that began April 2016 and terminates August 2023. The lease contains two separate option periods that could extend the lease term to August 2035.

We lease approximately 48,000 square feet of office, manufacturing and laboratory space under a non-cancellable operating lease agreement that began December 1998 and terminates December 2027. The lease contains two separate option periods that could extend the lease term to December 2037.

We lease approximately 84,000 square feet of manufacturing and laboratory space under a non-cancellable operating lease agreement that began July 2014 and terminates January 2027. The lease contains two separate option periods that could extend the lease term to January 2037.

We lease approximately 25,000 square feet of office and warehouse space under a non-cancellable operating lease agreement that began April 2016 and terminates August 2023. The lease contains two separate option periods that could extend the lease term to August 2035.

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."

Holders of Common Stock

As of June 14, 2019, we had 327 stockholders of record of our common stock. This number does not include beneficial owners whose shares are held in street name.

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

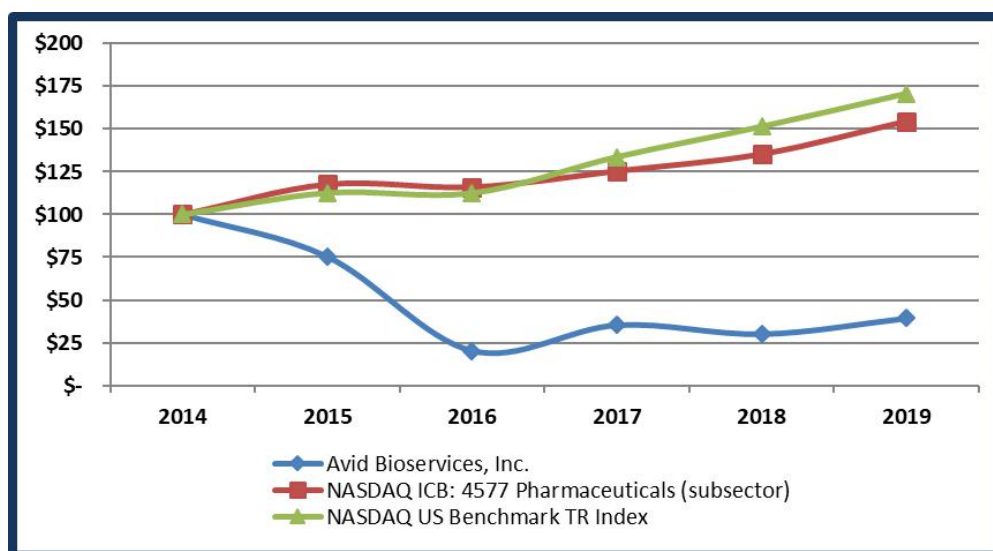
None.

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, 2014 through April 30, 2019 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, 2014**



The underlying data for the foregoing graph is as follows:

	April 30, 2014	April 30, 2015	April 30, 2016	April 30, 2017	April 30, 2018	April 30, 2019
Avid Bioservices, Inc.	\$ 100.00	\$ 75.29	\$ 20.35	\$ 35.38	\$ 30.13	\$ 39.33
NASDAQ ICB: 4577 Pharmaceuticals (subsector)	\$ 100.00	\$ 117.61	\$ 116.02	\$ 125.41	\$ 135.34	\$ 154.48
NASDAQ U.S. Benchmark TR Index	\$ 100.00	\$ 112.61	\$ 112.50	\$ 133.63	\$ 151.28	\$ 170.47

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below as of April 30, 2019 and 2018, and for the fiscal years ended April 30, 2019, 2018 and 2017, 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, 2017, 2016 and 2015, and for the fiscal years ended April 30, 2016 and 2015, are derived from our audited consolidated financial statements that are contained in Annual Reports previously filed with the SEC, not included herein.

Statement of Operations Data:	Fiscal Year Ended April 30,				
	2019^(a)	2018	2017	2016	2015
	<i>(in thousands, except for share and per share amounts)</i>				
Revenues	\$ 53,603	\$ 53,621	\$ 57,630	\$ 44,357	\$ 26,744
(Loss) income from continuing operations	\$ (5,056)	\$ (20,563)	\$ 1,393	\$ 3,597	\$ (6,799)
Income (loss) from discontinued operations, net of tax ^{(b) (c)}	\$ 841	\$ (1,250)	\$ (29,552)	\$ (59,249)	\$ (43,559)
Net loss	\$ (4,215)	\$ (21,813)	\$ (28,159)	\$ (55,652)	\$ (50,358)
Net loss attributable to common stockholders ^(d)	\$ (8,901)	\$ (26,499)	\$ (32,799)	\$ (60,136)	\$ (54,054)
Basic and diluted net (loss) income per common share attributable to common stockholders:					
Continuing operations	\$ (0.17)	\$ (0.53)	\$ (0.09)	\$ (0.03)	\$ (0.40)
Discontinued operations	\$ 0.01	\$ (0.03)	\$ (0.79)	\$ (1.92)	\$ (1.67)
Net loss per share attributable to common stockholders	\$ (0.16)	\$ (0.56)	\$ (0.88)	\$ (1.95)	\$ (2.07)

Balance Sheet Data:	As of April 30,				
	2019^(a)	2018	2017	2016	2015
	<i>(in thousands)</i>				
Cash and cash equivalents	\$ 32,351	\$ 42,265	\$ 46,799	\$ 61,412	\$ 68,001
Working capital	\$ 28,156	\$ 29,964	\$ 26,943	\$ 24,234	\$ 43,192
Total assets	\$ 78,395	\$ 95,760	\$ 118,112	\$ 109,043	\$ 97,464
Capital lease, less current portion	\$ 93	\$ –	\$ –	\$ –	\$ –
Accumulated deficit	\$ (560,605)	\$ (559,129)	\$ (537,435)	\$ (509,276)	\$ (453,624)
Stockholders' equity	\$ 53,068	\$ 55,738	\$ 53,582	\$ 50,074	\$ 59,035

(a) On May 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers*, using the modified retrospective method to all contracts not completed as of May 1, 2018 (as described in Note 2 to the accompanying consolidated financial statements). Under the modified retrospective method, results for the reporting periods beginning on or after May 1, 2018 are presented in accordance with ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards that were in effect prior to May 1, 2018.

(b) For all periods presented, the operating results of our former research and development segment are reported as income (loss) from discontinued operations, net of tax (as described in Note 1 to the accompanying consolidated financial statements).

(c) Income (loss) from discontinued operations, net of tax for fiscal years 2019 and 2018 include a gain on sale of research and development assets before tax of \$1,000 and \$8,000, respectively (as described in Note 10 to the accompanying consolidated financial statements).

(d) Net loss attributable to common stockholders represents our net loss plus Series E preferred stock accumulated dividends.

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, 2019. 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 over 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.

Strategic Objectives

The following are our near-term strategic objectives:

- Expand existing customer relationships and diversify our customer base by securing additional customers to support our future potential revenue growth beyond fiscal year 2019;
- Continue to invest in manufacturing facilities and infrastructure to maximize our facility utilization and support our customers’ development and clinical and commercial manufacturing requirements; and
- Broaden our sales force by hiring sales representatives to execute our business development initiatives in key markets.

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, 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.

Performance and Financial Measures

In assessing the performance of our business, we consider a variety of performance and financial measures. The key indicators of the financial condition and operating performance of our business are contract manufacturing revenue, gross profit, selling, general and administrative expenses and operating income.

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from period to period and the primary factors that accounted for those changes.

Revenues

Revenues are derived from contract manufacturing services provided under our customer contracts and are disaggregated into manufacturing and process development revenue streams. The manufacturing revenue stream represents revenue from the manufacturing of customer product(s) derived from mammalian cell culture covering clinical through commercial manufacturing runs. The process development revenue stream represents revenue from non-manufacturing related services associated with the custom development of a manufacturing process and analytical methods for a customer’s product.

Gross Profit

Gross profit is equal to revenues less cost of revenues. Cost of revenues reflects the direct cost of labor, overhead and material costs. Direct labor costs include personnel costs within the manufacturing, process development, quality assurance, quality control, validation, supply chain and facilities functions. Overhead costs include the rent, common area maintenance, utilities, property taxes, security, materials and supplies, software, small equipment and depreciation costs of all manufacturing and laboratory locations.

We regularly analyze the components of gross profit as well as gross profit as a percentage of revenues. Specifically we look at the gross profit margins of our manufacturing revenue and process development revenue, and the effects of idle capacity, if any, on these revenue streams.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses are composed of corporate-level expenses including personnel and support costs of corporate functions such as executive management, accounting, business development, legal, human resources, information technology, and other centralized services. 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. SG&A expenses are generally not directly proportional to revenues, but we expect such expenses to increase over time to support the needs of our growing company.

Results of Operations (in thousands)

The following table compares the operating results from our continuing operations for the fiscal years ended April 30, 2019, 2018 and 2017, which are further discussed below.

	Fiscal Year Ended April 30,		
	2019 ⁽¹⁾	2018	2017
Revenues	\$ 53,603	\$ 53,621	\$ 57,630
Cost of revenues	46,379	56,545	38,259
Gross profit (loss)	7,224	(2,924)	19,371
Operating expenses:			
Selling, general and administrative	12,846	16,456	18,079
Restructuring charges	–	1,258	–
Total operating expenses	12,846	17,714	18,079
Operating income (loss)	(5,622)	(20,638)	1,292
Interest and other income, net	282	75	101
Income (loss) from continuing operations before income taxes	\$ (5,340)	\$ (20,563)	\$ 1,393
Income tax benefit	284	–	–
Income (loss) from continuing operations	\$ (5,056)	\$ (20,563)	\$ 1,393

⁽¹⁾ On May 1, 2018, we adopted ASU 2014-09, Revenue from Contracts (Topic 606): Revenue from Contracts with Customers (“ASC 606”), using the modified retrospective method applied to all contracts not completed as of May 1, 2018. Under the modified retrospective method, results for reporting periods beginning after May 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under the accounting standards in effect for the prior period. Refer to Note 2, Summary of Significant Accounting Policies—Accounting Standards Adopted in Fiscal Year 2019, in the accompanying Notes to Consolidated Financial Statements for details regarding the adoption of ASC 606.

Fiscal Year 2019 Compared to Fiscal Year 2018

Revenues

Revenues were \$53,603 in fiscal 2019 and were flat compared to \$53,621 in fiscal 2018. In late fiscal 2018 we secured several new customers who contributed significantly to revenue in fiscal 2019. Our incremental revenues recognized from a more diversified customer base were offset by a reduction in manufacturing demand from our, historically, two largest customers. The net change in revenue was attributed to the following components, represented as a percentage of revenue:

Attributable to	% of Revenue
Net increase in revenue from the adoption of ASC 606	24.7%
Net decrease in revenue from our, historically, two largest customers due to a reduction in manufacturing demand during fiscal 2019, excluding the impact of the adoption of ASC 606	(39.9%)
Net change in revenues from all other customers, excluding the impact of the adoption of ASC 606	15.2%
Total	0.0%

Gross Profit (Loss)

Gross profit was \$7,224 in fiscal 2019 compared to a gross loss of \$2,924 in fiscal 2018, an increase of \$10,148 primarily due to the variability of manufacturing costs from product to product. Gross margins were a positive 13.5% and a negative 5.5%, respectively. Excluding the \$3,500 favorable impact from the adoption of ASC 606, the increase in gross profit was attributable to decreased manufacturing labor and overhead costs and the variability of manufacturing costs from product to product.

Selling, General and Administrative Expenses

SG&A expenses were \$12,846 in fiscal 2019 compared to \$16,456 in fiscal 2018, a decrease of \$3,610 or 22%. As a percentage of revenue, SG&A expenses for the fiscal years 2019 and 2018 were 24.0% and 30.7%, respectively. The net decrease in SG&A expenses were attributed to the following components:

Attributable to	
Costs associated with the transition of our business to a dedicated CDMO:	
Increase from settlement of a derivative and class action complaint resolved during the first quarter of fiscal 2018	\$ 1,500
Decrease in payroll and related costs	(2,298)
Decrease in legal and other professional consulting fees	(1,298)
Write-off of a long-term equipment deposit	(1,023)
Decrease in administrative facility costs	(927)
Net change in all other non-recurring SG&A expenses	(397)
Subtotal of net change in SG&A expenses associated with business transition	\$ (4,443)
SG&A expenses:	
Increase in bonus related to achievement level of corporate goals	\$ 657
Increase in stock-based compensation	301
Net change in all other SG&A expenses	(125)
Subtotal of net change in SG&A expenses	\$ 833
Total	\$ (3,610)

Restructuring Charges in Fiscal 2018

During fiscal year 2018, we incurred restructuring charges of \$1,588 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 9 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 was related to our contract manufacturing services segment and \$330 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, 2019 or 2017.

Operating Loss

Operating loss was \$5,622, or a negative 10.5% of revenue, for fiscal 2019 compared to an operating loss of \$20,638, or a negative 38.5% of revenue, in the prior fiscal year. Of the \$15,016 improvement in year-over-year operating loss, \$10,148 was attributable to a gross profit improvement, \$3,610 to an SG&A decrease and no restructuring charges in fiscal 2019 compared to fiscal 2018 that resulted in a decrease of \$1,258, as noted above.

Income Tax Benefit

In September 2018, we recognized a \$1,000 gain in discontinued operations, before taxes, for the sale of our r84 technology (as described in Note 10 to the accompanying consolidated financial statements). In accordance with the "Intraperiod Tax Allocation" rules under ASC 740: *Income Taxes*, which requires the allocation of an entity's total annual income tax provision among continuing operations and, in our case, discontinued operations for fiscal 2019, we recorded a tax benefit in continuing operations with an offsetting tax expense of \$284 recorded in discontinued operations.

Fiscal Year 2018 Compared to Fiscal Year 2017

Revenues

Revenues were \$53,621 in fiscal 2018 compared to \$57,630 in fiscal 2017, a decrease of \$4,009 or 7.0%. The decrease in revenues during fiscal 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, historically, two largest customers.

Gross Profit (Loss)

During fiscal 2018, gross margins declined to a negative 5.5% on a loss of \$2,924 compared to gross margins of 33.6% for fiscal 2017 on a profit of \$19,371. The decrease in gross margins was primarily driven by idle capacity costs incurred in fiscal 2018 compared to fiscal 2017, during which we incurred no idle capacity costs. The fiscal 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.

Selling, General and Administrative Expenses

The decrease in SG&A expenses of \$1,623, or 9.0%, during fiscal 2018 compared to fiscal 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 stock-based compensation expense. 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 to us, which non-recurring amount was applied against non-employee director fees during the fiscal quarter of fiscal 2018. These fiscal 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.

Operating Loss

Operating loss was \$20,638, or a negative 38.5% of revenue, for fiscal 2018 compared to an operating income of \$1,292, or a 2.2% of revenue, in fiscal 2017. The \$21,930 decrease was attributable to a decline in gross profit of \$22,295 and an SG&A decrease of \$1,623, partially offset by restructuring charges of \$1,258 in fiscal 2018, as noted above.

Discontinued Operations

As a result of the sale of our r84 and PS-targeting technologies in September 2018 and February 2018, respectively (as described in Note 10 to the accompanying consolidated financial statements), the abandonment of our remaining research and development assets, and the strategic shift in our corporate direction to focus solely on our CDMO business, the operating results of our former research and development segment have been excluded from continuing operations and reported as income (loss) from discontinued operations, net of tax, in the accompanying consolidated financial statements for all periods presented. The gains of \$1,000 and \$8,000, respectively, which were recorded in connection with the aforementioned sales of our r84 and PS-targeting technologies, which are included in income (loss) from discontinued operations, net of tax, in the accompanying Consolidated Statements of Operations and Comprehensive Loss for the fiscal years ended April 30, 2019 and 2018, respectively.

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

On May 1, 2018, we adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (codified as “ASC 606”), using the modified retrospective method applied to all contracts not completed as of May 1, 2018. Under the modified retrospective method, results for reporting periods beginning after May 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under the accounting standards in effect for those periods.

The cumulative effect of adopting ASC 606 resulted in a one-time adjustment of \$2,739 to the opening balance of accumulated deficit which is reflected in the accompanying Consolidated Statements of Stockholders’ Equity for the fiscal year ended April 30, 2019. The cumulative effect adjustment relates to the recognition of revenue and related costs for customer contracts that transfer goods or services over time. Under ASC 606, the timing of the recognition of revenue and the related cost of revenue associated with goods or services provided to customers with no alternative use are 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 contracts 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.

Our revenues derived from contract manufacturing services provided under our customer contracts are disaggregated into the following revenue streams.

Manufacturing revenue

The manufacturing revenue stream generally represents revenue from the manufacturing of customer product(s) derived from mammalian cell culture covering clinical through commercial manufacturing runs. Under a manufacturing contract, a quantity of manufacturing runs are ordered and the product is manufactured according to the customer's specifications and typically only one performance obligation is included. Each manufacturing run represents a distinct service that is sold separately and has stand-alone value to the customer. The product(s) are manufactured exclusively for a specific customer and have no alternative use. The customer retains control of their product during the entire manufacturing process and can make changes to the process or specifications at their request. Under these agreements, we are entitled to consideration for progress to date that includes an element of profit margin. Revenue associated with this stream is 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.

Process development revenue

The process development revenue stream generally represents revenue from non-manufacturing related services associated with the custom development of a manufacturing process and analytical methods for a customer's product. Under a process development contract, the customer owns the product details and process, which has no alternative use. These process development projects are customized to each customer to meet their specifications and typically only one performance obligation is included. Each process represents a distinct service that is sold separately and has stand-alone value to the customer. The customer also retains control of their product as the product is being created or enhanced by our services and can make changes to their process or specifications upon request. Revenue associated with this stream is 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.

The timing of revenue recognition, billings and cash collections results in billed trade receivables, contract assets (unbilled receivables), and contract liabilities (customer deposits and deferred revenue). Contract assets are recorded when our right to consideration is conditioned on something other than the passage of time. Contract assets are reclassified to trade receivables on the balance sheet when our rights become unconditional. Contract liabilities represent customer deposits and deferred revenue billed and/or received in advance of our fulfillment of performance obligations. Contract liabilities will convert to contract manufacturing revenue as we perform our obligations under the contract.

We apply the practical expedient available under ASC 606 that permits us not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. In addition, we currently do not have any unsatisfied performance obligations for contracts greater than one year.

Costs incurred to obtain a contract are not material. These costs are generally employee sales commissions, which are expensed when incurred and included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations and comprehensive loss.

Prior to the adoption of ASC 606, revenue was generally recognized 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.

Stock-based Compensation

We account for stock options, restricted stock units and other stock-based awards granted under our equity compensation plans in accordance with the authoritative guidance for stock-based compensation. The estimated fair value of stock options granted 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 restricted stock units is measured at the grant date based on the closing market price of our common stock on the date of grant, and is recognized as expense on a straight-line basis over the period of vesting. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur. As of April 30, 2019, there were no outstanding stock-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 stock-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 stock-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.

Liquidity and Capital Resources

The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At April 30, 2019, we had \$32,351 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 positive cash flow to sustain our current operations. We have expended substantial funds on our contract manufacturing business and, historically, on our research and development business, which we discontinued in fiscal year 2018. As a result, we have historically experienced losses and negative cash flows from operations since our inception and we expect negative cash flows from operations to continue until we can generate sufficient revenue to generate positive cash flow from operations. We plan to fund our operations using our existing cash and cash equivalents and cash generated from services provided under our customer contracts. In the event we are unable to secure sufficient additional manufacturing services projects to support our current operations, we may need to raise additional capital in the equity markets in order to fund our future operations. There can be no assurance that equity financing will be available on acceptable terms or at all. Our ability to raise additional capital in the equity markets 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, our financial results and economic and market conditions. If we are unable to fund our continuing operations through these sources, 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. Any of these actions could materially harm our business, results of operations, and future prospects. Further, we performed an analysis and concluded that based on our cash and cash equivalents as of April 30, 2019 in conjunction with cash generated from services provided under our customer contracts will provide us with adequate cash on hand to support our operations for at least one year from the issuance date of this Annual Report.

Cash Flow Analysis

Significant components of the changes in cash flows from operating, investing and financing activities for the fiscal years ended April 30, 2019, 2018 and 2017 are as follows:

	Fiscal Year Ended April 30,		
	2019	2018	2017
Net cash used in operating activities	\$ (11,595)	\$ (25,992)	\$ (39,169)
Net cash provided by (used in) investing activities	4,544	(793)	(3,059)
Net cash (used in) provided by financing activities	(2,863)	22,251	28,165

Cash Used In Operating Activities

Net cash used in operating activities represents our net loss, as reported, adjustments to reconcile net loss to net cash used in operating activities and net changes in the timing of cash flows as reflected by the changes in operating assets and liabilities.

Net cash used in operating activities in fiscal 2019 was primarily attributable to a net loss of \$4,215; a \$1,000 gain on the sale of certain research and development assets, offset by noncash charges for depreciation and amortization and stock-based compensation for an aggregate adjustment of \$3,468; combined with a net change in operating assets and liabilities of \$10,848. The net change in operating assets and liabilities was primarily due to the timing of cash receipts and expenditures associated with accounts receivable, inventories, accounts payable, contract liabilities and accrued liabilities of discontinued operations.

Net cash used in operating activities in fiscal 2018 was primarily attributable to a net loss of \$21,813, combined with an aggregate adjustment of \$2,208 to reconcile net loss to net cash used in operating activities, including an \$8,000 gain on the sale of certain research and development assets, offset by noncash charges for depreciation and amortization and stock-based compensation, and a net change in operating assets and liabilities of \$1,971. The net change in operating assets and liabilities was primarily due to the timing of cash receipts and expenditures associated with accounts receivable, inventories, accrued payroll and related costs, contract liabilities and the assets and accrued liabilities of discontinued operations.

Net cash used in operating activities in fiscal 2017 was primarily attributable to a net loss of \$28,159, offset by an aggregate adjustment of \$5,827 to reconcile net loss to net cash used in operating activities, including noncash charges for depreciation and amortization and stock-based compensation, combined with a net change in operating assets and liabilities of \$16,837. The net change in operating assets and liabilities was primarily due to the timing of cash receipts and expenditures associated with accounts receivable, inventories, accounts payable, contract liabilities and the liabilities of discontinued operations.

Cash Provided By (Used In) Investing Activities

Investing activities consist of capital expenditures for our manufacturing and development operations and includes proceeds from the sale of certain research and development assets associated with our discontinued research and development segment.

Net cash provided by investing activities during fiscal 2019 consisted of property and equipment acquisitions of \$1,502 related to our manufacturing operations, offset by proceeds of \$6,000 related to the sale of certain research and development assets associated with our discontinued research and development segment and \$46 in proceeds from the sale of certain property and equipment.

Net cash used in investing activities during fiscal 2018 consisted of property and equipment acquisitions of \$3,793 related to our manufacturing operations, offset by proceeds of \$3,000 related to the sale of certain research and development assets associated with our discontinued research and development segment.

Net cash used in investing activities during fiscal 2017 consisted of property and equipment acquisitions of \$3,627 related to our manufacturing operations combined with a decrease in other assets of \$568 primarily related to a tenant improvement allowance provided to us under a facility operating lease.

Cash (Used In) Provided By Financing Activities

Financing activities consist of proceeds from issuance of common and preferred stock, the exercise of stock options, proceeds from the issuance of common stock under our employee stock purchase plan, cash dividends paid on preferred stock, and payments on capital leases.

Net cash used in financing activities was \$2,863 in fiscal 2019. This included \$4,325 in dividends paid on preferred stock, partially offset by \$1,278 of proceeds from the exercise of stock options and \$258 of proceeds from the issuance of common stock under our employee stock purchase plan.

Net cash provided by financing activities was \$22,251 in fiscal 2018. This included \$21,494 in net proceeds in connection with an underwritten public offering of our common stock at a public offering price of \$2.25 per share, \$4,193 in net proceeds from the sale of shares of our common stock under an At Market Issuance Sales Agreement, partially offset by \$4,325 in dividends paid on preferred stock.

Net cash provided by financing activities was \$28,165 in fiscal 2017. This included \$17,759 in net proceeds from the sale of shares of our common stock under an At Market Issuance Sales Agreement, \$12,691 in net proceeds from the sale of shares of our common stock under an Equity Distribution Agreement, \$1,576 in net proceeds from the sale of shares of our Series E Preferred Stock under a separate At Market Issuance Sales Agreement, partially offset by \$4,279 in dividends paid on preferred stock.

Capital Expenditures

Our capital expenditures were \$1,502 during fiscal 2019. We anticipate utilizing up to approximately \$5,000 for capital expenditures in fiscal 2020, which includes laboratory and manufacturing equipment; software and enhancements; and for enhancing our current laboratory and manufacturing facilities.

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, 2019, aggregated by type:

	Payments Due by Period				
	Total	< 1 year	1-3 years	4-5 years	After 5 years
Operating leases (1)	\$ 23,473	\$ 3,032	\$ 6,309	\$ 6,070	\$ 8,062
Capital lease	193	90	103	—	—
Purchase obligations (2)	1,731	1,731	—	—	—
Total contractual obligations	<u>\$ 25,397</u>	<u>\$ 4,853</u>	<u>\$ 6,412</u>	<u>\$ 6,070</u>	<u>\$ 8,062</u>

(1) Represents future minimum lease payments under our facility operating lease agreements as further described in Note 3 to the accompanying 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, 2019, 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

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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. (the Company) as of April 30, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended April 30, 2019, 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, 2019, 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 June 27, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for recognizing revenue as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12 effective May 1, 2018.

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
June 27, 2019

AVID BIOSERVICES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share information)

	April 30,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,351	\$ 42,265
Accounts receivable	7,374	3,754
Contract assets	4,327	–
Inventories	6,557	16,129
Prepaid expenses	709	679
Assets of discontinued operations	–	5,000
Total current assets	51,318	67,827
Property and equipment, net	25,625	26,479
Restricted cash	1,150	1,150
Other assets	302	304
Total assets	\$ 78,395	\$ 95,760
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,352	\$ 1,909
Accrued payroll and related costs	3,540	2,564
Contract liabilities	14,651	27,935
Other current liabilities	619	905
Liabilities of discontinued operations	–	4,550
Total current liabilities	23,162	37,863
Deferred rent, less current portion	2,072	2,159
Capital lease, less current portion	93	–
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; 1,647,760 shares issued and outstanding at respective dates	2	2
Common stock, \$0.001 par value; 150,000,000 shares authorized; 56,135,697 and 55,689,222 shares issued and outstanding at respective dates	56	55
Additional paid-in-capital	613,615	614,810
Accumulated deficit	(560,605)	(559,129)
Total stockholders' equity	53,068	55,738
Total liabilities and stockholders' equity	\$ 78,395	\$ 95,760

See accompanying notes to consolidated financial statements.

AVID BIOSERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share information)

	Year Ended April 30,		
	2019	2018	2017
Revenues	\$ 53,603	\$ 53,621	\$ 57,630
Cost of revenues	46,379	56,545	38,259
Gross profit (loss)	7,224	(2,924)	19,371
Operating expenses:			
Selling, general and administrative	12,846	16,456	18,079
Restructuring charges	-	1,258	-
Total operating expenses	12,846	17,714	18,079
Operating (loss) income	(5,622)	(20,638)	1,292
Interest and other income, net	282	75	101
(Loss) income from continuing operations before income taxes	\$ (5,340)	\$ (20,563)	\$ 1,393
Income tax benefit	284	-	-
(Loss) income from continuing operations	(5,056)	(20,563)	1,393
Income (loss) from discontinued operations, net of tax	841	(1,250)	(29,552)
Net loss	<u>\$ (4,215)</u>	<u>\$ (21,813)</u>	<u>\$ (28,159)</u>
Comprehensive loss	<u>\$ (4,215)</u>	<u>\$ (21,813)</u>	<u>\$ (28,159)</u>
Series E preferred stock accumulated dividends	(4,686)	(4,686)	(4,640)
Net loss attributable to common stockholders	<u>\$ (8,901)</u>	<u>\$ (26,499)</u>	<u>\$ (32,799)</u>
Basic and diluted net (loss) income per common share attributable to common stockholders:			
Continuing operations	\$ (0.17)	\$ (0.53)	\$ (0.09)
Discontinued operations	\$ 0.01	\$ (0.03)	\$ (0.79)
Net loss per share attributable to common stockholders	<u>\$ (0.16)</u>	<u>\$ (0.56)</u>	<u>\$ (0.88)</u>
Weighted average basic and diluted shares outstanding	<u>55,981,060</u>	<u>47,063,020</u>	<u>37,109,493</u>

See accompanying notes to consolidated financial statements.

AVID BIOSERVICES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share information)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
BALANCES, April 30, 2016	1,577,440	\$ 2	33,847,213	\$ 34	\$ 559,314	\$ (509,276)	\$ 50,074
Series E preferred stock issued, net of issuance costs of \$58	70,320	–	–	–	1,576	–	1,576
Series E preferred stock dividends paid	–	–	–	–	(4,279)	–	(4,279)
Common stock issued, net of issuance costs of \$487	–	–	6,137,403	6	17,753	–	17,759
Common stock issued, net of issuance costs of \$340	–	–	3,750,323	4	12,687	–	12,691
Common stock issued under Employee Stock Purchase Plan	–	–	270,075	–	526	–	526
Exercise of stock options	–	–	9,026	–	31	–	31
Stock-based compensation expense	–	–	–	–	3,363	–	3,363
Net loss	–	–	–	–	–	(28,159)	(28,159)
BALANCES, April 30, 2017	1,647,760	2	44,014,040	44	590,971	(537,435)	53,582
Series E preferred stock dividends paid	–	–	–	–	(4,325)	–	(4,325)
Cumulative-effect adjustment to accumulated deficit pursuant to adoption of ASU 2016-09	–	–	–	–	(119)	119	–
Common stock issued, net of issuance costs of \$111	–	–	1,051,259	1	4,192	–	4,193
Common stock issued, net of issuance costs of \$1,669	–	–	10,294,445	10	21,484	–	21,494
Common stock issued under Employee Stock Purchase Plan	–	–	88,327	–	317	–	317
Exercise of stock options	–	–	222,255	–	752	–	752
Fractional shares issued pursuant to reverse stock split	–	–	18,896	–	–	–	–
Stock-based compensation expense	–	–	–	–	1,538	–	1,538
Net loss	–	–	–	–	–	(21,813)	(21,813)
BALANCES, April 30, 2018	1,647,760	2	55,689,222	55	614,810	(559,129)	55,738
Series E preferred stock dividends paid	–	–	–	–	(4,325)	–	(4,325)
Cumulative-effect adjustment to accumulated deficit pursuant to adoption of ASC 606 (Note 2)	–	–	–	–	–	2,739	2,739
Common stock issued under Employee Stock Purchase Plan	–	–	75,148	–	258	–	258
Exercise of stock options	–	–	371,327	1	1,277	–	1,278
Stock-based compensation expense	–	–	–	–	1,595	–	1,595
Net loss	–	–	–	–	–	(4,215)	(4,215)
BALANCES, April 30, 2019	1,647,760	\$ 2	56,135,697	\$ 56	\$ 613,615	\$ (560,605)	\$ 53,068

See accompanying notes to consolidated financial statements.

AVID BIOSERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended April 30,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (4,215)	\$ (21,813)	\$ (28,159)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,746	2,562	2,463
Stock-based compensation	1,595	1,538	3,363
Loss on disposal of assets	127	1,692	1
Gain on sale of research and development assets	(1,000)	(8,000)	–
Changes in operating assets and liabilities:			
Accounts receivable	(3,620)	3,988	(4,883)
Contract assets	(1,439)	–	–
Inventories	1,701	16,970	(16,913)
Prepaid expenses and other assets	(28)	153	434
Accounts payable	2,125	(1,271)	(3,804)
Accrued payroll and related costs	976	(2,491)	372
Contract liabilities	(5,371)	(17,582)	11,275
Other accrued expenses and other liabilities	(642)	1,009	(407)
Assets and liabilities of discontinued operations	(4,550)	(2,747)	(2,911)
Net cash used in operating activities	(11,595)	(25,992)	(39,169)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,502)	(3,793)	(3,627)
Decrease in other assets	–	–	568
Proceeds from sale of property and equipment	46	–	–
Proceeds from sale of research and development assets	6,000	3,000	–
Net cash provided by (used in) investing activities	4,544	(793)	(3,059)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock, net of issuance costs	–	25,687	30,450
Proceeds from issuance of preferred stock, net of issuance costs	–	–	1,576
Proceeds from issuance of common stock under employee stock purchase plan	258	317	526
Proceeds from exercise of stock options	1,278	752	31
Dividends paid on preferred stock	(4,325)	(4,325)	(4,279)
Principal payments on capital lease	(74)	(180)	(139)
Net cash (used in) provided by financing activities	(2,863)	22,251	28,165
Change in cash, cash equivalents and restricted cash	\$ (9,914)	\$ (4,534)	\$ (14,063)
Cash, cash equivalents and restricted cash, beginning of period	43,415	47,949	62,012
Cash, cash equivalents and restricted cash, end of period	<u>\$ 33,501</u>	<u>\$ 43,415</u>	<u>\$ 47,949</u>
Cash and cash equivalents, end of period	32,351	42,265	46,799
Restricted cash, end of period	1,150	1,150	1,150
Cash, cash equivalents and restricted cash, end of period	<u>\$ 33,501</u>	<u>\$ 43,415</u>	<u>\$ 47,949</u>
Supplemental disclosures of cash flow information			
Interest paid	\$ 11	\$ 4	\$ 6
Supplemental disclosure of non-cash activities			
Unpaid purchases of property and equipment	\$ 318	\$ 180	\$ 658
Property and equipment acquired under capital lease	\$ 245	\$ –	\$ 319
Receivable related to the sale of research and development assets	\$ –	\$ 5,000	\$ –

See accompanying notes to consolidated financial statements.

Note 1 – Description of Company and Basis of Presentation

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.

Effective January 5, 2018, we changed our name to Avid Bioservices, Inc. from Peregrine Pharmaceuticals, Inc. in connection with our transition to a dedicated CDMO and the discontinuation of our research and development activities. 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 subsidiaries.

Basis of Presentation and Preparation

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 accounts and transactions among the consolidated entities have been eliminated in the consolidated financial statements. 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.

The financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At April 30, 2019, we had \$32,351 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 positive cash flow to sustain our current operations. We have expended substantial funds on our contract manufacturing business and, historically, on our legacy 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 expect negative cash flows from operations to continue until we can generate sufficient revenue to generate positive cash flow from operations. We plan to fund our operations using our existing cash and cash equivalents and cash generated from services provided under our customer contracts. In the event we are unable to secure sufficient business to support our current operations, we may need to raise additional capital in the future. There can be no assurance that equity financing will be available on acceptable terms or at all. Our ability to raise additional capital in the equity markets to fund our future operations 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, our financial results and economic and market conditions. If we are unable to fund our continuing operations through these sources 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. Any of these actions could materially harm our business, results of operations, and future prospects. Further, we performed an analysis and concluded that based on our cash and cash equivalents as of April 30, 2019 in conjunction with cash generated from services provided under our customer contracts will provide us with adequate cash on hand to support our operations for at least one year from the date that our consolidated financial statements are issued.

Certain prior year amounts related to deferred revenue and customer deposits have been reclassified to contract liabilities to conform to the current period’s presentation. This reclassification had no effect on previously reported net loss.

Discontinued Operations

For all periods presented, the operating results of our former research and development segment have been excluded from continuing operations and reported as income (loss) from discontinued operations, net of tax, in the accompanying consolidated financial statements. In addition, the assets and liabilities related to our discontinued research and development segment are reported as assets and liabilities of discontinued operations in the accompanying Consolidated Balance Sheet at April 30, 2018. For additional information on the discontinuation of our research and development segment, refer to Note 10, “Sale of Research and Development Assets”.

Segment Reporting

Our business had historically been organized into two reportable operating segments: (i) contract manufacturing services and (ii) research and development. However, as a result of the aforementioned discontinuation of our research and development segment, management has determined that the Company operates in only one operating segment. Accordingly, we reported our financial results for one reportable segment.

Note 2 – Summary of Significant Accounting Policies

Cash and Cash Equivalents

We consider all short-term investments readily convertible to cash, without notice or penalty, with an initial maturity of 90 days or less to be cash equivalents.

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, 2019 and 2018, restricted cash of \$1,150 was pledged as collateral under these letters of credit.

Revenue Recognition

We derive revenue from contract manufacturing services provided under our customer contracts, which we have disaggregated into the following revenue streams:

Manufacturing revenue

The manufacturing revenue stream generally represents revenue from the manufacturing of customer product(s) derived from mammalian cell culture covering clinical through commercial manufacturing runs. Under a manufacturing contract, a quantity of manufacturing runs are ordered and the product is manufactured according to the customer's specifications and typically only one performance obligation is included. Each manufacturing run represents a distinct service that is sold separately and has stand-alone value to the customer. The product(s) are manufactured exclusively for a specific customer and have no alternative use. The customer retains control of their product during the entire manufacturing process and can make changes to the process or specifications at their request. Under these agreements, we are entitled to consideration for progress to date that includes an element of profit margin. Revenue associated with this stream is 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.

Process development revenue

The process development revenue stream generally represents revenue from non-manufacturing related services associated with the custom development of a manufacturing process and analytical methods for a customer's product. Under a process development contract, the customer owns the product details and process, which has no alternative use. These process development projects are customized to each customer to meet their specifications and typically only one performance obligation is included. Each process represents a distinct service that is sold separately and has stand-alone value to the customer. The customer also retains control of their product as the product is being created or enhanced by our services and can make changes to their process or specifications upon request. Revenue associated with this stream is 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.

AVID BIOSERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share information)

The following table disaggregates our revenue for the fiscal years ended April 30, 2019, 2018 and 2017 by revenue stream.

	Fiscal Year Ended April 30,		
	2019	2018	2017
Manufacturing revenue	\$ 43,432	\$ 47,437	\$ 52,215
Process development revenue	10,171	6,184	5,415
Total Revenues	<u>\$ 53,603</u>	<u>\$ 53,621</u>	<u>\$ 57,630</u>

Revenues for the fiscal years ended April 30, 2018 and 2017 have not been adjusted in accordance with our modified retrospective adoption of Accounting Standards Concepts (“ASC”) 606 Revenue from Contracts with Customers (“ASC 606”) as of May 1, 2018, and continues to be reported under the accounting standards that were in effect prior to our adoption of ASC 606 as further discussed below under the section, “Accounting Standards Adopted in Fiscal Year 2019”.

The timing of revenue recognition, billings and cash collections results in billed trade receivables, contract assets (unbilled receivables), and contract liabilities (customer deposits and deferred revenue). Contract assets are recorded when our right to consideration is conditioned on something other than the passage of time. Contract assets are reclassified to trade receivables on the balance sheet when our rights become unconditional. Contract liabilities represent customer deposits and deferred revenue billed and/or received in advance of our fulfillment of performance obligations. Contract liabilities convert to revenue as we perform our obligations under the contract.

Payment terms can vary by the type of contract manufacturing services offered, however, the term between invoicing and when payment is due is not significant. For certain services, payment prior to satisfaction of a performance obligation can be required, and results in recording a contract liability.

During the fiscal year ended April 30, 2019, we recognized revenue of \$14,312 for which the contract liability was recorded in the prior year.

We apply the practical expedient available under ASC 606 that permits us not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. In addition, we currently do not have any unsatisfied performance obligations for contracts greater than one year.

Costs incurred to obtain a contract are not material. These costs are generally employee sales commissions, which are expensed when incurred and included in selling, general and administrative expense in the accompanying consolidated statements of operations and comprehensive loss.

Accounts Receivable

Accounts receivable generally represent trade amounts billed for contract manufacturing services and are recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. Accounts receivable consisted of the following:

	April 30,	
	2019	2018
Trade receivables	\$ 7,374	\$ 3,539
Other receivables	–	215
Total Accounts receivable	<u>\$ 7,374</u>	<u>\$ 3,754</u>

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, 2019 and 2018, we determined no allowance for doubtful accounts was necessary.

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, trade receivables and contract assets. 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, 2019 and 2018, approximately 95% and 93%, respectively, of our trade receivables were due from six customers. Our contract assets are reclassified to trade receivables when our rights to consideration become unconditional. At April 30, 2019 approximately 87% of our contract assets were attributable to eight customers.

Our revenues have 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 revenues derived from each customer as a percentage of total revenues during the fiscal years ended April 30, 2019, 2018 and 2017:

Customer	Geographic Location	2019	2018	2017
Halozyne Therapeutics, Inc.	U.S.	30%	55%	58%
ADC Therapeutics America Inc.	U.S.	21	9	–
Coherus BioSciences, Inc.	U.S.	13	22	26
Other customers	U.S./non-U.S.	36	14	16
Total		100%	100%	100%

We attribute revenue to the individual countries where the customer is headquartered. Revenues derived from U.S. based customers were 95%, 99% and 100% for the fiscal years ended April 30, 2019, 2018 and 2017, respectively.

Inventories

Inventories are valued at the lower of cost or net realizable value, determined by the first-in, first-out method. Subsequent to the adoption of ASC 606 (Note 2), manufacturing costs associated with work-in-process inventory (comprised of raw materials, direct labor and overhead costs associated with in-process manufacturing services) are recorded to cost of revenues in the accompanying consolidated financial statements as incurred. Overhead costs allocated to work-in-process inventory are based on the normal capacity of our production facilities and do not include costs from under absorption of overhead costs or idle capacity, which are expensed directly to cost of revenues in the period incurred. Inventories consist of the following:

	April 30,	
	2019	2018
Raw materials	\$ 6,557	\$ 8,165
Work-in-process	–	7,964
Total Inventories	\$ 6,557	\$ 16,129

We periodically review raw materials inventory for potential impairment and adjust inventory to its net realizable value based on the estimate of future use and reduce the carrying value of inventory as determined necessary.

Property and Equipment

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 primarily 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, 2019 and 2018. All of our property and equipment are located in the U.S. Property and equipment consist of the following:

	April 30,	
	2019	2018
Leasehold improvements	\$ 20,574	\$ 20,686
Laboratory and manufacturing equipment	12,858	10,258
Computer equipment and software	4,644	4,087
Furniture, fixtures and office equipment	528	510
Construction-in-progress	1,590	3,310
Total Property and equipment, gross	40,194	38,851
Less: Accumulated depreciation and amortization	(14,569)	(12,372)
Total Property and equipment, net	<u>\$ 25,625</u>	<u>\$ 26,479</u>

Depreciation and amortization expense for the years ended April 30, 2019, 2018 and 2017 was \$2,746, \$2,562 and \$2,463, respectively.

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, 2019 and 2018, 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 Sheets for cash and cash equivalents, restricted cash, accounts receivable, 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, 2019 and 2018, 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, 2019 and 2018.

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).

Restructuring Charges

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 and completed during the fiscal year ended April 30, 2018 (Note 9). One-time termination benefits were expensed at the date we notified the employee, unless the employee was required to provide future service, in which case the benefits were expensed ratably over the future service period.

Stock-Based Compensation

We account for stock options, restricted stock units and other stock-based awards granted under our equity compensation plans in accordance with the authoritative guidance for stock-based compensation. The estimated fair value of stock options granted 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 restricted stock units is measured at the grant date based on the closing market price of our common stock on the date of grant, and is recognized as expense on a straight-line basis over the period of vesting. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur. As of April 30, 2019, there were no outstanding stock-based awards with market or performance conditions.

Income Taxes

We utilize the liability method of accounting for income taxes in accordance with ASC 740: *Income Taxes* (“ASC 740”). Under the liability method, deferred taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized (Note 6). 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 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

The income tax benefit recognized in the accompanying Consolidated Statements of Operations and Comprehensive Loss for the year ended April 30, 2019 resulted from the “Intraperiod Tax Allocation” rules under ASC 740, which requires the allocation of an entity’s total annual income tax provision among continuing operations and, in our case, discontinued operations. Accordingly, a tax benefit was recorded in continuing operations with an offsetting tax expense recorded in discontinued operations (Note 10).

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.

Accounting Standards Adopted in Fiscal Year 2019

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) (codified as ASC 606), which, along with subsequent amendments issued after May 2014, replaced substantially all the relevant U.S. GAAP revenue recognition guidance. ASC 606, as amended, is based on the principle that revenue is recognized to depict the contractual 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, which steps include (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

On May 1, 2018, we adopted ASC 606, as amended, to all contracts that had not been completed as of May 1, 2018 using the modified retrospective method. Accordingly, results for the reporting period beginning after May 1, 2018 are presented in accordance with ASC 606, while prior period amounts have not been adjusted and continue to be reported under the accounting standards that were in effect for the prior periods.

The cumulative effect of adopting ASC 606 resulted in a one-time adjustment of \$2,739 to the opening balance of accumulated deficit which is reflected in the accompanying Consolidated Statements of Stockholders’ Equity for the fiscal year ended April 30, 2019. The cumulative effect adjustment relates to the recognition of revenue and related costs for customer contracts that transfer goods or services over time. Under ASC 606, the timing of the recognition of revenue and the related cost of revenue associated with goods or services provided to customers with no alternative use are 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. By contrast, in the prior periods, revenue and the related costs were recognized upon completion of the performance obligation in accordance with accounting standards that were in effect in the prior periods. Under these customer contracts 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.

The cumulative effect of the adoption of ASC 606 on amounts previously reported on the Consolidated Balance Sheet at April 30, 2018 was as follows:

	As Reported April 30, 2018	ASC 606 Transition Adjustment	Balance at May 1, 2018
Contract assets	\$ –	\$ 2,888	\$ 2,888
Inventories	16,129	(7,871)	8,258
Contract liabilities	27,935	(7,913)	20,022
Other current liabilities	905	191	1,096
Accumulated deficit	(559,129)	2,739	(556,390)

The impact of the adoption of ASC 606 on the Consolidated Balance Sheet at April 30, 2019 was as follows:

	As Reported	Effect of Adoption Increase/(Decrease)	Balance Without Adoption of ASC 606
Contract assets	\$ 4,327	\$ 4,327	\$ –
Inventories	6,557	(18,293)	24,850
Contract liabilities	14,651	(19,771)	34,422

The impact of the adoption of ASC 606 on the Consolidated Statements of Operations and Comprehensive Loss for the fiscal year ended April 30, 2019 was as follows:

	As Reported	Effect of Adoption Increase/(Decrease)	Balance Without Adoption of ASC 606
Revenues	\$ 53,603	\$ 13,243	\$ 40,360
Cost of revenues	46,379	9,743	36,636
Gross profit	7,224	3,500	3,724
Operating loss	(5,622)	3,500	(9,122)
Loss from continuing operations	(5,056)	3,500	(8,556)

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash*, which clarifies the presentation requirements of restricted cash within 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. We adopted ASU 2016-18 on May 1, 2018 and the cash and cash equivalents at the beginning-of-period and end-of-period total amounts in our consolidated statements of cash flows have been adjusted to include restricted cash for each of the periods presented.

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 stock-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. We adopted ASU 2017-09 on May 1, 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements and related disclosures.

New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases and its related amendments (collectively referred to as Topic 842) (codified as “ASC 842”). The new standard requires lessees to recognize right-of-use assets and corresponding lease liabilities for leases with durations of greater than 12 months on the balance sheet as well as provide disclosures with respect to certain qualitative and quantitative information regarding the amount, timing and uncertainty of cash flows arising from leases. The right-of-use assets and lease liabilities will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance lease or an operating lease. ASC 842 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.

On May 1, 2019, we adopted ASC 842 and have elected the optional transition method to apply the standard as of the effective date and therefore, we will not apply the standard to the comparative periods presented in the consolidated financial statements. We have elected the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. Further, we have elected a short-term lease exception policy, permitting us to not apply the recognition requirements of this standard to short-term leases (i.e., leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. While we are finalizing our evaluation of the impact of the adoption of ASC 842 on our consolidated financial statements and related disclosures, we expect to recognize on our balance sheet right-of-use assets ranging from \$22,000 to \$25,000, in aggregate, and lease liabilities ranging from \$24,000 to \$27,000, in aggregate, which are primarily related to our facility operating leases (Note 3). The difference between the right-of-use assets and lease liabilities is primarily attributed to the elimination of deferred rent. The adoption of ASC 842 is also expected to impact our consolidated financial statement disclosures. We do not anticipate the adoption of ASC 842 will have a material impact to our Consolidated Statements of Operations and Comprehensive Loss or to require a cumulative-effect adjustment to the opening balance of accumulated deficit.

The estimated impact of adopting ASC 842 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 2020. We are finalizing our implementation related to policies, processes and internal controls to comply with this guidance.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), *Measurement of Credit Losses on Financial Instruments*. This standard update requires that certain financial assets be measured at amortized cost net of an allowance for estimated credit losses such that the net receivable represents the present value of expected cash collection. In addition, this standard update requires that certain financial assets be measured at amortized cost reflecting an allowance for estimated credit losses expected to occur over the life of the assets. The estimate of credit losses must be based on all relevant information including historical information, current conditions and reasonable and supportable forecasts that affect the collectability of the amounts. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, which will be our fiscal year 2021 beginning May 1, 2020; however, early adoption is permitted. We are currently evaluating the timing and impact of adopting ASU 2016-13 on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements in Topic 820 by removing certain disclosure requirements related to the fair value hierarchy, modifying existing disclosure requirements related to measurement uncertainty and adding new disclosure requirements, primarily surrounding Level 3 fair value measurements and transfers between Level 1 and Level 2. ASU 2018-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, which will be our fiscal year 2021 beginning May 1, 2020. Early adoption is permitted for any removed or modified disclosures. We are currently evaluating the new guidance and do not expect the adoption of ASU 2018-13 to have a material impact on our consolidated financial statements and related disclosures.

Note 3 – Leases

Operating Leases

We currently lease office, manufacturing and warehouse space in five buildings under four separate non-cancellable operating lease agreements. All of our leased facilities are located in close proximity in Tustin, California, have original lease terms ranging from 7 to 12 years, contain two multi-year renewal options, and scheduled rent increases of 3% on either an annual or biennial basis. Three of our leases provide for periods of free rent, lessor improvements and tenant improvement allowances, of which, certain of these improvements have been 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 lease. As collateral for three of our leases we are required to maintain letters of credit, which in aggregate is \$1,150 and is included in restricted cash in the accompanying Consolidated Balance Sheets as of April 30, 2019 and 2018.

Future minimum lease payments under our non-cancelable operating leases as of April 30, 2019 are as follows:

Fiscal Year	Total
2020	\$ 3,032
2021	3,116
2022	3,193
2023	3,281
2024	2,789
Thereafter	8,062
Total	<u>\$ 23,473</u>

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 \$2,869, \$2,935, and \$2,180 for the fiscal years ended April 30, 2019, 2018, and 2017, respectively.

Note 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.

Series E Preferred Stock

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 10.50% Series E Convertible Preferred Stock (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. The Series E Preferred Stock is classified as permanent equity in accordance with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*. As of April 30, 2019, 1,647,760 shares of our Series E Preferred Stock were issued and outstanding.

Each share of Series E Preferred Stock is convertible at any time, at the option of the holder, into a number of whole shares of our common stock at an initial conversion price of \$21.00. The Series E Preferred Stock is also subject to conversion upon certain events constituting a change of control and a market trigger conversion, at our option, as defined in the Certificate of Designations. The Series E Preferred Stock has no stated maturity date or mandatory redemption and is senior to all of our other securities. We may redeem the Series E Preferred Stock for cash, in whole or in part, by paying the redemption price of \$25.00 per share, plus any accrued and unpaid dividends to the redemption date. Holders of the Series E Preferred Stock have no voting rights, except as defined in the Certificate of Designations.

Holders of our Series E Preferred Stock are entitled to receive cumulative dividends at the rate of 10.50% per annum based on the liquidation preference of \$25.00 per share, and are payable quarterly in cash, on or about the 1st day of each January, April, July, and October. The Series E Preferred Stock dividend for all issued and outstanding shares is set at \$2.625 per annum per share. For the fiscal years ended April 30, 2019, 2018, and 2017, we paid aggregate cash dividends of \$4,325, \$4,325, and \$4,279, respectively, for issued and outstanding shares of our Series E Preferred Stock.

Sales of Common Stock and Series E Preferred Stock

During the fiscal year ended April 30, 2019, we had no offerings of our common stock or Series E Preferred Stock.

During February 2018, we completed an underwriting public offering pursuant to which we sold 10,294,445 shares of our common stock at the public offering price of \$2.25 per share. The aggregate gross proceeds we received from the public offering was \$23,163, before deducting underwriting discounts and commissions and other offering related expenses of \$1,669.

During the fiscal years ended April 30, 2018 and 2017, we sold an aggregate of 1,051,259 and 6,137,403 shares of our common stock, respectively, pursuant to an At Market Issuance Sales Agreement (“AMI Sales Agreement”) for aggregate gross proceeds of \$4,304 and \$18,246, respectively. We paid a commission equal to 2.5% of the gross proceeds from the sale of our common stock pursuant to the AMI Sales Agreement. As of April 30, 2018, we had raised the full amount of gross proceeds available to us under the AMI Sales Agreement.

During the fiscal year ended April 30, 2017, we sold an aggregate of 3,750,323 shares of our common stock pursuant to an Equity Distribution Agreement for aggregate gross proceeds of \$13,031. We paid 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.

During the fiscal year ended April 30, 2017, we sold an aggregate of 70,320 shares of our Series E Preferred Stock pursuant to an At Market Issuance Sales Agreement (“Series E AMI Sales Agreement”) for aggregate gross proceeds of \$1,634. We paid 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. As of April 30, 2017, we are no longer issuing shares of our Series E Preferred Stock under the Series E AMI Sales Agreement.

Warrants

On August 30, 2018, warrants to purchase 39,040 shares of our common stock expired unexercised. As of April 30, 2019, we had no warrants issued and outstanding

Shares of Common Stock Authorized and Reserved for Future Issuance

On October 4, 2018, our stockholders approved an amendment to our Certificate of Incorporation to decrease our authorized number of shares of common stock from 500,000,000 shares to 150,000,000 shares (the “Certificate of Amendment”). The Certificate of Amendment became effective upon filing with the Secretary of State of the State of Delaware on October 4, 2018.

As of April 30, 2019, 56,135,697 shares of our common stock were issued and outstanding. Our common stock outstanding as of April 30, 2019 excluded the following shares of common stock reserved for future issuance:

	Shares
Stock Incentive Plans	7,264,713
Employee Stock Purchase Plan	1,196,261
Conversion of our outstanding Series E Preferred Stock ⁽¹⁾	6,826,435

⁽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.

Note 5 – Benefit Plans

Stock Incentive Plans

On October 4, 2018 (the “Effective Date”), our stockholders approved the Avid Bioservices, Inc. 2018 Omnibus Incentive Plan (the “2018 Plan”) which provides, among other things, the ability for us to grant stock options, restricted stock units and other forms of stock-based awards.

The number of shares of our common stock authorized for issuance under the 2018 Plan is the sum of (A) 2,350,000 and (B) the aggregate number of shares of common stock available for the grant of awards under our 2009, 2010, and 2011 Stock Incentive Plans (the “Prior Plans”) as of the Effective Date. The 2018 Plan replaced the Prior Plans, and no new awards will be granted under the Prior Plans as of the Effective Date. However, any awards outstanding under the Prior Plans on the Effective Date will remain subject to and be paid under the applicable Prior Plan, and any shares subject to outstanding awards under the Prior Plans that subsequently expire, terminate, or are surrendered or forfeited for any reason without issuance of shares will automatically become available for issuance under the 2018 Plan.

In addition, we currently maintain three expired stock incentive plans referred to as the 2005, 2003 and 2002 Stock Incentive Plans (collectively, the “Expired Plans”). No future grants of stock-based awards can be issued from the Expired Plans, however, all outstanding awards granted under the Expired Plans will remain subject to the terms of the Expired Plans until they are exercised, canceled or expired.

The 2018 Plan, the Prior Plans, and the Expired Plans are collectively referred to as the “Stock Plans”. As of April 30, 2019, we had an aggregate of 7,264,713 shares of our common stock reserved for issuance under the Stock Plans, of which, 3,474,590 shares were subject to outstanding stock options and restricted stock units and 3,790,123 shares were available for future grants of stock-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. Stock option grants to employees generally vest 25% on each of the first, second, third and fourth anniversaries of the date of grant, and stock option grants to non-employee directors generally vest over a period of one to three years from the date of grant. The maximum contractual term of any stock option granted under the Stock Plans is ten years.

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 stock-based 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.

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(in thousands, except share and per share information)

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, 2019, 2018 and 2017, were as follows:

	Fiscal Year Ended April 30,		
	2019	2018	2017
Risk-free interest rate	2.81%	2.21%	1.32%
Expected life (in years)	5.57	6.19	6.12
Expected volatility	76.56%	110.43%	111.30%
Expected dividend yield	-	-	-

The following summarizes our stock option transaction activity for fiscal year ended April 30, 2019:

	Stock Options	Grant Date Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value ⁽¹⁾
Outstanding at May 1, 2018	3,597,738	\$ 8.74		
Granted	973,614	\$ 5.00		
Exercised	(371,327)	\$ 3.45		
Canceled or expired	(925,810)	\$ 11.28		
Outstanding at April 30, 2019	<u>3,274,215</u>	\$ 7.51	5.53	\$ 1,238
Vested and expected to vest	<u>3,274,215</u>	\$ 7.51	5.53	\$ 1,238
Exercisable at April 30, 2019	<u>1,932,527</u>	\$ 9.45	3.87	\$ 700

(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, 2019, which was \$4.79 per share.

The weighted-average grant date fair value of options granted to employees during the fiscal years ended April 30, 2019, 2018 and 2017 was \$3.30, \$3.50 and \$2.86 per share, respectively.

The aggregate intrinsic value of stock options exercised during the fiscal years ended April 30, 2019, 2018 and 2017 was \$547, \$173 and \$11, respectively. Cash received from stock options exercised during fiscal years ended April 30, 2019, 2018 and 2017, totaled \$1,278, \$752 and \$31, 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, 2019, the total estimated unrecognized compensation cost related to non-vested employee stock options was \$3,880. This cost is expected to be recognized over a weighted average vesting period of 2.70 years based on current assumptions.

Restricted Stock

A restricted stock unit (“RSU”) represents the right to receive one share of our common stock upon the vesting of each unit. RSUs generally vest over four years at the rate of one-fourth of the shares granted on each anniversary of the date of grant. The estimated fair value of RSUs is based on the closing market value of our common stock on the date of grant, and is amortized as stock-based compensation expense on a straight-line basis over the period of vesting.

The following summarizes our RSUs transaction activity for fiscal year ended April 30, 2019:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at May 1, 2018	–	\$ –
Granted	217,200	4.28
Vested	–	–
Forfeited	(16,825)	3.78
Outstanding at April 30, 2019	<u>200,375</u>	<u>\$ 4.32</u>

There were no RSUs granted during the fiscal years ended April 30, 2018 and 2017. As of April 30, 2019, the total estimated unrecognized compensation cost related to non-vested RSUs was \$733. This cost is expected to be recognized over a weighted average vesting period of 3.34 years.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the “ESPP”) is a stockholders’-approved plan under which allows eligible employees to purchase shares of our common stock through payroll deductions at a price equal to 85% of the lower of the fair market value our common stock as of the first trading day of the offering period or on the last trading day of the six-month offering period. Employee participants are limited to purchase no more than \$25,000 of stock in any one calendar year. During the fiscal years ended April 30, 2019, 2018 and 2017, a total of 75,148, 88,327 and 270,075 shares of our common stock were purchased, respectively, under the ESPP at a weighted average purchase price per share of \$3.44, \$3.59 and \$1.95, respectively. As of April 30, 2019, we had 1,196,261 shares of our common stock reserved for issuance under the ESPP.

The fair value of the shares purchased under the ESPP was 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, 2019, 2018 and 2017 was \$1.49, \$1.65 and \$1.07, respectively, based on the following Black-Scholes option valuation model inputs:

	Fiscal Year Ended April 30,		
	2019	2018	2017
Risk-free interest rate	2.26%	1.10%	0.46%
Expected life (in years)	0.50	0.50	0.50
Expected volatility	71.10%	75.18%	105.27%
Expected dividend yield	–	–	–

401(k) Plan

We have a 401(k) Plan (the “Plan”) pursuant to section 401(k) of the Internal Revenue Code that allows participating employees to contribute up to 100% of their compensation on a tax deferred basis up to the maximum amount permitted by the Internal Revenue Code. We match 50% of employee contributions of up to 6% of their annual eligible compensation. The expense related to our matching contributions to the Plan was \$377, \$564 and \$845 for the fiscal years ended April 30, 2019, 2018 and 2017, respectively.

Stock-based Compensation Expense

Stock-based compensation expense for the fiscal years ended April 30, 2019, 2018 and 2017 was comprised of the following:

	Fiscal Year Ended April 30,		
	2019	2018	2017
Cost of revenues	\$ 474	\$ 378	\$ 108
Selling, general and administrative expense	1,121	820	1,553
Discontinued operations	–	340	1,702
Total	<u>\$ 1,595</u>	<u>\$ 1,538</u>	<u>\$ 3,363</u>

Due to our net loss position, no tax benefits have been recognized in the Consolidated Statements of Cash Flows.

Note 6 – 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 accordance with ASC 740, 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, 2019 and 2018. 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, 2019, 2018, and 2017, and we did not accrue for interest or penalties as of April 30, 2019 and 2018.

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Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized. As a result of our cumulative losses, management has concluded that a full valuation allowance against our net deferred tax assets is appropriate.

At April 30, 2019, we had net deferred tax assets of \$119,516. 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 we subsequently reviewed ownership activity through April 30, 2019, which it was determined that no significant change in ownership had occurred. However, ownership changes occurring subsequent to April 30, 2019 may impact the utilization of net operating loss carry forwards and other tax attributes.

At April 30, 2019, we had federal net operating loss carry forwards of approximately \$425,841. The federal net operating loss carry forwards generated prior to January 1, 2018 expire in fiscal years 2020 through 2038. The federal net operating loss generated after January 1, 2018 of \$6,609 can be carried forward indefinitely and be available to offset up to 80% of future taxable income each year. We also have California state net operating loss carry forwards of approximately \$273,581 at April 30, 2019, which begin to expire in fiscal year 2029.

The provision for income taxes on our loss from continuing operations for the fiscal years ended April 30, 2019, 2018 and 2017 are comprised of the following:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal income taxes at statutory rate	\$ (1,120)	\$ (6,112)	\$ 475
State income taxes	(48)	155	309
Expiration and adjustments of deferred tax assets	2,507	1,840	1,693
Change in valuation allowance	(2,480)	(57,599)	(2,616)
Stock-based compensation	1,309	1,584	-
Other, net	(452)	6	139
Tax Cuts and Jobs Act	-	60,126	-
Income tax benefit	<u>\$ (284)</u>	<u>\$ -</u>	<u>\$ -</u>

AVID BIOSERVICES, INC.
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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, 2019 and 2018 are as follows:

	2019	2018
Net operating losses	\$ 113,612	\$ 115,236
Stock-based compensation	3,416	4,828
Deferred revenue	1,610	2,852
Deferred rent	555	568
Other	1,256	879
Total deferred tax assets	120,449	124,363
Less valuation allowance	(119,516)	(123,555)
Total deferred tax assets, net of valuation allowance	\$ 933	\$ 808
Deferred tax liabilities:		
Fixed assets	(933)	(808)
Total deferred tax liabilities	(933)	(808)
Net deferred tax assets	\$ —	\$ —

On May 1, 2018, we adopted ASC 606 (Note 2). Upon adoption, no change in retained earnings was recorded related to income taxes as we maintain a full valuation allowance. However, an adjustment of approximately \$700 was recorded as a deferred tax liability and a corresponding reduction to the valuation allowance.

On May 1, 2017, we adopted ASU 2016-09. Upon adoption, we have excess tax benefits for which a benefit could not previously be recognized of approximately \$2,400. 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.

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% to 21% for tax years, effective January 1, 2018. We performed a review of the Tax Act for the fiscal year ended April 30, 2018, and based on the information available at that time, we recorded a provisional increase in tax expense and a corresponding decrease in net deferred tax assets of \$60,126, which were fully offset by a valuation allowance.

We applied the guidance under Staff Accounting Bulletin No. 118 when accounting for the enactment-date effects of the Tax Act for the fiscal year ended April 30, 2018 as we had not completed our accounting for all the enactment-date income tax effects of the Tax Act under ASC 740 for the remeasurement of deferred tax assets and liabilities. We completed our accounting for the enactment-date income tax effects of the Tax Act during the quarter ended January 31, 2019. Upon further analyses of the Tax Act and Notices and regulations issued and proposed by the U.S. Department of the Treasury and the Internal Revenue Service provisional amount recognized for the fiscal year ended April 30, 2018 did not change; therefore, there was no adjustment to tax expense.

Note 7 – 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, unvested RSUs, shares of common stock expected to be issued under our 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, unvested RSUs, 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, unvested RSUs, 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 was calculated using the if-converted method assuming the conversion of Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. However, because the impact of stock options, unvested RSUs, 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, 2019.

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

	2019	2018	2017
Stock options	138,822	53,978	–
RSUs	34,122	–	–
ESPP	10,589	1,972	45,767
Total	<u>183,533</u>	<u>55,950</u>	<u>45,767</u>

The calculation of weighted average diluted shares outstanding also excludes the following weighted average outstanding stock options, unvested RSUs, 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:

	2019	2018	2017
Stock options	2,712,454	3,636,699	4,156,421
RSUs	33,532	–	–
Warrants	12,942	39,040	39,040
Series E Preferred Stock	1,978,783	1,978,783	1,955,588
Total	<u>4,737,711</u>	<u>5,654,522</u>	<u>6,151,049</u>

Note 8 – Commitments and Contingencies

In the ordinary course of business, we are at times subject to various legal proceedings and disputes. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions, 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.

Note 9 – Restructuring Charges

In August 2017, we 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 in restructuring costs consisting of termination benefits, including severance, and other employee-related costs, of which \$330 related to our discontinued research and development segment and \$1,258 related to our contract manufacturing services segment. The restructuring costs associated with our discontinued research and development segment are included in income (loss) from discontinued operations, net of tax, in the accompanying consolidated financial statements for the fiscal year ended April 30, 2018 (Note 10). 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 in full during fiscal year 2018.

Note 10 – Sale of Research and Development Assets

On February 12, 2018, we entered into an Asset Assignment and Purchase Agreement (the "February 2018 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 phosphatidyserine (PS)-targeting program, as well as certain other licenses and assets useful and/or necessary for the potential commercialization of baviximab.

Pursuant to the February 2018 Purchase Agreement, we received an aggregate of \$8,000 from Oncologie, of which \$3,000 was received in fiscal year 2018 and \$5,000 was received in fiscal year 2019. We are also eligible to receive up to an additional \$95,000 in the event that Oncologie achieves certain development, regulatory and commercialization milestones with respect to baviximab. 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 baviximab or the other transferred assets. As of April 30, 2019, no development, regulatory or commercialization milestones have been achieved by Oncologie. Oncologie is responsible for all future research, development and commercialization of baviximab, 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 February 2018 Purchase Agreement incurred or arising prior to February 12, 2018).

On September 13, 2018, we entered into a separate Asset Assignment and Purchase Agreement (the "September 2018 Purchase Agreement") with Oncologie pursuant to which we sold to Oncologie our r84 technology, which included the assignment of certain licenses, patents and other assets useful and/or necessary for the potential commercialization of the r84 technology.

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Pursuant to the September 2018 Purchase Agreement, we received \$1,000 from Oncologie, which amount was paid to us in October 2018. We are also eligible to receive up to an additional \$21,000 in the event that Oncologie achieves certain development, regulatory and commercialization milestones with respect to r84. In addition, we are eligible to receive royalties on net sales ranging from the low to mid-single digits in the event that Oncologie commercializes and sells products utilizing the r84 technology. As of April 30, 2019, no development, regulatory or commercialization milestones have been achieved by Oncologie. Oncologie is responsible for all future research, development and commercialization of r84, 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 September 2018 Purchase Agreement incurred or arising prior to September 13, 2018).

Discontinued Operations

As a result of the sale of our PS-targeting program and our r84 technology, the abandonment of our remaining research and development assets, and the strategic shift in our corporate direction to focus solely on our CDMO business, the operating results from our former research and development segment and the related assets and liabilities have been presented as discontinued operations in the accompanying consolidated financial statements for all periods presented. During the fiscal years ended April 30, 2019 and 2018, we recorded a gain of \$1,000 and \$8,000, respectively, upon the completion of the September 2018 Purchase Agreement and the February 2018 Purchase Agreement, which amounts are included in income (loss) from discontinued operations, net of tax, in the accompanying Consolidated Statements of Operations and Comprehensive Loss for the fiscal years ended April 30, 2019 and 2018, respectively. The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the former research and development segment. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, these results of operations do not necessarily reflect what the results of operations would have been had the former 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, 2019, 2018 and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
License revenue	\$ —	\$ 25	\$ —
Operating expenses:			
Research and development	—	6,782	27,992
Selling, general and administrative	—	2,163	1,560
Restructuring charges	—	330	—
Total operating expenses	<u>—</u>	<u>9,275</u>	<u>29,552</u>
Other income	125	—	—
Gain on sale of research and development assets before income taxes	1,000	8,000	—
Income tax expense	284	—	—
Income (loss) from discontinued operations, net of tax	<u>\$ 841</u>	<u>\$ (1,250)</u>	<u>\$ (29,552)</u>

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The following table includes the assets and liabilities of discontinued operations as of April 30, 2018. There were no assets or liabilities related to discontinued operations as of April 30, 2019:

	2018
Assets:	
Other receivables	\$ 5,000
Total assets of discontinued operations	\$ 5,000
Liabilities:	
Accounts payable	\$ 32
Accrued clinical trial and related fees	3,613
Accrued payroll and related costs	614
Other liabilities	291
Total liabilities of discontinued operations	\$ 4,550

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 Sheet at April 30, 2018 as Oncologie did not purchase or assume any of the reported assets or liabilities under the aforementioned February 2018 Purchase Agreement and September 2018 Purchase Agreement.

Note 11 – Selected Quarterly Financial Data (Unaudited)

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

	Fiscal Year Ended April 30, 2019 ^(a)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 12,589	\$ 10,178	\$ 13,781	\$ 17,055
Gross profit	\$ 1,192	\$ 334	\$ 2,050	\$ 3,648
(Loss) income from continuing operations	\$ (1,961)	\$ (2,190)	\$ (1,139)	\$ 234
Income from discontinued operations, net of tax ^{(b)(c)}	\$ –	\$ 739	\$ –	\$ 102
Net (loss) income	\$ (1,961)	\$ (1,451)	\$ (1,139)	\$ 336
Net loss attributable to common stockholders	\$ (3,403)	\$ (2,893)	\$ (2,581)	\$ (1,106)
Basic and diluted net (loss) income per common share attributable to common stockholders ^(d)				
Continuing operations	\$ (0.06)	\$ (0.06)	\$ (0.05)	\$ (0.02)
Discontinued operations	\$ –	\$ 0.01	\$ –	\$ –
Net loss per common share attributable to common stockholders	\$ (0.06)	\$ (0.05)	\$ (0.05)	\$ (0.02)

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	Fiscal Year Ended April 30, 2018 ^(a)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 27,077	\$ 12,782	\$ 6,819	\$ 6,943
Gross profit (loss)	\$ 6,629	\$ (3,460)	\$ (4,132)	\$ (1,961)
Income (loss) from continuing operations	\$ 2,800	\$ (8,301)	\$ (8,928)	\$ (6,134)
(Loss) income from discontinued operations, net of tax ^{(b)(c)}	\$ (4,005)	\$ (4,323)	\$ (2,076)	\$ 9,154
Net (loss) income	\$ (1,205)	\$ (12,624)	\$ (11,004)	\$ 3,020
Net (loss) income attributable to common stockholders	\$ (2,647)	\$ (14,066)	\$ (12,446)	\$ 1,578
Basic and diluted net income (loss) per common share attributable to common stockholders ^(d)				
Continuing operations	\$ 0.03	\$ (0.21)	\$ (0.23)	\$ (0.14)
Discontinued operations	\$ (0.09)	\$ (0.10)	\$ (0.05)	\$ 0.17
Net (loss) income per common share attributable to common stockholders	\$ (0.06)	\$ (0.31)	\$ (0.28)	\$ 0.03

- (a) On May 1, 2018, we adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of May 1, 2018 (Note 2). Under the modified retrospective method, results for the reporting periods beginning on or after May 1, 2018 are presented in accordance with ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards that were in effect prior to May 1, 2018.
- (b) For all periods presented, the operating results of our former research and development segment are reported as income (loss) from discontinued operations, net of tax (Note 1).
- (c) Income from discontinued operations, net of tax, for the quarters ended October 31, 2018 and April 30, 2018 include a gain on sale of research and development assets before tax of \$1,000 and \$8,000, respectively (Note 10).
- (d) 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.

Note 12 – Subsequent Events

On June 5, 2019, 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, 2019 through June 30, 2019. The cash dividend of \$1,081 is payable on July 1, 2019 to holders of the Series E Preferred Stock of record on June 17, 2019.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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 interim chief executive officer and chief 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, 2019. Based on this evaluation, our interim president and chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of April 30, 2019 to ensure the timely disclosure of required information in our SEC filings.

Management’s Report on Internal Control Over Financial Reporting

Management 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) under the Exchange Act, 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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets; (ii) 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 (iii) 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, 2019.

Our internal control over financial reporting as of April 30, 2019 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein.

Changes in Internal Control over Financial Reporting

Management has determined that, as of April 30, 2019, there were no significant changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended April 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On June 26, 2019 (the “Effective Date”), we entered into an employment agreement with our chief financial officer, Daniel R. Hart (the “Employment Agreement”), who has served in this capacity since August 1, 2018. The Employment Agreement provides for an initial two-year term commencing on the Effective Date, unless sooner terminated as provided in the Employment Agreement. On each anniversary of the Effective Date, the term of the Employment Agreement will automatically be extended for an additional one (1) year period, unless either we or Mr. Hart gives to the other written notice at least ninety (90) days prior to the expiration of the then current year period, of such party’s intent not to extend Employment Agreement.

Pursuant to the terms of the Employment Agreement, Mr. Hart is entitled to receive an annual base salary of \$397,000 and is eligible for an annual discretionary cash bonus of up to forty-five percent (45%) of his then in effect annual base salary as determined by the Compensation Committee of the Board of Directors in accordance with the our cash bonus plan for executives then in effect and in its sole discretion.

Mr. Hart is eligible to participate in all benefits plans or arrangements which may be in effect from time to time and made available by us to our executive management employees.

If Mr. Hart’s employment is terminated by us other than for cause or if he resigns for good reason (within the meaning given to such terms in the Employment Agreement), Mr. Hart will be entitled to receive, subject to his execution of a general release of claims, (i) continued base salary for a period of twelve (12) months, (i) COBRA continuation coverage for him and his family for a period of up to twelve (12) months paid by us, and (iii) 100% of his annual cash bonus pro rata portion for the year in which his termination occurs and payable at the time other executive management employees receive their discretionary bonuses. Mr. Hart will be subject to non-solicitation restrictions for a period of one year following any termination of his employment.

The foregoing description of the Employment Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Employment Agreement, a copy of which is filed as an exhibit to this Annual Report on Form 10-K and is incorporated herein by reference.

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 internal control over financial reporting as of April 30, 2019, 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, 2019, 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, 2019 and 2018, 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, 2019, and the related notes and our report dated June 27, 2019 expressed an unqualified opinion thereon.

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
June 27, 2019

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 2019 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2019 (the “2019 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 2019 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 2019 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 2019 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2019.

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 2019 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2019.

Equity Compensation Plan Information

The following table summarizes our compensation plans under which our equity securities are authorized for issuance as of April 30, 2019:

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 ⁽¹⁾	3,462,587	7.49	3,790,123
Equity compensation plans not approved by stockholders ⁽²⁾	12,003	14.10	–
Employee Stock Purchase Plan approved by stockholders	–	–	1,196,261
Total	3,474,590	7.51 ⁽³⁾	4,986,384

(1) Represents stock options and restricted stock units under our stockholder approved equity compensation plans referred to as the 2018 Omnibus Incentive Plan, the 2011 Stock Incentive Plan, the 2010 Stock Incentive Plan, the 2009 Stock Incentive Plan, the 2005 Stock Incentive Plan and the 2003 Stock Incentive Plan.

(2) Represents stock options under our 2002 Stock Incentive Plan (the “2002 Plan”), which was not submitted 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 stock 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 grants of stock options can be granted under the 2002 Plan, however, the terms of the 2002 Plan remain in effect with respect to the outstanding options granted under the 2002 Plan until they are exercised, canceled or expired.

(3) Represents the weighted-average exercise price of outstanding stock options as there is no exercise price for restricted stock units.

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 2019 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2019.

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 2019 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2019.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report on Form 10-K:

(1) Consolidated Financial Statements

	Page
Index to Consolidated Financial Statements	35
Report of Independent Registered Public Accounting Firm	36
Consolidated Balance Sheets as of April 30, 2019 and 2018	37
Consolidated Statements of Operations and Comprehensive Loss for each of the three years in the period ended April 30, 2019	38
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended April 30, 2019	39
Consolidated Statements of Cash Flows for each of the three years in the period ended April 30, 2019	40
Notes to Consolidated Financial Statements	40

(2) Financial Statement Schedules

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

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Certificate of Incorporation of Avid Bioservices, Inc., a Delaware corporation, as amended through October 4, 2018 (Incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on December 10, 2018).
3.2	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).
3.3	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).
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	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) as filed with the Commission on June 23, 2006). *
4.3	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) as filed with the Commission on June 23, 2006). *
4.4	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).
4.5	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) as filed with the Commission on December 16, 2004). *
4.6	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) as filed with the Commission on December 16, 2004). *
4.7	2010 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement as filed with the Commission on August 27, 2010). *
4.8	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) as filed with the Commission on December 9, 2010). *
4.9	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). *
4.10	Amendment to the 2010 Employee Stock Purchase Plan (Incorporated by reference to Exhibit B to Registrant's Definitive Proxy Statement as filed with the Commission on August 26, 2016). *
4.11	2011 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement as filed with the Commission on August 26, 2011). *
4.12	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) as filed with the Commission on December 12, 2011). *
4.13	First Amendment to the Avid Bioservices, Inc., 2011 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement as filed with the Commission on August 27, 2012). *
4.14	Second Amendment to the Avid Bioservices, Inc. 2011 Stock Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement as filed with the Commission on August 26, 2013). *
4.15	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 ended April 30, 2015, as filed with the Commission on July 14, 2015). *
4.16	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 ended April 30, 2015, as filed with the Commission on July 14, 2015). *

Exhibit Number	Description
4.17	Fourth Amendment to the Avid Bioservices, Inc. 2011 Stock Incentive Plan (Incorporated by reference to Exhibit B to Registrant's Definitive Proxy Statement filed with the Commission on August 28, 2015). *
4.18	Form of Indenture (Incorporated by reference to Exhibit 4.4 to Registrant's Registration Statement on Form S-3 (File No.: 333-222548) as filed with the Commission on January 12, 2018).
4.19	Avid Bioservices, Inc. 2018 Omnibus Incentive Plan (Incorporated by reference to Exhibit A to Registrant's Definitive Proxy Statement filed with the Commission on August 17, 2018). *
4.20	Form of Stock Option Award Agreement under 2018 Omnibus Incentive Plan (Incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-8 (File No. 333-228735) as filed with the Commission on December 10, 2018). *
4.21	Form of Restricted Stock Unit Award Agreement under 2018 Omnibus Incentive Plan (Incorporated by reference to Exhibit 4.3 to Registrant's Registration Statement on Form S-8 (File No. 333-228735) as filed with the Commission on December 10, 2018). *
10.1	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).
10.2	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).
10.3	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). *
10.4	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). *
10.5	Asset Assignment and Purchase Agreement by and between Avid Bioservices, Inc. and Oncologie, Inc., dated February 12, 2018 (Incorporated by reference to Exhibit 10.11 to Registrant's Annual Report on Form 10-K as filed with the Commission on July 16, 2018). **
10.6	Separation Agreement and Release of Claims between Roger J. Lias, Ph.D. and Avid Bioservices, Inc. dated June 12, 2019. ***
10.7	Employment Agreement by and between Avid Bioservices, Inc. and Daniel R. Hart, effective June 26, 2019. (*) (***)
23.1	Consent of Independent Registered Public Accounting Firm. ***
24	Power of Attorney (included on signature page of Annual Report). ***
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended. ***
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended. ***
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350. ***
101.INS	XBRL Taxonomy Extension Instance Document. ***
101.SCH	XBRL Taxonomy Extension Schema Document. ***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. ***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. ***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. ***
101.PRE	XBRL Presentation Extension Linkbase Document. ***

* 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: June 27, 2019

By: /s/ /Richard B. Hancock
Richard B. Hancock
Interim President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard B. Hancock, Interim President and Chief Executive Officer, and Daniel R. Hart, Chief 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>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Richard B. Hancock</u> Richard B. Hancock	Interim President and Chief Executive Officer and Director (Principal Executive Officer)	June 27, 2019
<u>/s/ Daniel R. Hart</u> Daniel R. Hart	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 27, 2019
<u>/s/ Joseph Carleone, Ph.D.</u> Joseph Carleone, Ph.D.	Chairman of the Board of Directors	June 27, 2019
<u>/s/ Mark R. Bamforth</u> Mark R. Bamforth	Director	June 27, 2019
<u>/s/ Joel McComb</u> Joel McComb	Director	June 27, 2019
<u>/s/ Gregory P. Sargen</u> Gregory P. Sargen	Director	June 27, 2019
<u>/s/ Patrick D. Walsh</u> Patrick D. Walsh	Director	June 27, 2019

SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS

This Separation Agreement and Release of All Claims (“Agreement”) is made between Avid Bioservices, Inc. (“Company”) and Roger J. Lias, Ph.D. (“Executive”) in the complete, final, and binding settlement of all claims and potential claims, if any, with respect to their employment relationship.

RECITALS

- A. Executive resigned as the President and Chief Executive Officer of the Company effective May 7, 2019 (the “Resignation Date”).
- B. Executive’s employment was terminated effective on the Resignation Date as the result of a mutual agreement to resign.
- C. Pursuant to the terms of Executive’s employment with the Company, Executive is entitled to certain severance benefits in exchange for a general release of all claims. This Agreement is therefore entered into by the Company and Executive to document the parties’ agreement regarding the terms of Executive’s separation from the Company.

NOW, THEREFORE, IN RELIANCE OF THE ABOVE RECITALS AND IN CONSIDERATION of the promises, covenants and agreements herein contained, the Company and Executive agree as follows:

1. Except as provided below, Executive acknowledges the receipt of all wages, salary, bonuses, benefits, expense reimbursement or any other monies owed by Company to Executive. Aside from the severance benefits described below, Executive acknowledges that he is not entitled to any additional future compensation other than (i) his earned bonus for fiscal year 2019, the amount of which will be determined in connection with the audit of the Company’s financial statements and which shall be paid to Executive concurrent with the Company’s payment of fiscal year 2019 bonuses to its other executive officers, and (ii) the reimbursement of business expenses not submitted by Executive as of the Resignation Date. Executive agrees to submit all such remaining business expenses for reimbursement within fourteen (14) days of the Resignation Date, which expenses shall be promptly reimbursed by the Company.

2. Executive has returned all Company property remaining in Executive’s possession, including but not limited to credit cards, computer hardware, memory or storage devices, software, keys, and documents regardless of medium (and all copies). Executive hereby represents that: (1) he has not knowingly retained in his possession any such property, including backups thereof in any form (including, cloud-based, printed or electronic); (2) he did not upload/download any such property for any reason other than for legitimate and proper purposes pursuant to his employment with the Company (and any property so legitimately uploaded/downloaded has either been returned or destroyed); (3) he did not transfer such property to any other person or entity (who at the time was not expressly authorized by the Company to have possession of such property) other than for legitimate and proper purposes pursuant to his employment with the Company; and (4) any such property has either been returned to the Company or has been deleted/destroyed. Executive also agrees to promptly return any subsequently discovered Company property.

3. In consideration for the general release and promises and representations of Executive as described in this Agreement, the Company will provide Executive the following severance benefits: (i) Executive shall continue to be a paid his base salary less any applicable payroll taxes and withholdings on the Company’s regular paydays for a period of twelve months from the Resignation Date; (ii) the Company shall provide and pay the cost of COBRA continuation coverage for Executive and his family at his current coverage levels for a period of twelve (12) months until May 7, 2020 or until Executive is eligible for coverage with another employer, whichever is earlier; (iii) per the terms of his employment, the Company shall (A) pay to Executive the fifty thousand dollar (\$50,000) relocation bonus, less required federal and California income tax withholdings and other payroll deductions within three business days following written confirmation from Executive that his family has permanently relocated to Orange County, California and (B) subject to Company’s receipt of invoices, reimburse Executive for actual relocation expenses incurred in an amount not to exceed fifty thousand dollars (\$50,000) plus the relocation of up to two cars from North Carolina to California, not to exceed \$2,000 per car; (iv) Executive shall have until May 7, 2020 to exercise any stock options that have vested as of Resignation Date; and (v) the Company shall continue to pay the monthly rent on Executive’s temporary residence in Irvine, California, to September 12, 2019, which shall be grossed up for federal and California income taxes and included in his taxable earnings, consistent with past practices (collectively the “Severance”). This Severance will only be paid (or received) if Executive signs and returns this Agreement and does not exercise his right of revocation under paragraph 12 of this Agreement.

4. In exchange for the Severance benefits and the promises contained herein, Executive hereby irrevocably and unconditionally releases, acquits, and forever discharges the Company, and all parent, subsidiary, sister, and affiliated corporations and entities of the Company, as well as all of its past, present or future agents, officers, directors, shareholders, employees, representatives, and attorneys, and all persons acting by, through, under or in concert with any of them, and each of their respective heirs, successors, and assigns (collectively, "Releasees"), or any of them, from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected that Executive can lawfully release, including, but not limited to, rights arising out of alleged violations of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, or any tort including defamation, or any legal restrictions on the Company's right to terminate employees, or any federal, state or other governmental statute, regulation or ordinance, including, without limitation: the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1866; 42 U.S.C. § 1981; the California Fair Employment and Housing Act; Section 503 of the Rehabilitation Act of 1973; the Americans With Disabilities Act, as amended; the Fair Labor Standards Act (including the Equal Pay Act); the California Constitution; the California Labor Code, including Labor Code section 132a; the Family Medical Leave Act; the California Family Rights Act; the Genetic Information Non-Discrimination Act; the National Labor Relations Act; the Lilly Ledbetter Fair Pay Act of 2009; the Fair Credit Reporting Act; the False Claims Act; the Sarbanes-Oxley Act; the Uniformed Services Employment and Reemployment Rights Act; the Labor Code Private Attorneys General Act of 2004; the California Business and Professions Code; the Executive Retirement Income Security Act, as amended; the Workers Adjustment & Retraining Notification Act; the Age Discrimination in Employment Act; the Older Workers Benefit Protection Act; wage claims of all types, whether for non-payment, late payment, overtime, rest periods, meal periods, bonuses, deductions and/or penalties; wrongful termination in violation of public policy; and unfair business practices (collectively, "claim" or "claims") which Executive now has, or claims to have, or which Executive at any time heretofore had, or claimed to have, or which Executive at any time hereafter may have, own or hold, claim to have, own or hold against any of the Releasees, including but not limited to claims which arise out of or relate to Executive's employment by the Company or any matter or thing that was or could have been alleged as of the date this Agreement is fully executed. This release expressly waives any and all claims Executive may now have against the Company regardless of the nature, source, or basis for any such claim, including but not limited to claims for wages, salary, bonuses, commissions, expense reimbursement or any other monies owed by the Company to Executive. Executive may participate in any manner in any charge or complaint, or any investigation of a charge or complaint by any local, state, or federal agency, including the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, and the Securities and Exchange Commission ("SEC"). This includes providing documents or other information, without notice to the Company. Executive waives any claim or right to receive damages or compensation on the basis of any such charge, complaint or investigation, excluding an award for information provided to the SEC under SEC Rule 21F-17. This release however does not waive Executive's rights to unemployment or any rights that may not be released by private agreement. Nothing in this Agreement affects any vested rights Executive has in any retirement, welfare or benefit plans or programs of the Company as of Executive's termination date. Further, this release does not cover any claims the Executive may have arising from the Company's breach of this Agreement, or any of the representations or warranties contained herein.

5. During the period in which Executive is receiving Severance, Executive agrees that, without the prior written consent of the Board of Directors of the Company, he will not (i) engage in or have any direct interest in, as an employee, officer, director, agent, subcontractor, consultant, security holder, partner, creditor or otherwise, any business in direct competition with the Company other than as a 5% or less equity stakeholder; (ii) cause or attempt to cause any person who is, or was at any time during the six months immediately preceding the Resignation Date, an employee of the Company to leave the employment of the Company; or (iii) solicit, divert or take away, or attempt to take away, the business or patronage of any client, customer or account, or prospective client, customer or account, of the Company. For purposes of this paragraph, a business will be deemed to be in competition with the Company if it is in the business of providing services for contract development relating to and/or manufacturing of recombinant protein/monoclonal bulk drug substance. Executive acknowledges that this paragraph survives the termination of Executive's employment and is enforceable by the Company at any time as long as it remains in effect. For the avoidance of doubt, Executive and Company agree that Executive may go to work for a business deemed to be a competitor with the Company, provided that Executive does not use any of the Company's proprietary or competitive information. In the event that Executive does go to work for a competitor, Company shall have no further obligation to continue to provide to Executive the severance benefits set forth in clauses (i) and (ii) of Section 3 above.

(i) Executive and the Company agree that the covenant set forth in Section 5 above is a reasonable covenant under the circumstances with respect to both scope and duration, and further agree that if in the opinion of any court of competent jurisdiction such restraint is not reasonable in any respect, such court will have the right, power and authority to excise or modify such provision or provisions of this covenant as to what the court determines is not reasonable and to enforce the remainder of the covenant as so amended.

(ii) Executive agrees that any breach of the covenants contained in this paragraph 5 and in paragraph 6 below would irreparably injure the Company. Accordingly, Executive agrees that the Company may, in addition to pursuing any other remedies it may have in law and equity, obtain an injunction, without the posting of a bond or other security, against Executive from any court having jurisdiction over the matter restraining any further violation of this Agreement by Executive and cease making any payments otherwise required by this Agreement.

6. Executive acknowledges that he continues to be bound by his ongoing obligations under the terms of his employment not to use or disclose Company confidential information or trade secrets so long as the same have not become generally known to the public. Confidential information includes all nonpublic information and material which is proprietary to the Company relating to its past, present or future business activities. Trade secrets means any scientific or technical data, information, design, process, procedure, formula or improvement that is commercially available to the Company and is not generally known in the industry.

7. Executive understands that the severance benefits are additional benefits for which Executive is not eligible unless Executive elects to sign this Agreement. Executive further acknowledges and agrees that the payment (or receipt) of the Severance satisfies any obligations Company may have had to Executive pursuant to the terms of his employment.

8. Executive hereby agrees and acknowledges that Executive may have had access to confidential and proprietary information relating to the Company, including but not limited to customer lists, business strategies and plans, financial projections and budgets, capital raising activities, confidential board of director and executive management deliberations and other material non-public information, computer programs, source codes and other computer-stored data, accounts payable data, payroll information, personnel information, pricing and other contract terms, as well as the existence of this Agreement and its terms. Executive acknowledges that this information is confidential and proprietary and Executive agrees not to disclose it, nor allow it to be disclosed, communicated or otherwise conveyed to any third parties except as may be required by law, excepting only necessary communication to Executive's attorney, accountant, or tax advisor, each of whom Executive agrees to notify of this confidentiality provision and receive their agreement thereto before providing the necessary confidential or proprietary information. Executive further agrees to immediately inform the Company in writing of any unauthorized disclosure of, or access to, the Company's confidential or proprietary information described above. Executive hereby agrees that the disclosure of the Company's confidential or proprietary information shall cause serious damage to the Company. The foregoing shall supplement any existing confidentiality agreement between the parties hereto and shall survive the full payment of all sums paid hereunder.

9. Executive acknowledges and agrees that Executive has no pending lawsuit, administrative charge, or complaint against the Company or any of the other Releasees, in any court or with any governmental agency. Executive also agrees that, to the extent permitted by law, Executive will not allow any lawsuit, administrative charge, or complaint to be pursued on Executive's behalf. Executive further agrees that Executive will not participate, cooperate, or assist in any litigation against the Releasees in any manner, to the extent permitted by law. If lawfully subpoenaed by a court of this jurisdiction, Executive agrees to provide the Company written notice of such a subpoena within five (5) days of receipt.

10. Executive affirms and warrants that, except as set forth in Section 1, he has appropriately received all compensation, wages, overtime pay, breaks, benefits and other payments to which he was entitled, including, but not limited to, those under the Fair Labor Standards Act and any other federal, state, or local wage and hour law, regulation or ordinance. Executive further affirms and warrants that he has appropriately received any leave (paid and unpaid) to which he was entitled, including, but not limited to, leave under the Family and Medical Leave Act and any other federal, state, or local leave or disability accommodation law, regulation or ordinance.

11. It is understood and agreed that this is a full, complete and final general release of any and all claims described as aforesaid, and that Executive agrees that it shall apply to all unknown, unanticipated, unsuspected and undisclosed claims, demands, liabilities, actions or causes of action, in law, equity or otherwise, as well as those which are now known, anticipated, suspected or disclosed. This release includes a release under § 1542 of the Civil Code of the State of California, which reads as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Executive hereby expressly waives and relinquishes all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to the release granted in this Agreement.

12. This Agreement is intended to release and discharge any claims of Executive under the Age Discrimination in Employment Act. To satisfy the requirements of the Older Workers' Benefit Protection Act, 29 U.S.C. section 626(f), the parties agree as follows:

- A. Executive acknowledges that Executive has read and understands the terms of this Agreement.
- B. Executive acknowledges that Executive has been advised to consult with an attorney, if desired, concerning this Agreement and has received all advice Executive deems necessary concerning this Agreement.
- C. Executive acknowledges that Executive has been given twenty-one (21) days to consider whether or not to enter into this Agreement, has taken as much of this time as necessary to consider whether to enter into this Agreement, and has chosen to enter into this Agreement freely, knowingly, and voluntarily. The Parties agree that any changes to the Agreement, whether material or immaterial, do not restart this twenty-one (21) day consideration period.
- D. For a seven day period following the execution of this Agreement by Executive, Executive may revoke this Agreement by delivering a written notice of revocation within that time to Lorna Larson at 2642 Michelle Drive, Tustin, California 92780, if Executive so chooses. This Agreement shall not become effective until the seven days have passed without a revocation being received. This Agreement will be revoked in its entirety if such notice is given, and the Company will have no obligation to take any of the actions and/or make any payment provided by this Agreement.

13. The terms of the Agreement shall be confidential. Accordingly, Executive agrees to not make any public statement about, not disclose to any third party, the fact of, or contents or terms of this Agreement, unless necessary to implement or enforce its terms, or to seek tax or legal advice regarding this Agreement. Executive further agrees that Executive will not disparage, defame, or otherwise detrimentally comment upon the Releasees, including their business practices or products in any manner. Similarly, the Company agrees that it will not disparage, defame, or otherwise detrimentally comment upon Executive in any manner. Each of Company and Executive acknowledges that such comment shall cause serious damage to the other party. Notwithstanding the foregoing, Executive acknowledges and agrees that the Company has certain disclosure obligations under the Securities and Exchange Act of 1934, as amended, and intends to promptly file a Current Report on Form 8-K to disclose certain of the Severance benefits provided Executive hereunder.

14. It is understood and agreed that this Agreement is not an admission of liability by the Company or any Releasee and shall not be used or construed as such in any proceeding.

15. Executive is not aware, to the best of Executive's knowledge, of any conduct on Executive's part or on the part of another Company employee that violated the law or otherwise exposed the Company to any liability, whether criminal or civil, whether to any government, individual or other entity. Further, Executive acknowledges that Executive is not aware of any material violations by the Company and/or its employees, officers, directors and agents of any statute, regulation or other rules that have not been addressed by Company through appropriate compliance and/or corrective action.

16. This Agreement is intended to comply with Section 409A of the Code, or with an exemption thereto, and, to the maximum extent permitted, this Agreement shall be interpreted and administered consistent with that intent. Notwithstanding anything in this Agreement to the contrary, if the Company concludes that the payments described in paragraph 3 are subject to Section 409A of the Code, no such payments will be made prior to Executive's "separation from service" as defined in Treasury Regulation Section 1.409A-1(h)(applying the default rules of Treasury Regulation Section 1.409A-1(h)). In addition, if the payments described paragraph 3 are subject to Section 409A of the Code, and if Executive is a "specified employee" as defined in Treasury Regulation Section 1.409A-1(i)(1) on the date of his termination of employment, such payments shall not begin until the first day of the seventh month following his "separation from service." Installment payments shall be treated as separate payments for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii). Executive acknowledges that the Company makes no representations or warranties regarding the tax treatment or tax consequences of any compensation, benefits or other payments made pursuant to this Agreement, including by operation of Section 409A of the Code. Neither the time nor schedule of any payment under this Agreement may be accelerated or subject to further deferral except as permitted by Section 409A of the Code and Executive does not have any right to make any election regarding the time or form of any payment due under this Agreement. Any expenses that are to be reimbursed pursuant to this Agreement that are subject to Section 409A of the Code shall: (i) be paid no later than the last day of Executive's tax year following the tax year in which the expense was incurred; (ii) not affect or be affected by any other expenses that are eligible for reimbursement in any other tax year of Executive; and (iii) not be subject to liquidation or exchange for any other benefit.

17. This Agreement shall be construed under the laws of the State of California.

18. If any disagreement, controversy, claim, action, proceeding or dispute between Executive and any Releasee, is brought to interpret or enforce the provisions of this Agreement, the prevailing party or parties shall recover his, her or its reasonable attorneys' fees and costs.

19. Executive agrees that this Agreement has been negotiated and that no provision contained herein shall be interpreted against any party because that party drafted the provision.

20. In the event that any provision of this Agreement shall be found to be unenforceable, that provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected.

21. This Agreement contains the entire agreement between the parties on the subjects addressed in this Agreement and replaces any other prior agreements between the parties with the exception of Executive's confidentiality agreements with the Company. This Agreement may only be modified in a written document signed by an officer of the Company.

22. Executive certifies that Executive has read and understands all of this Agreement, has received any advice or counsel Executive deems necessary regarding this Agreement, and is entering into this Agreement freely and voluntarily, intending to be bound by its terms.

By signing this Agreement before the twenty-one (21) day period described above in paragraph 12(C) expires, Executive waives his right under the ADEA and the OWBPA to twenty-one (21) days to consider the terms of this Agreement. In any case, however, Executive retains the right to revoke this Agreement within seven days, as described above in paragraph 12(D).

IN WITNESS WHEREOF, the parties have executed this Agreement as of the dates set forth below.

Dated: June 12, 2019

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

Avid Bioservices, Inc.

Dated: June 12, 2019

/s/ Richard B. Hancock
Name: Richard B. Hancock
Title: Interim President and Chief Executive Officer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement”) is by and between Avid Bioservices, Inc., a Delaware corporation (“Employer” or the “Company”) and Daniel R. Hart (“Executive”).

WHEREAS, Executive has served as the Company’s Chief Financial Officer since August 1, 2018.

In consideration of the promises and mutual covenants contained herein, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. **Employment.** Upon the terms and conditions hereinafter set forth, Employer hereby agrees to continue to employ Executive to serve as Chief Financial Officer, and Executive hereby accepts such continued employment under the terms and conditions set forth herein.

2. **Effective Date.** The effective date of the Agreement shall be June 26, 2019(the “Effective Date”). The employment relationship pursuant to this Agreement shall be for an initial two-year period commencing on the Effective Date (“Initial Term”), unless sooner terminated in accordance with paragraph 7 below. On each anniversary of the Effective Date, the term of this Agreement will automatically be extended for an additional one (1) year period (in each instance, as so extended, the “Subsequent Term”), unless either party gives to the other written notice at least ninety (90) days prior to the expiration of the then current year period, of such party’s intent not to extend this Agreement.

3. **Duties.** Executive shall perform such duties as are customarily performed by a Chief Financial Officer, and such other duties and responsibilities that may be assigned to him by the Chief Executive Officer of the Company (the “CEO”). Specifically, Executive shall manage the Company’s accounting and finance departments, and perform such duties and responsibilities as set forth in the Chief Financial Officer job description.

Executive shall report to the CEO and have such authority as is delegated by the CEO. Executive shall be governed by the policies and practices established by the Company. Employer requires that: (i) Executive will devote his utmost knowledge and best skill to the performance of his duties; (ii) Executive shall devote his full business time (not less than 40 hours per week) to the rendition of such services, subject to absences for customary vacations and for temporary illness; and (iii) Executive will not engage in any other gainful occupation which requires his personal attention and/or creates a conflict of interest with his job responsibilities under this Agreement without the prior written consent of the CEO, with the exception that Executive may personally trade in stock, bonds, securities, commodities or real estate investments for his own benefit to the extent permitted by the provisions herein and applicable law.

Executive’s job performance will be reviewed by the CEO annually. Executive acknowledges and understands that performance reviews do not necessitate or correlate with salary increases and that a favorable performance review neither guarantees continued employment nor increased compensation.

4. **At-Will Employment.** Executive and Employer agree that Executive’s employment may be terminated by Executive or by Employer, with or without Cause (as defined below) in accordance with paragraph 7 of this Agreement. Executive and Employer expressly agree that this provision is intended by Executive and Employer to be the complete and final expression of their understanding regarding the terms and conditions under which Executive’s employment may be terminated. Executive and Employer further understand and agree that no representation contrary to this provision is valid, and that this provision may not be augmented, contradicted or modified in any way, except in writing signed by Executive and CEO.

5. Compensation.

5.1 Base Salary. Executive shall be paid an annual base salary of Three Hundred Ninety Six Thousand Five Hundred Forty Nine Dollars and Ninety Two Cents (\$396,549.92), payable according to Employer's payroll schedule and subject to applicable state and federal withholdings and other payroll deductions.

5.2 Annual Bonus. In addition to Executive's base salary, Executive may be eligible to receive an additional discretionary bonus of up to forty-five percent (45%) of his then in effect base salary, prorated for partial years of service, as determined by the Compensation Committee of the Board of Directors in accordance with the Company's cash bonus plan for executives then in effect and in its sole discretion ("Target Bonus"). Executive acknowledges that although a discretionary bonus may be provided by the Company, any such bonus is neither required nor guaranteed by this Agreement.

5.3 Equity Awards. Executive may also be eligible to receive equity awards as determined by the Compensation Committee of the Board in its sole discretion. Any such equity award will be granted pursuant to, and will be subject to the terms of Company's equity incentive plan then in effect, as such may be amended from time to time, or any successor plan thereto and the award agreement that you must execute as a condition to receive such awards.

6. Fringe Benefits.

6.1 Benefits. Executive shall, in accordance with Company policy and the terms of the applicable plan documents, be eligible to participate in benefits under any Company benefit plan or arrangement which may be in effect from time to time and made available to its executive management employees. The terms and conditions of Executive's participation in such plans shall be set forth in the relevant benefit plan documents.

6.2 Paid-Time-Off (PTO). Executive shall earn and accrue paid-time-off covering vacation and sick time benefits at the initial rate of twenty (20) days per year for employment periods of up to five (5) years of service. The PTO accrual rate shall automatically increase by five (5) additional days for each additional five (5) years of service up to maximum of thirty (30) days per year after ten (10) years of service. For example, after five years of service, the annual PTO accrual rate shall increase to twenty-five (25) days. Accrued and unused PTO shall governed by the Employee Handbook, as such may be amended from time to time in the Company's sole discretion. Accrued and unused PTO days which are not in excess of maximum amount accruable under the Employee Handbook shall be paid in a cash lump sum payment promptly after Executive's termination of employment.

6.3 Expenses. Employer shall reimburse Executive for travel and other business expenses incurred by Executive in the performance of Executive's duties hereunder, consistent with Employer's normal expense reimbursement policy.

7. Termination.

7.1 Termination With Cause. If Executive (a) breaches in any material respect or fails to fulfill in any material respect fiduciary duty owed to Employer; (b) breaches in any material respect this Agreement or any other confidentiality or non-solicitation, non-competition agreement between Employer and Executive; (c) pleads guilty to or is convicted of a felony; (d) is found to have engaged in any reckless, fraudulent, dishonest or grossly negligent misconduct, (e) fails to perform his duties to the Company, provided that Executive fails to cure any such failure within thirty (30) days after written notice from Employer of such failure, provided further, however, that such right to cure shall not apply to any repetition of the same failure previously cured hereunder; or (f) violates any material rule, regulation or policy of the Company that may be established and made known to Employer's employees from time to time, including without limitation, the Company Employee Handbook, a copy of which has been provided to Executive (collectively, "Cause"), Employer may terminate immediately his employment and Executive shall have no right to receive any compensation or benefit hereunder after such termination other than base salary and PTO earned or accrued but unpaid as of the date of termination (collectively "Standard Entitlements"). Notwithstanding the foregoing, Executive shall not be terminated for Cause pursuant to paragraph 7.1, unless and until Executive has received written notice of the proposed termination for Cause, including details of the bases for such termination, and Executive has had an opportunity to be heard before at least a majority of the Board. Executive shall be deemed to have had such an opportunity if written notice is given to him at least ten (10) days in advance of a meeting and Executive has the actual opportunity to be heard, at that meeting, by no less than a majority of the Board on the issues of his proposed termination. For the avoidance of doubt, Executive shall not be entitled to any bonus, or proration thereof, if terminated for Cause under this paragraph.

7.2 Termination without Cause. As stated in paragraph 4 of this Agreement, Executive or the Company may at any time terminate Executive's employment with or without Cause. If the Company terminates Executive's employment without Cause during the Initial Term or any Subsequent Term, Executive shall receive the Standard Entitlements. In addition, subject to Executive's execution (and non-revocation) of the general release as described in paragraph 7.6, Executive shall be entitled receive: (a) a cash severance equal to the sum of twelve (12) months of Executive's base salary in effect on the date of termination plus twelve (12) times the monthly amount that is charged to COBRA qualified beneficiaries under the Company's group health plan for the same medical and dental coverage options elected by Executive and his family immediately prior to the date of termination, with such severance payable in substantially equal installments over twelve (12) months according to Employer's payroll schedule; (b) 100% of the Target Bonus pro rata portion for the year in which his termination occurs and payable at the time other executive management employees receive their discretionary bonuses; and (c) any stock options that are vested and outstanding as of the date of Executive's termination of employment shall be amended to provide that such options will remain exercisable until the earlier of the scheduled expiration date of the option or twelve (12) months following the date of Executive's termination of employment. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished.

7.3 Voluntary Resignation for Good Reason. If, within ninety (90) days of the initial existence of the condition(s) that constitute Good Reason, Executive: (a) provides written notice to the Board of his intention to resign his employment for Good Reason; (b) provides written notice to the Board of the grounds that Executive believes he has to resign for Good Reason and within thirty (30) days of receipt of such written notice, the Board has not cured by eliminating the condition(s) that constitute Good Reason; and (c) Executive actually terminates his employment within twelve (12) months following the initial existence of the Good Reason condition, then, subject to Executive's execution (and non-revocation) of the general release as described in paragraph 7.6, Executive shall be entitled to receive the Standard Entitlements and the severance and benefits described in paragraphs 7.2(a), (b), and (c) above, payable at the times set forth in paragraphs 7.2(a), (b), and (c) above. Executive will be deemed to have resigned for "Good Reason" in the following circumstances: (a) provided Executive shall have relocated to Orange County, California, Company relocates Executive's principal place of work to a location more than fifty (50) miles from the original location, without Executive's prior written approval; (b) Executive's position and/or duties are modified so that Executive's duties are no longer consistent with the position of Chief Financial Officer; (c) Executive's Base Salary as set forth in paragraph 5.1, as adjusted from time to time, is reduced without Executive's written authorization. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished.

7.4 Termination Upon Death or Disability. Executive's employment shall terminate upon his death or Disability (with "Disability" defined as any mental or physical condition which, in the reasonable opinion of a mutually agreed upon licensed physician and/or psychiatrist (as the case may be), renders Executive unable or incompetent to carry out Executive's duties under this Agreement, with or without reasonable accommodation, for a period of at least six (6) months). In the event of a termination of Executive's employment for death or Disability, Executive shall receive the Standard Entitlements and a cash payment equal to twelve (12) times the monthly amount that is charged to COBRA qualified beneficiaries under the Company's group health plan for the same medical and dental coverage options elected by Executive and his family immediately prior to the date of termination, with such amount paid in a single lump sum within thirty (30) days following Executive's termination for death or Disability. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished.

7.5 Change of Control. If Executive incurs a termination without Cause or terminates his employment for Good Reason during the three (3) month period preceding or twenty-four (24) months following a "Change in Control" as defined below, then subject to Executive's execution (and non-revocation) of the general release as described in paragraph 7.6, Executive shall be entitled receive: (a) a cash severance payment equal to the sum of twenty four (24) months of Executive's base salary in effect on the date of termination and twenty four (24) times the monthly amount that is charged to COBRA qualified beneficiaries under the Company's group health plan for the same medical and dental coverage options elected by Executive and his family immediately prior to the date of termination, with such severance payable in substantially equal installments over twenty four (24) months according to Employer's payroll schedule; (b) 100% of the Target Bonus for the year in which his termination occurs, with the amount payable at the time other executive management employees receive their discretionary bonuses; and (c) any stock options that are vested and outstanding as of the date of Executive's termination of employment shall be amended to provide for full vesting and that such options will remain exercisable until the earlier of the scheduled expiration date of the option or twenty four (24) months following the date of Executive's termination of employment. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished. For purposes of this Agreement, "Change in Control" shall mean the (i) acquisition by any one person, or more than one person acting as a group (as determined in accordance with Treasury Regulation Section 1.409A-3(i)(5)), of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company, (ii) consummation of a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not own, directly or indirectly, either (A) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving entity in such merger, consolidation or similar transaction or (B) more than 50% of the combined outstanding voting power of the parent of the surviving entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their ownership of the outstanding voting securities of the Company immediately prior to such transaction, or (iii) sale of all or substantially all of the consolidated assets of the Company and its subsidiaries, other than a sale of all or substantially all of the consolidated assets of the Company and its subsidiaries to an entity, more than 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the outstanding voting securities of the Company immediately prior to such sale.

7.6 Release Required. In order to be entitled to the severance and other benefits described in paragraphs 7.2, 7.3, and 7.5, as applicable, Executive must, no later than sixty (60) days following his termination date, sign (and not revoke) a general release of all claims known and unknown, against Employer, its officers and directors, agents and employees and any related entities or persons. Notwithstanding anything in this Agreement to the contrary, if the consideration period described in the release, plus the revocation period described in the release spans two (2) calendar years, the severance payments described in paragraphs 7.2, 7.3, and 7.5 that are subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") shall not begin to be paid until the second calendar year. Nothing herein will be construed to limit or modify the duty of Executive to mitigate Executive's damages in the event Employer terminates Executive's employment without Cause.

8. Trade Secrets, Confidential Information and Inventions.

8.1 Trade Secrets In General. During the course of Executive's employment, Executive will have access to various trade secrets, confidential information and inventions of Employer as defined below.

(i) "Confidential Information" means all information and material which is proprietary to the Company, whether or not marked as "confidential" or "proprietary" and which is disclosed to or obtained from the Company by the Executive, which relates to the Company's past, present or future research, development or business activities. Confidential Information is all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, systems, methods, machinery, procedures, "know-how", new product or new technology information, formulas, patents, patent applications, product prototypes, product copies, cost of production, manufacturing, developing or marketing techniques and materials, cost of production, development or marketing time tables, customer lists, strategies related to customers, suppliers or personnel, contract forms, pricing policies and financial information, volumes of sales, and other information of similar nature, whether or not reduced to writing or other tangible form, and any other Trade Secrets, as defined by subparagraph (iii), or non-public business information. Confidential Information does not include any information which (1) was in the lawful and unrestricted possession of the Executive prior to its disclosure by the Company, (2) is or becomes generally available to the public by acts other than those of the Executive after receiving it, (3) becomes generally available to the public by acts of the Executive necessary to performing duties associated with Executive's job description, or (4) has been received lawfully and in good faith by the Executive from a third party who did not derive it from the Company.

(ii) “Inventions” means all discoveries, concepts and ideas, whether patentable or not, including but not limited to, processes, methods, formulas, compositions, techniques, articles and machines, as well as improvements thereof or “know-how” related thereto, relating at the time of conception or reduction to practice to the business engaged in by the Company, or any actual or anticipated research or development by the Company.

(iii) “Trade Secrets” shall mean any scientific or technical data, information, design, process, procedure, formula or improvement that is commercially available to the Company and is not generally known in the industry.

This paragraph includes not only information belonging to Employer which existed before the date of this Agreement, but also information developed by Executive for Employer or its employees during his employment and thereafter.

8.2 Restriction on Use of Confidential Information. Executive agrees that his use of Trade Secrets and other Confidential Information is subject to the following restrictions during the term of the Agreement and for an indefinite period thereafter so long as the Trade Secrets and other Confidential Information have not become generally known to the public.

8.2.1 Non-Disclosure. Except as required by the performance of the Executive’s services to the Company under the terms of this Agreement, neither the Executive nor any of his agents or representatives, shall, directly or indirectly, publish or otherwise disclose, or permit others to publish, divulge, disseminate, copy or otherwise disclose the Company’s Trade Secrets, Confidential Information and/or Inventions as defined above.

8.2.2 Use Restriction. Executive shall use the Trade Secrets, other Confidential Information and/or Inventions only for the limited purpose for which they were disclosed. Executive shall not disclose the Trade Secrets, other Confidential Information and/or Inventions to any third party without first obtaining written consent from the Board of Directors and shall disclose the Trade Secrets, other Confidential Information and/or Inventions only to Employer’s own employees having a need know. Executive shall promptly notify the Board of Directors of any items of Trade Secrets prematurely disclosed.

8.2.3 Surrender Upon Termination. Upon termination of his employment with Employer for any reason, Executive will surrender and return to Employer all documents and materials in his possession or control which contain Trade Secrets, Inventions and other Confidential Information. Executive shall immediately return to the Company all lists, books, records, materials and documents, together with all copies thereof, and all other Company property in his possession or under his control, relating to or used in connection with the past, present or anticipated business of the Company, or any affiliate or subsidiary thereof. Executive acknowledges and agrees that all such lists, books, records, materials and documents, are the sole and exclusive property of the Company.

8.2.4 Prohibition Against Unfair Competition. At any time after the termination of his employment with Employer for any reason, Executive will not engage in competition with Employer while making use of the Trade Secrets of Employer.

8.2.5 Patents and Inventions. The Executive agrees that any inventions made, conceived or completed by him during the term of his service, solely or jointly with others, which are made with the Company’s equipment, supplies, facilities or Confidential Information, or which relate at the time of conception or reduction to purpose of the invention to the business of the Company or the Company’s actual or demonstrably anticipated research and development, or which result from any work performed by the Executive for the Company, shall be the sole and exclusive property of the Company. The Executive promises to assign such inventions to the Company. The Executive also agrees that the Company shall have the right to keep such inventions as trade secrets, if the Company chooses. The Executive agrees to assign to the Company the Executive’s rights in any other inventions where the Company is required to grant those rights to the United States government or any agency thereof. In order to permit the Company to claim rights to which it may be entitled, the Executive agrees to disclose to the Company in confidence all inventions which the Executive makes arising out of the Executive’s service and all patent applications filed by the Executive within one year after the termination of his service. The Executive shall assist the Company in obtaining patents on all inventions, designs, improvements and discoveries patentable by the Company in the United States and in all foreign countries, and shall execute all documents and do all things necessary to obtain letters patent, to vest the Company with full and extensive title thereto.

8.3 This Agreement does not limit Executive's ability to communicate with any government agencies regarding matters within their jurisdiction or otherwise participate in any investigation or proceeding that may be conducted by any government agency, including providing documents or other information, without notice, to the government agencies. Nothing in this Agreement shall prevent Executive from the disclosure of Confidential Information or Trade Secrets that: (a) is made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In the event that Executive files a lawsuit alleging retaliation by Company for reporting a suspected violation of law, Executive may disclose Confidential Information or Trade Secrets related to the suspected violation of law or alleged retaliation to Executive's attorney and use the Confidential Information or trade secrets in the court proceeding if Executive or Executive's attorney: (a) files any document containing Confidential Information or trade secrets under seal; and (b) does not disclose the Confidential Information or Trade Secrets, except pursuant to court order. The Company provides this notice in compliance with, among others, the Defend Trade Secrets Act of 2016.

9. Solicitation of Employees or Customers.

9.1 Information About Other Employees. Executive will be called upon to work closely with employees of Employer in performing services under this Agreement. All information about such employees which becomes known to Executive during the course of his employment with Employer, and which is not otherwise known to the public, including compensation or commission structure, is a Trade Secret of Employer and shall not be used by Executive in soliciting employees of Employer at any time during or after termination of his employment with Employer.

9.2 Solicitation of Employees Prohibited. During Executive's employment and for one year following the termination of Executive's employment, Executive shall not, directly or indirectly ask, solicit or encourage any employee(s) of Employer to leave their employment with Employer. Executive further agrees that he shall make any subsequent employer aware of this non-solicitation obligation.

9.3 Solicitation of Customers Prohibited. For a period of one year following the termination of Executive's employment, Executive shall not, directly or indirectly solicit the business of any of Employer's customers in any way competitive with the business or demonstrably anticipated business of the Company. Executive further agrees that he shall make any subsequent employer aware of this non-solicitation obligation.

10. Non-Competition. During the course of Executive's employment with the Company, Executive shall not directly or indirectly own any interest in (other than owning less than 5% of a publicly held company), manage, control, participate in (whether as an officer, director, employee, partner, agent, representative, volunteer or otherwise), consult with, render services for or in any manner engage (whether or not during business hours) in any business activity that is in any way competitive with the business or demonstrably anticipated business of the Company. Further, Executive will not during the course of his employment with the Company, assist any other person or organization in competing or in preparing to compete with any business or demonstrably anticipated business of the Company.

11. Unfair Competition, Misappropriation of Trade Secrets and Violation of Solicitation/Noncompetition Clauses. Executive acknowledges that unfair competition, misappropriation of trade secrets or violation of any of the provisions contained in paragraphs 8 through 10 would cause irreparable injury to Employer, that the remedy at law for any violation or threatened violation thereof would be inadequate, and that Employer shall be entitled to temporary and permanent injunctive or other equitable relief without the necessity of proving actual damages.

12. Representation Concerning Prior Agreements. Executive represents to Employer that he is not bound by any non-competition and/or non-solicitation agreement that would preclude, limit or in any manner affect his employment with Employer. Executive further represents that he can fully perform the duties of his employment without violating any obligations he may have to any former employer, including but not limited to, misappropriating any proprietary information acquired from a prior employer. Executive agrees that he will indemnify and hold Employer harmless from any and all liability and damage, including attorneys' fees and costs, resulting from any breach of this provision.

13. Personnel Policies and Procedures. The Employer shall have the authority to establish from time to time personnel policies and procedures to be followed by its employees. Executive agrees to comply with the policies and procedures of the Employer. To the extent any provisions in Employer's personnel policies and procedures differ with the terms of this Agreement, the terms of this Agreement shall apply.

14. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

15. Successors and Assigns. The rights and obligations of the Employer under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Employer. Executive shall not be entitled to assign any of his rights or delegate any of his obligations under this Agreement.

16. Governing Law. This Agreement shall be interpreted, construed, governed and enforced in accordance with the laws of the State of California.

17. Severability. Each term, condition, covenant or provision of this Agreement shall be viewed as separate and distinct, and in the event that any such term, covenant or provision shall be held by a court of competent jurisdiction to be invalid, the remaining provisions shall continue in full force and effect.

18. Survival. The provisions in paragraphs 8 through 11, 14 through 23, inclusive, of this Agreement shall survive termination of Executive's employment, regardless of who causes the termination and under what circumstances.

19. Waiver. Neither party's failure to enforce any provision or provisions of this Agreement shall be deemed or in any way construed as a waiver of any such provision or provisions, nor prevent that party thereafter from enforcing each and every provision of this Agreement. A waiver by either party of a breach of provision or provisions of this Agreement shall not constitute a general waiver, or prejudice the other party's right otherwise to demand strict compliance with that provision or any other provisions in this Agreement.

20. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient, if in writing, sent by mail to Executive's residence in the case of Executive, or hand delivered to the Executive, and, in the case of Employer, to the Board of Directors at the principal corporate office.

21. Arbitration. The parties agree that disputes concerning the terms of this Agreement and Executive's employment under this Agreement are subject to arbitration in accordance with the Employee Arbitration Agreement attached hereto as Exhibit "A" and incorporated by this reference as though fully set forth herein.

22. Entire Agreement. Executive acknowledges receipt of this Agreement and agrees that this Agreement represents the entire agreement with Employer concerning the subject matter hereof, and supersedes any previous oral or written communications, representations, understandings or agreements with Employer or any officer or agent thereof through the date the Agreement is executed by the parties, except the Employee Arbitration Agreement which is incorporated herein as set forth in paragraph 21 of this Agreement and attached hereto as Exhibit "A." Executive understands that no representative of the Employer has been authorized to enter into any agreement or commitment with Executive which is inconsistent in any way with the terms of this Agreement.

23. Construction. This Agreement shall not be construed against any party on the grounds that such party drafted the Agreement or caused it to be drafted.

24. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. Further, facsimiles of signatures may be taken as the actual signatures, and each party agrees to furnish the other with documents bearing the original signatures within ten days of the facsimile transmission.

25. Acknowledgment. Executive acknowledges that he has been advised by Employer to consult with independent counsel of his own choice, at his expense, concerning this Agreement, that he has had the opportunity to do so, and that he has taken advantage of that opportunity to the extent that he desires. Executive further acknowledges that he has read and understands this Agreement, is fully aware of its legal effect, and has entered into it freely based on his own judgment.

26. Code Section 280G.

26.1 Sections 280G and 4999 of the Code may place significant tax burdens on both Executive and the Company if the total payments made to Executive due to certain change in control events described in Section 280G of the Code (the "Total Change in Control Payments") equal or exceed Executive's 280G Cap. For this purpose, Executive's "280G Cap" is equal to Executive's average annual compensation in the five (5) calendar years preceding the calendar year in which the change in control event occurs (the "Base Period Income Amount") times three (3). If the Total Change in Control Payments equal or exceed the 280G Cap, Section 4999 of the Code imposes a 20% excise tax (the "Excise Tax") on all amounts in excess of one (1) times Executive's Base Period Income Amount. In determining whether the Total Change in Control Payments will equal or exceed the 280G Cap and result in the imposition of an Excise Tax, the provisions of Sections 280G and 4999 of the Code and the applicable Treasury Regulations will control over the general provisions of this paragraph 26. All determinations and calculations required to implement the rules set forth in this paragraph 26 shall take into account all applicable federal, state, and local income taxes and employment taxes (and for purposes of such calculations, Executive shall be deemed to pay income taxes at the highest combined federal, state and local marginal tax rates for the calendar year in which the Total Change in Control Payments are to be made, less the maximum federal income tax deduction that could be obtained as a result of a deduction for state and local taxes (the "Assumed Taxes")).

26.2 Subject to the "best net" exception described in paragraph 26.3), in order to avoid the imposition of the Excise Tax, the total payments to which Executive is entitled under this Agreement or otherwise will be reduced to the extent necessary to avoid equaling or exceeding the 280G Cap, with such reduction first applied to the cash severance payments that Executive would otherwise be entitled to receive pursuant to this Agreement and thereafter applied in a manner that will not subject Executive to tax and penalties under Section 409A of the Code.

26.3 If Executive's Total Change in Control Payments minus the Excise Tax and the Assumed Taxes (payable with respect to the amount of the Total Change in Control Payments) exceeds the 280G Cap minus the Assumed Taxes (payable with respect to the amount of the 280G Cap), then the total payments to which Executive is entitled under this Agreement or otherwise will not be reduced pursuant to paragraph 26.2. If this "best net" exception applies, Executive shall be fully responsible for paying any Excise Tax (and income or other taxes) that may be imposed on Executive pursuant to Section 4999 of the Code or otherwise.

26.4 The Company will engage a law firm, a certified public accounting firm, and/or a firm of reputable executive compensation consultants (the "Consultant") to make any necessary determinations and to perform any necessary calculations required in order to implement the rules set forth in this paragraph 26. The Consultant shall provide detailed supporting calculations to both the Company and Executive and all fees and expenses of the Consultant shall be borne by the Company. If the provisions of Section 280G and 4999 of the Code are repealed without succession, this paragraph 26 shall be of no further force or effect. In addition, if this provision does not apply to Executive for whatever reason, this paragraph shall be of no further force or effect.

27. Code Section 409A. This Agreement is intended to comply with Section 409A of the Code, or with an exemption thereto, and, to the maximum extent permitted, this Agreement shall be interpreted and administered consistent with that intent. Notwithstanding anything in this Agreement to the contrary, if the Company concludes that the payments described in paragraph 7 are subject to Section 409A of the Code, no such payments will be made prior to Executive's "separation from service" as defined in Treasury Regulation Section 1.409A-1(h)(applying the default rules of Treasury Regulation Section 1.409A-1(h)). In addition, if the payments described paragraph 7 are subject to Section 409A of the Code, and if Executive is a "specified employee" as defined in Treasury Regulation Section 1.409A-1(i)(1) on the date of his termination of employment, such payments shall not begin until the first day of the seventh month following his "separation from service." Installment payments shall be treated as separate payments for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii). Executive acknowledges that the Company makes no representations or warranties regarding the tax treatment or tax consequences of any compensation, benefits or other payments made pursuant to this Agreement, including by operation of Section 409A of the Code. Neither the time nor schedule of any payment under this Agreement may be accelerated or subject to further deferral except as permitted by Section 409A of the Code and Executive does not have any right to make any election regarding the time or form of any payment due under this Agreement. Any expenses that are to be reimbursed pursuant to this Agreement that are subject to Section 409A of the Code shall: (i) be paid no later than the last day of Executive's tax year following the tax year in which the expense was incurred; (ii) not affect or be affected by any other expenses that are eligible for reimbursement in any other tax year of Executive; and (iii) not be subject to liquidation or exchange for any other benefit.

Signature page follows

Signature page to Employment Agreement

IN WITNESS HEREOF, the parties have executed this Agreement as of the date set forth below.

EXECUTIVE

Dated: June 26, 2019

/s/ Daniel R. Hart

Daniel R. Hart

AVID BIOSERVICES, INC.

Dated: June 26, 2019

By: /s/ Richard B. Hancock

Name: Richard B. Hancock

Title: Interim President and Chief Executive Officer

EXHIBIT A

EXECUTIVE ARBITRATION AGREEMENT

THIS ARBITRATION AGREEMENT (“Agreement”) is made by and between Avid Bioservices, Inc. (“Employer”) and Daniel R. Hart (“Executive”).

The purpose of this Agreement is to establish final and binding arbitration for all disputes arising out of Executive’s relationship with Employer, including without limitation Executive’s employment or the termination of Executive’s employment. Executive and Employer desire to arbitrate their disputes on the terms and conditions set forth below to gain the benefits of a speedy, impartial dispute-resolution procedure. Executive and Employer agree to the following:

1. Claims Covered by the Agreement. Executive and Employer mutually consent to the resolution by final and binding arbitration of all claims or controversies (“claims”) that Employer may have against Executive or that Executive may have against Employer or against its officers, directors, partners, employees, agents, pension or benefit plans, administrators, or fiduciaries, or any subsidiary or affiliated company or corporation (collectively referred to as “Employer”), relating to, resulting from, or in any way arising out of Executive’s relationship with Employer, Executive’s employment relationship with Employer and/or the termination of Executive’s employment relationship with Employer, to the extent permitted by law. The claims covered by this Agreement include, but are not limited to, claims for wages or other compensation due; claims for breach of any contract or covenant (express or implied); tort claims; claims for unfair competition, misappropriation of trade secrets, breach of fiduciary duty, usurpation of corporate opportunity or similar claims; claims for discrimination and harassment (including, but not limited to, race, sex, religion, national origin, age, marital status or medical condition, disability, sexual orientation, or any other characteristic protected by federal, state or local law); claims for benefits (except where an employee benefit or pension plan specifies that its claims procedure shall culminate in an arbitration procedure different from this one); and claims for violation of any public policy, federal, state or other governmental law, statute, regulation or ordinance.

2. Required Notice of Claims and Statute of Limitations. Executive may initiate arbitration by serving or mailing a written notice to the Board of Directors. Employer may initiate arbitration by serving or mailing a written notice to Executive at the last address recorded in Executive’s personnel file. The written notice must specify the claims asserted against the other party. Notice of any claim sought to be arbitrated must be served within the limitations period established by applicable federal or state law.

3. Arbitration Procedures.

a. After demand for arbitration has been made by serving written notice under the terms of paragraph 2 of this Agreement, the party demanding arbitration shall file a demand for arbitration with the American Arbitration Association (“AAA”) in Orange County.

b. Except as provided herein, all rules governing the arbitration shall be the then applicable rules set forth by the AAA. If the dispute is employment-related, the dispute shall be governed by the AAA’s then current version of the national rules for the resolution of employment disputes. The AAA’s then applicable rules governing the arbitration may be obtained from the AAA’s website which currently is www.adr.org.

c. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state in which the claim arose, or federal law, or both, as applicable to the claim(s) asserted. The arbitrator shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable.

d. Either party may file a motion for summary judgment with the arbitrator. The arbitrator is entitled to resolve some or all of the asserted claims through such a motion. The standards to be applied by the arbitrator in ruling on a motion for summary judgment shall be the applicable laws as specified in paragraph 4(c) of this Agreement.

e. Discovery shall be allowed and conducted pursuant to the then applicable arbitration rules of the AAA. The arbitrator is authorized to rule on discovery motions brought under the applicable discovery rules.

4. Application for Emergency Injunctive and/or Other Equitable Relief. Claims by Employer or Executive for emergency injunctive and/or other equitable relief relating to unfair competition and/or the use and/or unauthorized disclosure of trade secrets or confidential information shall be subject to the then current version of the AAA's Optional Rules for Emergency Measures of Protection set forth within the AAA's Commercial Dispute Resolution Procedures. The AAA shall appoint a single emergency arbitrator to handle the claim(s) for emergency relief. The emergency arbitrator selected by the AAA shall be either a retired judge or an individual experienced in handling matters involving claims for emergency injunctive and/or other equitable relief relating to unfair competition and the use or unauthorized disclosure of trade secrets and/or confidential information.

5. Arbitration Decision. The arbitrator's decision will be final and binding. The arbitrator shall issue a written arbitration decision revealing the essential findings and conclusions upon which the decision and/or award is based. A party's right to appeal the decision is limited to grounds provided under applicable federal or state law.

6. Place of Arbitration. The arbitration will be at a mutually convenient location that must be within 50 miles of Executive's last company employment location. If the parties cannot agree upon a location, then the arbitration will be held at the AAA's office nearest to Executive's last employment location.

7. Administrative Agencies. Nothing in this Agreement is intended to prohibit Employee from filing a claim or communicating with the United States Equal Employment Opportunity Commission ("EEOC"), the National Labor Relations Board ("NLRB") or the California Department of Fair Employment and Housing ("DFEH").

8. Construction. Should any portion of this Agreement be found to be unenforceable, such portion will be severed from this Agreement, and the remaining portions shall continue to be enforceable.

9. Representation, Fees and Costs. Each party may be represented by an attorney or other representative selected by the party. Except as otherwise provided for by statute, the arbitrator shall award reasonable attorneys' fees and costs (including without limitation, costs for depositions, experts, etc.) to Executive provided Executive is the prevailing party except that Employer shall be responsible for the arbitrator's fees and costs, or any fees or costs charged by the AAA, to the extent they exceed any fee or cost that Executive would be required to bear if the action were brought in court. In no event shall Executive be responsible for attorneys' fees and costs of Employer.

10. Waiver of Jury Trial/Exclusive Remedy. EXECUTIVE AND EMPLOYER KNOWINGLY AND VOLUNTARILY WAIVE ANY CONSTITUTIONAL RIGHT TO HAVE ANY DISPUTE BETWEEN THEM DECIDED BY A COURT OF LAW AND/OR BY A JURY IN COURT.

11. Sole and Entire Agreement. This Agreement expresses the entire Agreement of the parties and shall supersede any and all other agreements, oral or written, concerning arbitration. This Agreement is not, and shall not be construed to create, any contract of employment, express or implied.

12. Requirements for Modification or Revocation. This Agreement to arbitrate shall survive the termination of Executive's employment. It can only be revoked or modified by a writing signed by the Chairperson of the Compensation Committee of the Board of Directors of Employer and Executive that specifically states an intent to revoke or modify this Agreement.

13. Voluntary Agreement. EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS CAREFULLY READ THIS AGREEMENT, UNDERSTANDS ITS TERMS, AND AGREES THAT ALL UNDERSTANDINGS AND AGREEMENTS BETWEEN EMPLOYER AND EXECUTIVE RELATING TO THE SUBJECTS COVERED IN THE AGREEMENT ARE CONTAINED IN IT. EXECUTIVE HAS KNOWINGLY AND VOLUNTARILY ENTERED INTO THE AGREEMENT WITHOUT RELIANCE ON ANY PROVISIONS OR REPRESENTATIONS BY EMPLOYER, OTHER THAN THOSE CONTAINED IN THIS AGREEMENT.

EXECUTIVE FURTHER ACKNOWLEDGES THAT EXECUTIVE HAS BEEN GIVEN THE OPPORTUNITY TO DISCUSS THIS AGREEMENT WITH EXECUTIVE'S PRIVATE LEGAL COUNSEL AND EXECUTIVE HAS UTILIZED THAT OPPORTUNITY TO THE EXTENT DESIRED.

EXECUTIVE:

/s/ Daniel R. Hart
Daniel R. Hart

EMPLOYER:

AVID BIOSERVICES, INC., a Delaware corporation

By: /s/ Richard B. Hancock
Name: Richard B. Hancock
Title: Interim President and Chief Executive Officer

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. 333-228735) pertaining to the 2018 Omnibus Incentive Plan of Avid Bioservices, Inc.,
- (2) 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.,
- (3) 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.,
- (4) Registration Statement (Form S-8 No. 333-215053) pertaining to the 2010 Employee Stock Purchase Plan of Avid Bioservices, Inc.,
- (5) Registration Statement (Form S-8 No. 333-164026) pertaining to the 2009 Stock Incentive Plan of Avid Bioservices, Inc.,
- (6) Registration Statement (Form S-8 No. 333-130271) pertaining to the 2005 Stock Incentive Plan of Avid Bioservices, Inc.,
- (7) Registration Statement (Form S-8 No. 333-121334) pertaining to the 2003 Stock Incentive Plan of Avid Bioservices, Inc.,
- (8) Registration Statement (Form S-8 No. 333-106385) pertaining to the 2002 Non-Qualified Stock Option Plan of Avid Bioservices, Inc., and
- (9) Registration Statement (Form S-3 No. 333-222548) of Avid Bioservices, Inc.;

of our reports dated June 27, 2019 with respect to the consolidated financial statements of Avid Bioservices, Inc. and the effectiveness of internal control over financial reporting of Avid Bioservices, Inc., included in this Annual Report on Form 10-K for the year ended April 30, 2019.

/s/ Ernst & Young LLP

Irvine, California
June 27, 2019

Certification of Chief Executive Officer

I, Richard B. Hancock, 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: June 27, 2019

Signed: /s/ Richard B. Hancock
Richard B. Hancock
Interim President and Chief Executive Officer

Certification of Chief Financial Officer

I, Daniel R. Hart, 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: June 27, 2019

Signed: /s/ Daniel R. Hart
Daniel R. Hart
Chief 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, Richard B. Hancock, certify, as of the date hereof, 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, 2019 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. at the dates and for the periods indicated.

Date: June 27, 2019

By: /s/ Richard B. Hancock
Richard B. Hancock
Interim President and Chief Executive Officer

I, Daniel R. Hart, certify, as of the date hereof, 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, 2019 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. at the dates and for the periods indicated.

Date: June 27, 2019

By: /s/ Daniel R. Hart
Daniel R. Hart
Chief Financial Officer

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.