UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 001-38112

ATHENEX, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**43-1985966**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1001 Main Street, Suite 600 Buffalo, NY	**14203**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code:
(716) 427-2950

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the 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	☒ (Do not check if a small reporting company)	Small 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 Exchange Act). Yes ☐ No ☒

As of August 7, 2018, the registrant had 66,342,968 shares of common stock, $0.001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

ATHENEX, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(unaudited)
(In thousands, except share and per share data)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 14,068	$ 39,284
Short-term investments	66,593	11,753
Accounts receivable, net of chargebacks and other deductions of $7,416 and $3,711, respectively, and allowance for doubtful accounts of $26 and $84, respectively	5,138	8,468
Inventories	21,803	16,561
Prepaid expenses and other current assets	11,951	7,692
Total current assets	119,553	83,758
Property and equipment, net	10,404	9,651
Investment	447	328
Goodwill	37,665	37,795
Intangible assets, net	7,736	8,572
Deferred income tax asset	416	121
Other long-term assets	1,067	188
Total assets	$ 177,288	$ 140,413
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 14,342	$ 16,659
Accrued expenses	26,833	25,776
Deferred revenue	5,526	1,202
Current portion of long-term debt - related parties	—	491
Current portion of long-term debt	1,050	1,015
Total current liabilities	47,751	45,143
Long-term liabilities:		
Deferred compensation	2,598	2,313
Deferred rent	2,082	1,760
Capital lease obligations	449	475
Total liabilities	52,880	49,691
Commitments and contingencies (See Note 12)		
Stockholders' equity:		
Common stock, par value $0.001 per share, 250,000,000 shares authorized at June 30, 2018 and December 31, 2017; 65,293,660 and 59,894,362 shares issued at June 30, 2018 and December 31, 2017, respectively; 63,620,740 and 58,221,442 shares outstanding at June 30, 2018 and December 31, 2017, respectively	65	60
Additional paid-in capital	501,658	423,805
Accumulated other comprehensive income (loss)	(29)	(146)
Accumulated deficit	(370,433)	(326,276)
Less: treasury stock, at cost; 1,672,920 shares at June 30, 2018 and December 31, 2017	(7,406)	(7,406)
Total Athenex, Inc. stockholders' equity	123,855	90,037
Non-controlling interests	553	685
Total stockholders' equity	124,408	90,722
Total liabilities and stockholders' equity	$ 177,288	$ 140,413

The accompanying notes are an integral part of these condensed consolidated financial statements.

ATHENEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Loss
(unaudited)
(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Product sales, net	$ 11,471	$ 4,416	$ 24,076	$ 8,316
License fees and consulting revenue	91	98	25,182	696
Grant revenue	3	81	143	164
Total revenue	11,565	4,595	49,401	9,176
Costs and operating expenses:				
Cost of sales	9,443	4,137	20,769	6,976
Research and development expenses	26,572	17,597	47,875	44,005
Selling, general, and administrative expenses	12,817	13,632	25,897	23,431
Total costs and operating expenses	48,832	35,366	94,541	74,412
Operating loss	(37,267)	(30,771)	(45,140)	(65,236)
Interest (income) expense	(368)	3,281	(595)	5,657
Loss on derivative liability	—	4,587	—	8,863
Loss before income tax benefit	(36,899)	(38,639)	(44,545)	(79,756)
Income tax expense (benefit)	51	29	(256)	(63)
Net loss	(36,950)	(38,668)	(44,289)	(79,693)
Less: net loss attributable to non-controlling interests	(91)	(43)	(132)	(80)
Net loss attributable to Athenex, Inc.	$ (36,859)	$ (38,625)	$ (44,157)	$ (79,613)
Unrealized gain (loss) on investment, net of income taxes	75	(37)	40	(34)
Foreign currency translation adjustment, net of income taxes	(641)	181	77	680
Comprehensive loss	$ (37,425)	$ (38,481)	$ (44,040)	$ (78,967)
Net loss per share attributable to Athenex, Inc. common stockholders, basic and diluted (See Note 9)	$ (0.58)	$ (0.88)	$ (0.71)	$ (1.89)
Weighted-average shares used in computing net loss per share attributable to Athenex, Inc. common stockholders, basic and diluted (See Note 9)	63,310,219	43,741,096	62,487,328	42,208,612

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ATHENEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(unaudited)
(In thousands, except share data)

	Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury Stock		Total Athenex, Inc. stockholders' equity	Non-controlling interests	Total stockholders' equity
	Shares	Amount				Shares	Amount			
Balance at December 31, 2016	42,342,706	$ 42	$ 237,581	$ (195,106)	$ (1,304)	(1,656,920)	$ (7,406)	$ 33,807	$ 862	$ 34,669
Sale of common stock, net of costs and discounts of $11,706	6,900,000	7	64,187	—	—	—	—	64,194	—	64,194
Conversion of bonds	7,727,273	8	84,992	—	—	—	—	85,000	—	85,000
Stock-based compensation cost	400,000	—	7,740	—	—	—	—	7,740	—	7,740
Research and development licensing fee satisfied with stock	568,182	1	6,249	—	—	—	—	6,250	—	6,250
Vesting of restricted stock	391,982	1	1,079	—	—	—	—	1,080	—	1,080
Stock options and warrants exercised	406,386	—	439	—	—	—	—	439	—	439
Repurchase of common stock	—	—	—	—	—	(16,000)	—	—	—	—
Non-controlling interests	—	—	—	—	—	—	—	—	49	49
Net loss	—	—	—	(79,613)	—	—	—	(79,613)	(80)	(79,693)
Other comprehensive income, net of tax	—	—	—	—	646	—	—	646	—	646
Balance at June 30, 2017 (unaudited)	58,736,529	$ 59	$ 402,267	$ (274,719)	$ (658)	(1,672,920)	$ (7,406)	$ 119,543	$ 831	$ 120,374

	Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury Stock		Total Athenex, Inc. stockholders' equity	Non-controlling interests	Total stockholders' equity
	Shares	Amount				Shares	Amount			
Balance at December 31, 2017	59,894,362	$ 60	$ 423,805	$ (326,276)	$ (146)	(1,672,920)	$ (7,406)	$ 90,037	$ 685	$ 90,722
Sale of common stock, net of costs and discounts of $4,611	4,765,000	4	68,051	—	—	—	—	68,055	—	68,055
Stock-based compensation cost	—	—	5,242	—	—	—	—	5,242	—	5,242
Vesting of restricted stock	210,000	—	1,002	—	—	—	—	1,002	—	1,002
Stock options and warrants exercised	317,117	1	1,558	—	—	—	—	1,559	—	1,559
Research and development licensing fee satisfied with stock	107,181	—	2,000	—	—	—	—	2,000	—	2,000
Net loss	—	—	—	(44,157)	—	—	—	(44,157)	(132)	(44,289)
Other comprehensive income, net of tax	—	—	—	—	117	—	—	117	—	117
Balance at June 30, 2018 (unaudited)	$ 65,293,660	$ 65	$ 501,658	$ (370,433)	$ (29)	$ (1,672,920)	$ (7,406)	$ 123,855	$ 553	$ 124,408

The accompanying notes are an integral part of these condensed consolidated financial statements.

ATHENEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited)
(In thousands)

	Six Months Ended June 30,	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$ (44,289)	$ (79,693)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,665	1,664
Stock-based compensation expense	6,244	8,820
Change in fair value of derivative liability	—	8,863
Amortization of debt discount	—	3,040
Deferred rent expense	322	424
(Gain) loss on disposal of assets and impairment charges	(62)	80
Research and development license fees settled with convertible bond and stock	2,000	13,250
Interest incurred on converted bonds	—	3,350
Deferred income taxes	(295)	(108)
Changes in operating assets and liabilities:		
Receivables, net	3,330	(1,006)
Prepaid expenses and other assets	(4,259)	(824)
Inventories	(5,242)	(5,020)
Accounts payable and accrued expenses	2,557	(1,643)
Net cash used in operating activities	(38,029)	(48,803)
Cash flows from investing activities:		
Purchase of property and equipment	(1,635)	(3,442)
Payments for licenses	-	(1,550)
Purchases of short-term investments	(71,090)	(33,202)
Sale of short-term investments	16,172	11,657
Net cash used in investing activities	(56,553)	(26,537)
Cash flows from financing activities:		
Proceeds from sale of stock	72,666	75,900
Proceeds from issuance of convertible bonds	—	30,000
Costs incurred related to the sale of stock	(4,611)	(9,044)
Proceeds from exercise of stock options	1,559	439
Investment from non-controlling interest	—	49
Repayment of capital lease obligations and long-term debt	(515)	(553)
Net cash provided by financing activities	69,099	96,791
Net (decrease) increase in cash and cash equivalents	(25,483)	21,451
Cash and cash equivalents, beginning of period	39,284	33,125
Effect of exchange rate changes on cash and cash equivalents	267	574
Cash and cash equivalents, end of period	$ 14,068	$ 55,150
Non-cash investing and financing activities:		
Accrued purchases of property and equipment	$ 133	$ 80
Cost of equity raise in accounts payable and accrued expenses	$ 1,067	$ 1,124
Convertible bond issued in lieu of licensing cash payment	$ —	$ 7,000
Common stock issued in lieu of licensing cash payment	$ 2,000	$ 6,250
Common stock issued upon the conversion of bonds	$ —	$ 85,000
Property and equipment financed under capital lease	$ —	$ 234

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. Company and Nature of Business

Organization and Description of Business

Athenex, Inc. (the "Company" or "Athenex") is a global biopharmaceutical company dedicated to the discovery, development and commercialization of novel therapies for the treatment of cancer through its Orascovery and Src Kinase Inhibition research platforms. The Company originally formed under the name Kinex Pharmaceuticals LLC ("Kinex") in November 2003, commenced operations on February 5, 2004, and operated as a limited liability company until it was incorporated in the State of Delaware under the name Kinex Pharmaceuticals, Inc. on December 31, 2012. The Company changed its name to Athenex, Inc. on August 26, 2015.

The Company's primary activities since inception have been conducting research and development activities internally and through corporate collaborators, in-licensing and out-licensing pharmaceutical compounds and technology, and conducting preclinical and clinical testing, identifying and evaluating additional drug candidates for potential in-licensing or acquisition, and raising capital to support development activities. In addition to licensing and consulting revenue, the Company also generates revenue from its commercial and global supply chain platforms. See Note 11 – *Revenue Recognition.*

Initial Public Offering

In June 2017, the Company completed its initial public offering ("IPO") on the NASDAQ Global Select Market. An aggregate of 6,900,000 shares of its common stock were sold at $11.00 per share for cash proceeds of $64.2 million, net of underwriting discounts and commissions of $6.1 million and offering costs of $5.6 million.

In connection with the IPO, convertible bonds with an aggregate principal value of $68.0 million, and a carrying value of $55.8 million, were converted into 7,727,273 shares of common stock. In September 2017, the remaining convertible bond with a principal value of $7.0 million was converted into 795,455 shares of common stock, at a 20% discount from the IPO price.

Follow-On Offering

In January 2018, the Company completed an underwritten public offering of 4,300,000 shares of its common stock. The Company granted the underwriters a 30-day option to purchase up to an additional 645,000 shares of common stock. In February 2018, the underwriters partially exercised their option, purchasing an additional 465,000 shares of common stock. All shares were offered by the Company at a price of $15.25 per share. Net proceeds were $68.1 million, after deducting underwriting discounts and commissions and offering expenses of $4.6 million.

Significant Risks and Uncertainties

The Company has incurred operating losses since its inception and, as a result, as of June 30, 2018 and December 31, 2017 had an accumulated deficit of $370.4 million and $326.3 million, respectively. Operations have been funded primarily through the sale of common stock and, to a lesser extent, from convertible bond financing, senior secured loan, revenue, and grant funding. The Company will require significant additional funds to conduct clinical trials and to fund its operations. There can be no assurances, however, that additional funding will be available on favorable terms, or at all. If adequate funds are not available, the Company may be required to delay, modify, or terminate its research and development programs or reduce its planned commercialization efforts. The Company believes that it will be able to obtain additional working capital through equity financings or other arrangements to fund operations, including additional public offerings; however, there can be no assurance that such additional financing, if available, can be obtained on terms acceptable to the Company. If the Company is unable to obtain such additional financing, the Company will need to reevaluate future operating plans and might delay, modify, or terminate its research and development programs or reduce its planned commercialization efforts. Accordingly, there is substantial doubt regarding the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of the business. The Company's recurring losses from operations and negative cash flows from operations have raised substantial doubt regarding its ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Athenex is subject to a number of risks similar to other biopharmaceutical companies, including, but not limited to, the lack of available capital, possible failure of preclinical testing or clinical trials, inability to obtain marketing approval of product candidates, competitors developing new technological innovations, market acceptance of the Company's products, and protection of proprietary

technology. If the Company does not successfully commercialize any of its product candidates, it will be unable to generate sufficient product revenue and might not, if ever, achieve profitability.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles in the United States of America ("GAAP") for interim financial information (Accounting Standards Codification ("ASC") 270, *Interim Reporting*) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information necessary for a full presentation of financial position, results of operations, and cash flows in conformity with GAAP. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of the Company for the periods presented. These condensed consolidated financial statements reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. Intercompany transactions and balances have been fully eliminated in consolidation.

Results of the operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results expected for the full fiscal year or for any future annual or interim period. These financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 26, 2018.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Such management estimates include those relating to assumptions used in clinical research accruals, chargebacks, allowance for doubtful accounts, inventory reserves, income taxes, the estimated useful life and recoverability of long-lived assets, and the valuation of stock-based awards. Actual results could differ from those estimates.

Concentration of Credit Risk, Other Risks and Uncertainties

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and short-term investments. The Company deposits its cash equivalents in interest-bearing money market accounts and invests in highly liquid U.S. treasury notes, commercial papers and corporate bonds. The Company deposits its cash with multiple financial institutions. Cash balances exceed federally insured limits. The primary focus of the Company's investment strategy is to preserve capital and meet liquidity requirements. The Company's investment policy addresses the level of credit exposure by limiting the concentration in any one corporate issuer and establishing a minimum allowable credit rating. The Company also has significant assets and liabilities held in its overseas manufacturing facility in China, and therefore is subject to foreign currency fluctuation.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "*Leases (Topic 842)*" which requires that lessees distinguish between finance and operating leases and recognize the assets and liabilities that arise from the leases on the balance sheet. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is required to be applied on a modified retrospective basis. The Company is evaluating the effect of this standard on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, "*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,"* which expands the scope of Topic 718, "*Compensation – Stock Compensation,"* which only included share-based payments to employees, to include share-based payments issued to nonemployees for goods and services. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will only need to remeasure liability-classified awards that have not yet been settled as of the date of adoption, and equity-classified awards for which a measurement date has not been established through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company is evaluating the effect of this standard on its consolidated financial statements.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU has replaced most historical revenue recognition guidance in U.S. GAAP when it became effective. The Company adopted this standard on January 1, 2018 using the modified retrospective transition method. The Company did not record a cumulative catch-up adjustment upon adoption, as there was no effect on the timing or amount of revenue recognized for existing contracts that were not completed as of the implementation date. Refer to Note 11 – *Revenue Recognition* for more information on the effect of this ASU.

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*. The primary purpose of this ASU is to reduce the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU 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 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. This ASU is effective for fiscal years beginning after December 15, 2017. This ASU is required to be applied retrospectively. The Company adopted this standard on January 1, 2018 and the adoption of this ASU did not impact the Company's condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "*Stock Compensation—Scope of Modification Accounting*," which provides guidance as to when a modification of a share-based award must be accounted for. In general, if a modification of the terms and conditions of an award does not change the fair value of the award (or calculated value or intrinsic value, if used instead of fair value), does not change the vesting conditions of the award, and does not change the classification of the award as an equity instrument or a liability instrument, then an entity need not account for the modification. This guidance is effective in the first quarter of fiscal year 2018. The new rules are applied prospectively to awards modified after the adoption date. The Company adopted this standard on January 1, 2018 and the adoption of this ASU did not impact the Company's condensed consolidated financial statements.

3. Inventories

Inventories consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Raw materials and purchased parts	$ 2,441	$ 1,471
Work in progress	2,756	1,877
Finished goods	16,606	13,213
Total inventories	$ 21,803	$ 16,561

4. Intangible Assets, net

The Company's identifiable intangible assets, net, consist of the following (in thousands):

	June 30, 2018			
	Cost/Fair Value	Accumulated Amortization	Impairments	Net
Amortizable intangible assets:				
Licenses	$ 4,650	$ 1,615	$ —	$ 3,035
Polymed customer list	1,593	808	—	785
Polymed technology	3,712	893	—	2,819
Product rights	530	198	—	332
Indefinite-lived intangible assets:				
CDE in-process research and development (IPR&D)	1,025	—	—	1,025
Effect of currency translation adjustment	(260)	—	—	(260)
Total intangible assets, net	$ 11,250	$ 3,514	$ -	$ 7,736

	December 31, 2017			
	Cost/Fair Value	Accumulated Amortization	Impairments	Net
Amortizable intangible assets				
Licenses	$ 4,650	$ 1,173	$ —	$ 3,477
Polymed customer list	1,593	675	—	918
Polymed technology	3,712	762	—	2,950
Product rights	530	132	—	398
Indefinite-lived intangible assets:				
CDE in-process research and development (IPR&D)	1,106	—	80	1,026
Effect of currency translation adjustment	(197)	—	—	(197)
Total intangibles, net	$ 11,394	$ 2,742	$ 80	$ 8,572

As of June 30, 2018, licenses at cost include an Orascovery license of $0.4 million and licenses purchased from Gland Pharma Limited ("Gland") of $4.3 million. The Company purchased the Orascovery license directly from Hanmi Pharmaceuticals Co. Ltd. ("Hanmi") and is being amortizing it on a straight-line basis over a period of 12.75 years, the remaining life of the license agreement at the time of purchase. The licenses purchased from Gland are being amortized on a straight-line basis over a period of five years, the remaining life of the license agreement at the time of purchase.

The remaining intangible assets were acquired in connection with the acquisitions of Athenex Pharma Solutions ("APS" formerly known as QuaDPharma), Polymed, and CDE. Intangible assets are amortized using an economic consumption model over their useful lives. The APS customer list was being amortized on a straight-line basis over 7 years. The Polymed customer list and technology are amortized on a straight-line basis over 6 and 12 years, respectively. The CDE in-process research and development, ("IPR&D"), will not be amortized until the related projects are completed. IPR&D will be tested annually for impairment, unless conditions exist causing an earlier impairment test (e.g., abandonment of project). No impairment charges were recorded during the six months ended June 30, 2018. During the six months ended June 30, 2017, the Company abandoned a project and thus wrote off the related balance of $0.1 million as impaired and included it in the research and development expenses in the consolidated statement of operations and comprehensive loss for the six months ended June 30, 2017. The weighted-average useful life for all intangible assets was 8.24 years as of June 30, 2018.

The Company recorded $0.4 million of amortization expense for both the three-month periods ended June 30, 2018 and 2017, respectively, and $0.8 million of amortization expense for both the six-month periods ended June 30, 2018 and 2017, respectively.

5. Fair Value Measurements

Financial instruments consist of cash and cash equivalents, short-term investments, an equity investment, accounts receivable, accounts payable, accrued liabilities, and debt. Short-term investments and the equity investment are stated at fair value. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and debt, are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date of such amounts.

ASC 820, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the ASC 820 are described as follows:

Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2—Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3—Inputs to the valuation methodology are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

Transfers between levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs. There were transfers between Levels 1, 2 or 3 for any of the periods presented.

The following tables represent the fair value hierarchy for those assets and liabilities that the Company measures at fair value on a recurring basis (in thousands):

	Fair Value Measurements at June 30, 2018 Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 2,960	$ 2,960	$ —	$ —
Short-term investments - commercial paper	12,919	—	12,919	—
Short-term investments - corporate notes	22,603	—	22,603	—
Short-term investments - U.S. government bonds	32,404	—	32,404	—
Investment	447	447	—	—
Total assets	$ 71,333	$ 3,407	$ 67,926	$ —

	Fair Value Measurements at December 31, 2017 Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 13,804	$ 13,804	$ —	$ —
Short-term investments - commercial paper	14,982	—	14,982	—
Short-term investments - corporate notes	2,824	—	2,824	—
Short-term investments - U.S. government bonds	5,006	—	5,006	—
Investment	328	328	—	—
Total assets	$ 36,944	$ 14,132	$ 22,812	$ —

The Company classifies its money market funds within Level 1 because it uses quoted market prices to determine their fair value. The Company classifies its commercial paper, corporate notes, and U.S. government bonds within Level 2 because it uses quoted prices for similar assets or liabilities in active markets and each has a specified term and all level 2 inputs are observable for substantially the full term of each instrument.

The Company owns 68,000 shares of PharmaEssentia, a company publicly traded on the Taiwan OTC Exchange. As of each of June 30, 2018 and December 31, 2017, the Company's investment in PharmaEssentia was valued at the reported closing price. This investment is classified as a level 1 investment.

6. Income Taxes

The Company did not record a provision for federal income taxes for the six months ended June 30, 2018 because it expects to generate a loss for the year ending December 31, 2018 and the Company's net deferred tax assets continue to be nearly fully offset by a valuation allowance. Tax benefit to date relates to foreign tax benefit on losses in the Peoples Republic of China ("PRC") offset by state franchise taxes and amortization of long-lived intangible assets in the U.S. and PRC.

7. Related Party Transactions

During the six months ended June 30, 2018 and 2017, the Company entered into transactions with individuals and companies that have financial interests in the Company. Related party transactions included the following:

a. In 2015, CDE signed an agreement with Avalon BioMedical (Management) Limited and its subsidiaries ("Avalon") under which Avalon would receive certain administrative services and would occupy space at CDE's research location. Avalon would

reimburse CDE for these administrative services as incurred and pay CDE a percentage of the total rent payment based on its staff headcount occupying the Hong Kong research and development facility (See Note 12—*Commitments and Contingencies*). Members of the Company's board and management collectively have a controlling interest in Avalon. The Company does not hold any interest in Avalon and does not have any obligations to absorb losses or any rights to receive benefits from Avalon. As of June 30, 2018 and December 31, 2017, Avalon held 786,061 and 678,880 shares of the Company's common stock, respectively, which represented approximately 1% of the Company's total issued shares. Balances due from Avalon recorded on the consolidated balance sheets were not significant.

In June 2018, the Company entered into two in-licensing agreements with Avalon wherein the Company obtained certain intellectual property from Avalon in an effort to develop and commercialize the underlying products. Under these agreements the Company is required to pay upfront fees and future milestone payments and sales-based royalties. During the six months ended June 30, 2018, the Company recorded $5.5 million of upfront fees, consisting of $3.5 million in cash and $2.0 million in equity, as research and development expense on its condensed consolidated statement of operations and comprehensive loss. As of June 30, 2018, $3.5 million was recorded as an accrued liability and 107,181 shares of common stock were issued to Avalon at a price of $18.66 per share in connection with the license agreements.

b. The Company receives consulting and licensing revenue from PharmaEssentia, a company in which Athenex has an investment classified as available-for-sale (see Note 5—*Fair Value Measurements*). Revenue recorded and cost-sharing funds received from PharmaEssentia amounted to $0.2 million and $0 for the three months ended June 30, 2018 and 2017, and $0.3 and $0.5 million for the six months ended June 30, 2018 and 2017, respectively.

c. The Company receives certain clinical development services from ZenRx Limited and its subsidiaries ("ZenRx"), a company for which one of our executive officers serves on the board of directors. In connection with such services, the Company made payments to ZenRx of $0.1 million for both the three months ended June 30, 2018 and 2017, respectively, and $0.2 million for both the six months ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, amounts owed to ZenRx were $0.1 million. In April 2013, the Company entered into a license agreement with ZenRx pursuant to which the Company granted an exclusive, sublicensable license to use certain of our intellectual property to develop and commercialize Oratecan and Oraxol in Australia and New Zealand, and a non-exclusive license to manufacture a certain compound, but only for use in Oratecan and Oraxol. ZenRx is responsible for all development, manufacturing and commercialization, and the related costs and expenses, of any product candidates resulting from the agreement. No revenue was earned from this license agreement in the periods presented in these consolidated financial statements.

d. The Company received consulting services from RSJ Consulting LLC ("RSJ"), a limited liability company for which one of our executive officers serves as the principal. Services incurred from RSJ amounted to $0 million and less than $0.1 million for the three months ended June 30, 2018 and 2017, respectively, and $0 million and $0.1 million for the six months ended June 30, 2018 and 2017, respectively.

e. The Company issued and sold $4.0 million in convertible bonds in 2017 to related parties. During the first quarter of 2017, the Company issued and sold $4.0 million in convertible bonds to two related parties. One of the holders of more than 5% of our outstanding common stock as of the IPO date and a director of the Company each purchased $2.0 million in convertible bonds. In June 2017, these bonds were converted into 2,727,273 shares of common stock.

f. Certain family members of executives perform consulting services to the Company. Such services were not significant to the consolidated financial statements.

8. Stock-Based Compensation

Common Stock Option Plans

The Company has three common stock option plans adopted in 2013, 2007 and 2004 (the "Plans") which authorize the grant of up to 11,800,000 common stock options to employees, directors, and consultants. Additionally, on June 14, 2017, the Company adopted its 2017 Omnibus Incentive Plan and 2017 Employee Stock Purchase Plan (the "2017 Plans"). Under the 2017 Plans, 5,200,000 shares of common stock were reserved for future issuance to employees, directors, and consultants, including 1,000,000 reserved for an Employee Stock Purchase Plan, which was established at IPO but no shares have yet been issued.

Stock Options

The total fair-value of stock options vested and recorded as compensation expense during the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017 was $3.1 million, $1.7 million, $5.2 million, and $3.3 million, respectively. As of June 30, 2018 and 2017, $21.6 million and $17.9 million of unrecognized cost related to non-vested stock options was expected to be recognized over a weighted-average period of approximately 1.9 years. The total intrinsic value of options exercised was approximately $3.7 million and $0.4 million for the six months ended June 30, 2018 and 2017, respectively.

The following table summarizes the status of the Company's stock option activity granted under the Plans to employees, directors, and consultants (in thousands, except stock option amounts):

	Stock Options	Weighted-Average Exercise price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2017	10,176,643	$ 7.19	6.83	$ 88,615
Granted	1,241,400	17.25		
Exercised	(317,117)	4.92		
Forfeited and expired	(34,265)	9.65		
Outstanding at June 30, 2018	11,066,661	$ 8.38	6.79	$ 113,790
Vested and exercisable at June 30, 2018	8,005,148	$ 6.45	5.97	$ 97,715

The Company determines the fair value of stock-based awards on the grant date using the Black-Scholes option pricing model, which is impacted by assumptions regarding a number of highly subjective variables. The following table summarizes the weighted-average assumptions used as inputs to the Black-Scholes model during the periods indicated:

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Weighted average grant date fair value	$ 9.83	$ 6.49
Expected dividend yield	—%	—%
Expected stock price volatility	59%	66%
Risk-free interest rate	2.58%	1.74%
Expected life of options (in years)	6.1	6.2

Restricted Stock

Restricted stock grants cliff vest on the anniversaries of their grant dates. During the six months ended June 30, 2018, 210,000 restricted shares were vested and as of June 30, 2018, 30,000 restricted shares remained unvested.

Stock-Based Compensation Cost

The components of stock-based compensation and the amounts recorded within research and development expenses and selling, general, and administrative expenses in the Company's consolidated statements of operations and comprehensive loss consisted of the following for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options	$ 3,081	$ 1,736	$ 5,242	$ 3,340
Vesting of restricted stock grants	462	540	1,002	1,080
Stock awarded to directors and officers	—	4,400	—	4,400
Total stock-based compensation expense	$ 3,543	$ 6,676	$ 6,244	$ 8,820
Cost of sales	$ 56	$ 26	$ 100	$ 48
Research and development expenses	714	447	1,227	908
Selling, general, and administrative expenses	2,773	6,203	4,917	7,864
Total stock-based compensation expense	$ 3,543	$ 6,676	$ 6,244	$ 8,820

9. Net Loss per Share Attributable to Athenex, Inc. Common Stockholders

Basic net loss per share is calculated by dividing net loss attributable to Athenex, Inc. common stockholders by the weighted-average number of common shares issued, outstanding, and vested during the period. Diluted net loss per share is computed by dividing net loss attributable to common stockholders by the weighted-average number of common share and common shares equivalents for the period using the treasury-stock method. For the purposes of this calculation, warrants for common stock and stock options are considered common stock equivalents but are only included in the calculation of diluted net loss per share when their effect is dilutive.

The following outstanding shares of common stock equivalents were excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options and other common stock equivalents	11,055,600	9,819,089	10,481,037	9,749,264
Unvested restricted shares	205,000	596,651	222,500	629,317
Total potential dilutive shares	11,260,600	10,415,740	10,703,537	10,378,581

10. Business Segment, Geographic, and Concentration Risk Information

The Company has three operating segments, which are organized based mainly on the nature of the business activities performed and regulatory environments in which they operate. The Company also considers the types of products from which the reportable segments derive their revenue (only applicable to two reportable segments). Each operating segment has a segment manager who is held accountable for operations and has discrete financial information that is regularly reviewed by the Company's chief operating decision-maker. The Company's operating segments are as follows:

Oncology Innovation Platform—This operating segment performs research and development on certain of the Company's proprietary drugs, from the preclinical development of its chemical compounds, to the execution and analysis of its several clinical trials. This segment focuses specifically on the Orascovery oral absorption platform, the Src Kinase inhibitors, and the transmucosal drug delivery system. This segment performs research in the United States, Taiwan, Hong Kong, and mainland China.

Global Supply Chain Platform—This operating segment includes Athenex Pharma Solutions and Polymed. Athenex Pharma Solutions is a contract manufacturing company that provides small to mid-scale cGMP manufacturing of clinical and commercial products for pharmaceutical and biotech companies. Athenex Pharma Solutions also performs microbiological and analytical testing for raw material and formulated products and has expanded and begun to manufacture and sell pharmaceutical products under 503B regulations set forth by the U.S. Food and Drug Administration ("FDA"). Polymed markets and sells active pharmaceutical ingredient ("API") and medical devices in North America, Europe, and Asia from its locations in Texas and China. Polymed also develops new compounds, processing techniques, and manufactures API at Taihao, a cGMP facility in Chongqing, China.

Commercial Platform—This operating segment includes Athenex Pharmaceutical Division, which focuses on the manufacturing, distribution, and sales of generic pharmaceuticals. This segment provides services and products to external customers based mainly in the United States.

The Company's Oncology Innovation Platform segment operates and holds long-lived assets located in the United States, Taiwan, Hong Kong, and mainland China. The Global Supply Chain Platform segment operates and holds long-lived assets located in the United States and China. The Commercial Platform segment operates and holds long-lived assets located in the United States. For geographic segment reporting, product sales have been attributed to countries based on the location of the customer.

Segment information is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net (loss) income attributable to Athenex, Inc.:				
Oncology Innovation Platform	$ (29,856)	$ (33,018)	$ (28,347)	$ (61,277)
Global Supply Chain Platform	(4,122)	(1,981)	(10,691)	(3,129)
Commercial Platform	(2,881)	(3,626)	(5,119)	(15,207)
Total consolidated net loss attributable to Athenex, Inc.	$ (36,859)	$ (38,625)	$ (44,157)	$ (79,613)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total revenue:				
Oncology Innovation Platform	$ 184	$ 270	$ 25,415	$ 1,003
Global Supply Chain Platform	5,772	4,509	10,899	10,806
Commercial Platform	6,997	1,820	15,691	1,896
Total revenue for reportable segments	12,953	6,599	52,005	13,705
Intersegment revenue	(1,388)	(2,004)	(2,604)	(4,529)
Total consolidated revenue	$ 11,565	$ 4,595	$ 49,401	$ 9,176

Intersegment revenue eliminated in the above table reflects sales from the Global Supply Chain Platform to the Oncology Innovation Platform.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total revenue by product group:				
API sales	$ 3,206	$ 2,024	$ 5,848	$ 5,023
Medical device sales	435	232	1,020	567
Contract manufacturing revenue	154	247	395	684
Commercial product sales	7,676	1,913	16,813	2,042
License fees	-	-	25,000	500
Consulting revenue	91	98	182	196
Grant revenue	3	81	143	164
Total consolidated revenue	$ 11,565	$ 4,595	$ 49,401	$ 9,176

Intersegment revenue is recorded by the selling segment when it is realized or realizable and all revenue recognition criteria are met. Upon consolidation, all intersegment revenue and related cost of sales are eliminated from the selling segment's ledger.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total depreciation and amortization:				
Oncology Innovation Platform	$ 175	$ 120	$ 331	$ 212
Global Supply Chain Platform	527	495	845	1,021
Commercial Platform	245	233	489	431
Total consolidated depreciation and amortization	$ 947	$ 848	$ 1,665	$ 1,664

	June 30, 2018	December 31, 2017
Total assets:		
Oncology Innovation Platform	$ 102,099	$ 65,966
Global Supply Chain Platform	50,673	51,128
Commercial Platform	24,516	23,319
Total consolidated assets	$ 177,288	$ 140,413

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total revenue:				
United States	$ 7,944	$ 2,227	$ 17,846	$ 2,940
Spain	—	—	25,000	—
India	481	790	1,443	2,261
Austria	1,632	716	2,875	1,718
China	962	417	1,610	1,229
Other foreign countries	546	445	627	1,028
Total consolidated revenue	$ 11,565	$ 4,595	$ 49,401	$ 9,176

	June 30, 2018	December 31, 2017
Total property and equipment, net:		
United States	$ 5,732	$ 5,305
China	4,672	4,346
Total consolidated property and equipment, net	$ 10,404	$ 9,651

Customer revenue and accounts receivable concentration amounted to the following for the identified periods. These customers relate to the Commercial Platform segment and the Global Supply Chain Platform segment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Percentage of total revenue by customer:				
Customer A	25%	13%	14%	7%
Customer B	16%	—%	7%	—%
Customer C	11%	7%	8%	4%
Customer D	10%	15%	4%	18%
Customer E	4%	17%	3%	22%
Customer F	—%	—%	51%	—%

	June 30, 2018	December 31, 2017
Percentage of total accounts receivable by customer:		
Customer A	7%	13%
Customer B	27%	18%
Customer C	12%	10%
Customer D	8%	6%
Customer E	4%	26%

11. Revenue Recognition

The Company records revenue in accordance with ASC, Topic 606 "*Revenue from Contracts with Customers*." Under Topic 606, the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which it expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of Topic 606, the entity performs the following five steps: (i) identifies the contract(s) with a customer; (ii) identifies the performance obligations in the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. Following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue (See Note 10 – *Business Segment, Geographic, and Concentration Risk Information*).

1. Oncology Innovation Platform

License fees and consulting revenue

The Company out-licenses certain of its intellectual property ("IP") and provides related consulting services to pharmaceutical companies in specific territories that allow the customer to use, develop, commercialize, or otherwise exploit the licensed IP. In accordance with Topic 606, the Company analyzes each of its out-licensing contracts with customers to identify each of the performance obligations within the contract. Each out-license contains multiple performance obligations. The Company has determined that each of its out-license agreements with customers are classified as functional licenses and are capable of being distinct, because the IP that is licensed carries standalone value and is not expected to be altered through the life of the agreement. Therefore, for each of its out-licensing, the Company has determined that the execution of the license and delivery of the IP to the licensee is a distinct performance obligation. As such, the Company records revenue at a point-in-time for its out-licensing if any of the transaction price is allocated to the obligation, including up-front licensing fee payments. The Company's classification of each out-licensing as such requires significant judgment to be used by management. The Company considers the economic and regulatory characteristics of the licensed IP to determine if it has standalone value on the date of the licensing, which would make the licensing distinct and dictate that the Company recognizes any transaction price allocated to the license performance obligation at a point-in-time. Revenue recognized at a point-in-time for the execution of a distinct licensing of IP amounted to $0 for both the three months ended June 30, 2018 and 2017, and $25.0 million and $0 for the six months ended June 30, 2018 and 2017, respectively.

Other performance obligations included in the Company's out-licensing agreements include reaching milestone development and regulatory events by performing research and development activities over the licensed IP. The Company did not reach any milestone events during the six months ended June 30, 2018 and reached one milestone event during the six months ended June 30, 2017 resulting in $0.5 million of revenue recognized. The Company recorded the associated milestone payment as revenue at a point-in-time. Certain out-licensing agreements include performance obligations to manufacture and provide drug product in the future when the licensed product is approved for commercial sale. To date, the Company has not satisfied any of these performance obligations as none of its drugs have been approved by the regulatory agencies in each of the licensed territories.

In addition to the multiple performance obligations, the Company's out-licensing agreements include variable pricing. After the performance obligations are identified, the Company determines each portion of the transaction price, which generally includes upfront fees, milestone payments, and royalty payments. The Company begins by allocating the payments set forth in the agreement to the performance obligation to which the consideration is related. Then, the Company considers whether or not that transaction price is fixed, variable, or subject to return. If any portion of the transaction price is constrained by more than one performance obligation, the Company allocated that portion of the transaction price to the performance obligation that will be satisfied later and will not recognize revenue until it is fully satisfied and the constraint on the transaction price no longer exists. There are no other significant methods employed to allocate the transaction price to performance obligations in a contract. The Company exercises significant judgment when allocating the variable transaction prices to the proper performance obligations, considering if any of those payments are refundable or are contingent on any future events. Of the $30.0 million upfront license payment the Company received during the six months ended June 30, 2018, $5.0 million related to a separate performance obligation. Therefore, this amount was deferred and will be recognized when the future performance obligation is fulfilled. The Company did not use any other significant judgments related to out-licensing revenue during the six months ended June 30, 2018.

Grant revenue

The Company receives grant award funding to support its continuing research and development efforts. The Company considers these grants to be operating revenue as they support the Company's primary operating activities. Revenue is recognized when the underlying performance obligation is satisfied, which is generally when all grant eligibility criteria are met at a point-in-time. Performance obligations in these contracts include various eligibility conditions that the Company must satisfy to maintain the grant agreement. Grant revenue is not significant to the consolidated financial statements. Performance obligations remaining as of June 30, 2018 were not material to the financial statements and do not significantly alter the Company's business operations. Contracts for the grant revenue include a fixed transaction price and a single performance obligation. Therefore, the transaction price is allocated to the single obligation and there are no further allocation methods or assumptions used.

2. Global Supply Chain Platform

The Company's Global Supply Chain Platform manufactures API for use internally in its research and development and clinical studies and for sale to pharmaceutical customers globally. API revenue earned by the Global Supply Platform is recognized when the Company has satisfied its performance obligation, which is the shipment or the delivery of drug products. The underlying contracts for these sales are generally purchase orders and the Company recognizes revenue at a point-in-time. Any remaining performance

obligations related to product sales are the result of customer deposits and are reflected in the deferred revenue contract liability balance.

The Company also generates revenue, to a lesser extent, by providing small to mid-scale cGMP manufacturing of clinical and commercial products for pharmaceutical and biotech companies and selling pharmaceutical products under 503B regulations set forth by the FDA.

3. Commercial Platform

The Company's Commercial Platform generates revenue by distributing specialty products through independent pharmaceutical wholesalers. The wholesalers then sell to an end-user, normally a hospital, alternative healthcare facility, or an independent pharmacy, at a lower price previously established by the end-user and the Company. Sales are initially recorded at the list price sold to the wholesaler. Because these prices will be reduced for the end-user, the Company records a contra asset in accounts receivable and a reduction to revenue at the time of the sale, using the difference between the list price and the estimated end-user contract price. Upon the sale by the wholesaler to the end-user, the wholesaler will chargeback the difference between the original list price and price at which the product was sold to the end-user and such chargeback is offset against the initial estimated contra asset. The significant estimates inherent in the initial chargeback provision relate to wholesale units pending chargeback and to the ultimate end-user contract selling price. The Company bases the estimate for these factors on product-specific sales and internal chargeback processing experience, as well as estimated wholesaler inventory stocking levels. As of June 30, 2018 and December 31, 2017, the Company's chargeback provision totaled $7.4 million and $3.7 million, respectively, included as a reduction of accounts receivable. The Company's total chargeback expense was $5.1 million and $0.2 million for the three months ended June 30, 2018 and 2017, respectively, and $10.1 million and $0.3 million for the six months ended June 30, 2018 and 2017, respectively.

The Company offers cash discounts, which approximate 2.0% of the gross sales price, as an incentive for prompt customer payment, and, consistent with industry practice, the Company's return policy permits customers to return products within a window of time before and after the expiration of product dating. The Company expects that its wholesale customers will make prompt payments to take advantage of the cash discounts, and expects customers to use their right of return. Therefore, at the time of sale, product revenue and accounts receivable are reduced by the full amount of the discount offered and the return expected. The Company considers payment performance and historical return rates and adjusts the accrual to reflect actual experience. As of June 30, 2018 and December 31, 2017, the Company's accrual for cash discounts and return accrual included as a reduction of accounts receivable were not material to the consolidated financial statements.

The Company also offers contractual allowances, generally rebates or administrative fees, to certain wholesale customers, group purchasing organizations ("GPOs"), and end-user customers, consistent with pharmaceutical industry practices. Settlement of rebates and fees may generally occur from one to five months from date of sale. The Company provides a provision for contractual allowances at the time of sale based on the historical relationship between sales and such allowances. Contractual allowances are reflected in the consolidated financial statements as a reduction of revenue and as accrued expenses.

The Company exercises significant judgement in its estimates of the variable transaction price at the time of the sale and recognizes revenue when the performance obligation is satisfied. Factors that determine the final net transaction price include chargebacks, fees for service, cash discounts, rebates, returns, warranties, and other factors. The Company estimates all of these variables based on historical data obtained from previous sales finalized with the end-user customer on a product-by-product basis. At the time of sale, revenue is recorded net of each of these deductions. Through the normal course of business, the wholesaler will sell the product to the end-user, determining the actual chargeback, return products, and take advantage of cash discounts, charge fees for services, and claim warranties on products. The final transaction price per product is compared to the initial estimated net sale price and reviewed for accuracy. The final prices and other factors are immediately included in the Company's historical data from which it will estimate the transaction price for future sales. The underlying contracts for these sales are generally purchase orders including a single performance obligation, generally the shipment or delivery of products and the Company recognizes this revenue at a point-in-time.

Disaggregation of revenue

The following represents the Company's revenue for its reportable segment by country, based on the locations of the customer.

	For the Three Months Ended June 30, 2018 (In Thousands)			
	Oncology Innovation Platform	Global Supply Chain Platform	Commercial Platform	Consolidated Total
United States	$ —	$ 947	$ 6,997	$ 7,944
India	—	481	—	481
Austria	—	1,632	—	1,632
China	184	778	—	962
Other foreign countries	—	546	—	546
Total revenue	$ 184	$ 4,384	$ 6,997	$ 11,565

	For the Three Months Ended June 30, 2017 (In Thousands)			
	Oncology Innovation Platform	Global Supply Chain Platform	Commercial Platform	Consolidated Total
United States	$ —	$ 407	$ 1,820	$ 2,227
India	—	790	—	790
Austria	—	716	—	716
China	270	147	—	417
Other foreign countries	—	445	—	445
Total revenue	$ 270	$ 2,505	$ 1,820	$ 4,595

	For the Six Months Ended June 30, 2018 (In Thousands)			
	Oncology Innovation Platform	Global Supply Chain Platform	Commercial Platform	Consolidated Total
United States	$ —	$ 2,155	$ 15,691	$ 17,846
India	—	1,443	—	1,443
Austria	—	2,875	—	2,875
China	415	1,195	—	1,610
Spain	25,000	—	—	25,000
Other foreign countries	—	627	—	627
Total revenue	$ 25,415	$ 8,295	$ 15,691	$ 49,401

	For the Six Months Ended June 30, 2017 (In Thousands)			
	Oncology Innovation Platform	Global Supply Chain Platform	Commercial Platform	Consolidated Total
United States	$ —	$ 1,044	$ 1,896	$ 2,940
India	—	2,261	—	2,261
Austria	—	1,718	—	1,718
China	1,003	226	—	1,229
Other foreign countries	—	1,028	—	1,028
Total revenue	$ 1,003	$ 6,277	$ 1,896	$ 9,176

The Company also disaggregates its revenue by product group which can be found in Note 10 – *Business Segment, Geographic, and Concentration Risk Information*.

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers. The Company has not recorded any contract assets from contracts with customers.

	June 30, 2018	December 31, 2017
	(In Thousands)	
Accounts receivable, gross	$ 12,580	$ 12,263
Chargebacks and other deductions	(7,416)	(3,711)
Allowance for doubtful accounts	(26)	(84)
Accounts receivable, net	$ 5,138	$ 8,468
Deferred revenue	$ 5,526	$ 1,202
Total contract liabilities	$ 5,526	$ 1,202

The following tables illustrate accounts receivable balances by reportable segments.

	June 30, 2018 (In Thousands)			
	Oncology Innovation Platform	Global Supply Chain Platform	Commercial Platform	Consolidated Total
Accounts receivable, gross	$ 21	$ 1,749	$ 10,810	$ 12,580
Chargebacks and other deductions	—	—	(7,416)	(7,416)
Allowance for doubtful accounts	—	(26)	—	(26)
Accounts receivable, net	$ 21	$ 1,723	$ 3,394	$ 5,138

	December 31, 2017 (In Thousands)			
	Oncology Innovation Platform	Global Supply Chain Platform	Commercial Platform	Consolidated Total
Accounts receivable, gross	$ 49	$ 4,553	$ 7,661	$ 12,263
Allowance for doubtful accounts, chargebacks, and other deductions	—	(84)	(3,711)	(3,795)
Accounts receivable, net	$ 49	$ 4,469	$ 3,950	$ 8,468

As of June 30, 2018, $5.0 million of the deferred revenue balance relates to out-licensing revenue included in the non-refundable upfront fee payment of $30.0 million from the collaboration agreement with Almirall, S.A. This payment was allocated to two distinct performance obligations, $25.0 million to the execution and delivery of the license, and $5.0 million to the delivery of certain clinical data for the licensed IP. The Company satisfied its performance obligation to license the IP to the licensee during the six months ended June 30, 2018 and recognized $25.0 million of revenue accordingly. As of June 30, 2018, the Company had not satisfied its performance obligation to deliver the clinical data and therefore, $5.0 million of this license payment remained as deferred revenue on the condensed consolidated balance sheet. The remaining $0.5 million of deferred revenue relates to customer deposits made by customers of the Global Supply Chain Platform.

As of December 31, 2017, the $1.2 million contract liability related to customer deposits made by customers of the Global Supply Chain Platform. The Company satisfied its performance obligations allocated to these contract liabilities during the six months ended June 30, 2018.

There were no other material changes to contract balances during the six months ended June 30, 2018.

Practical expedients used

During the adoption of ASC 606, the Company applied the practical expedient in paragraph 606-10-10-4, the *Portfolio Approach*. This allowed the Company to apply the new revenue standard to a portfolio of contracts with similar characteristics because it reasonably expected that the effects on the financial statements of applying the guidance to the portfolio would not differ materially from applying the guidance to the individual contracts within that portfolio. The Company used this to determine the cumulative catch-up required under the modified retrospective transaction method. The Company used the portfolio approach for

product sales under the Global Supply Chain Platform and product sales under the Commercial Platform. The Company did not use this approach for its out-licensing contracts, because each of those contracts have unique economic characteristics.

The Company applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations related to the license of intellectual property ("IP"). This practical expedient is applied because the out-licensing agreements include sales-based royalties in exchange for the license of IP accounted for in accordance with Topic 606 and there is significant uncertainty surrounding the future variable consideration that could be received.

12. Commitments and Contingencies

Future minimum payments under the non-cancelable operating leases consisted of the following as of June 30, 2018 (in thousands):

Year ending December 31:	Minimum payments
2018 (remaining six months)	$ 1,350
2019	2,383
2020	2,247
2021	1,844
2022	1,802
Thereafter	4,672
	$ 14,298

Legal Proceedings

The Company is not a party to any pending or known threatened legal proceedings that, in the opinion of the Company, would have a material impact on the Company's condensed consolidated financial statements.

13. Subsequent Events

On July 3, 2018, the Company closed a privately placed debt and equity financing deal with Perceptive Advisors, LLC and its affiliates ("Perceptive") for gross proceeds of $100.0 million and received aggregate net proceeds of $97.1 million, net of fees and offering expenses. The Company entered into a 5-year senior secured loan for $50.0 million of this financing and issued 2,679,528 shares of its common stock at a purchase price of $18.66 per share for the remaining $50.0 million. The loan matures on the fifth anniversary from the closing date and bears interest at a floating per annum rate equal to London Interbank Offering Rates ("LIBOR") (with a floor of 2.0%) plus 9.0%. The Company is required to make monthly interest-only payments with a bullet payment of the principal at maturity. The loan agreement contains specified financial maintenance covenants. In connection with the loan agreement, the Company granted the lender a warrant for the purchase of 425,000 shares of common stock at a purchase price of $18.66 per share.

On June 29, 2018, the Company executed a share subscription agreement to establish, operate, and manage a limited liability company, Axis Therapeutics Limited ("Axis Therapeutics"), based in Hong Kong. This joint venture will be owned 55% by the Company and 45% by its partner. The Company will make a capital contribution of $30.0 million to the joint venture. The joint venture entered into a license agreement with the minority partner to license its TCR-engineered T Cell therapy to develop and commercialize products for oncology indications. The Company will make an upfront payment for this license in the form of a $5.0 million issuance of its common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains management's discussion and analysis of our financial condition and results of operations and should be read together with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes thereto for the year ended December 31, 2017 included in our Annual Report on Form 10-K for the year ended December 31, 2017. Unless the context indicates otherwise, as used in this Quarterly Report, the terms "Athenex," "the Company," "we," "us," and "our" refer to Athenex, Inc., a Delaware Corporation, and its subsidiaries taken as a whole, unless otherwise noted. This discussion and other parts of this quarterly report contain forward-looking statements that involve risks and uncertainties, such as our plans, objectives, expectations, intentions and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section entitled "Risk Factors" included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and section 27A of the Securities Act of 1933, as amended (the "Securities Act"). All statements other than statements of historical fact are "forward-looking statements" for purposes of this Quarterly Report. These forward-looking statements may include, but are not limited to, statements regarding our future results of operations and financial position, business strategy, potential market size, potential growth opportunities, the timing and results of clinical trials, and potential regulatory approval and commercialization of product candidates. In some cases, forward-looking statements may be identified by terminology such as "believe," "may," "will," "should," "predict," "goal," "strategy," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect," "seek" and similar expressions and variations thereof. These words are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the "Risk Factors" section included in our Annual Report on Form 10-K for the year ended December 31, 2017. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business. In light of these risks, uncertainties and assumptions, actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of our Annual Report on Form 10-K for the year ended December 31, 2017 to conform these statements to actual results or to changes in our expectations, except as required by law.

Overview

We are a global biopharmaceutical company dedicated to the discovery, development and commercialization of novel therapies for the treatment of cancer. We have two late-stage clinical drug candidates: (1) Oraxol, for metastatic breast cancer, our leading Orascovery drug candidate, combines a novel oral formulation of paclitaxel with HM30181A (a novel, orally non-absorbable, gastrointestinal tract P-glycoprotein pump inhibitor), (2) KX-01 Ointment for actinic keratosis, our leading Src Kinase Inhibition drug candidate, is a novel small molecule therapeutic which has multiple mechanisms of actions including: (a) the inhibition of the activity of Src Kinase and (b) the inhibition of tubulin polymerization.

Our robust clinical pipeline includes small molecule, biologic and cellular therapies for treatment of cancer. We continue to fuel the rapid expansion of this clinical pipeline now comprised of seven total IND's, five of which were allowed in the US alone within the last five years, and more are planned. Our Orascovery oral absorption platform technology, using our novel, highly-selective P-gp inhibitor in combination with widely-used oncology drugs, enables oral administration of currently injectable-only drugs. We have two Src Kinase/tubulin polymerization inhibitors, KX-01 and KX-02, which are being developed orally for cancers such as glioblastoma, as well as topically for the pre-cancerous skin disease actinic keratosis. On the biologics front, recently, we have strategically in-licensed Pegtomarginase, which is an enzyme capable of depleting tumors of a key resource for their growth and survival, the amino acid arginine. Lastly, our newly formed entity, Axis Therapeutics, to be established as a joint venture, has in-licensed the worldwide (excluding mainland China) rights of all the intellectual properties and know-how of a TCR-T Immunotherapy

Technology, which harnesses and enhances the patient's own immune cells to target and eliminate cancer. Overall, our clinical pipeline balances a range of therapeutic approaches for the treatment of cancer to enable us to improve the lives of cancer patients.

We have three operating segments: our Oncology Innovation Platform, Global Supply Chain Platform and Commercial Platform. Since inception, we have devoted a substantial amount of our resources to research and development of our lead product candidates under our Orascovery and Src Kinase Inhibition research platforms. Since 2016, we have also devoted a significant amount of our resources to the building of our commercial platform. We have incurred significant net losses since inception. Our net losses were $44.2 million and $79.6 million for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, we had an accumulated deficit of $370.4 million. We expect to incur significant expenses and increasing operating losses for the foreseeable future. We anticipate that our expenses will increase substantially as we:

- Continue to advance our lead programs, Orascovery and Src Kinase Inhibition research platforms, through clinical development;
- Continue our current preclinical and clinical research program and development activities;
- Seek to identify additional research programs and product candidate;
- Continue to invest in acquiring or in-licensing other drugs and technologies;
- Continue to invest in our manufacturing facilities;
- Hire additional research, development and business personnel;
- Maintain, expand and protect our intellectual property portfolio; and
- Incur additional costs associated with operating as a public company.

In January 2018, we completed an underwritten public offering of 4,300,000 shares of common stock at a public offering price of $15.25 per share. In addition, we granted the underwriters a 30-day option to purchase up to an additional 645,000 shares of common stock at the same price. In February 2018, the underwriters exercised their option to purchase an additional 465,000 shares of common stock at the offering price of $15.25 per share. Net proceeds from this public offering were approximately $68.1 million, after deducting underwriting discounts and commissions and offering expenses paid or payable by us of approximately $4.6 million.

We have funded our operations to date primarily from the issuance and sale of our common stock, including public offerings, and convertible bonds and, to a lesser extent, through revenue generated from our Global Supply Chain Platform and Commercial Platform. As of June 30, 2018, we had cash, cash equivalents and short-term investments of $80.7 million.

Recent Developments

Private Financing Transactions

On June 29, 2018, the Company entered into a series of debt and equity financing agreements with Perceptive which provided us capital for our research and development activities and other corporate purposes. Subsequently, the Company received aggregate net proceeds of $97.1 million from the issuance of 2,679,528 shares of common stock at a purchase price of $18.66 per share and from a 5-year $50.0 million senior secured loan bearing interest at a floating per annum rate equal to LIBOR (with a 2% floor) plus 9%, net of fees and offering expenses. These securities are exempt from registration under the Securities Act Section 4 (a)(2), however, the Company is required to register the shares within 90 days after the closing of the transactions under the registration rights agreements with Perceptive. In connection with the senior secured loan agreement, the Company granted Perceptive a warrant for the purchase of 425,000 shares of common stock at a purchase price of $18.66 per share.

Joint Venture and TCR-T License Agreement

On June 29, 2018, the Company entered into a share subscription agreement with Xiangxue Life Sciences Ltd ("XLifeSc") to establish a joint venture, Axis Therapeutics, a Hong Kong limited liability company. The operations of Axis Therapeutics will be funded by capital contributions of the parties. Also, Axis Therapeutics entered into a license agreement with XLifeSc, pursuant to which XLifeSc granted Axis Therapeutics an exclusive, sublicensable worldwide (excluding mainland China) right and license to use its proprietary TCR-engineered T Cell therapy to develop and commercialize products for oncology indications. Upon effectiveness of the TCR-T License, Axis Therapeutics will make an upfront payment of the Company's common stock equal to $5.0 million to XLifeSc, and Axis Therapeutics will be required to make payments to XLifeSc worth up to $110.0 million in aggregate upon the occurrence of certain regulatory and sales milestones to be achieved in the U.S., the EU, China and Japan. In addition, XLifeSc will pay royalty payments to Axis Therapeutics based on aggregate net income generated from sales of any products using the licensed intellectual property in mainland China.

Two Phase 3 Pivotal Efficacy Studies of KX2-391 in Actinic Keratosis

In July 2018, the Company's both Phase 3 pivotal efficacy studies had achieved their primary endpoint of 100% clearance of actinic keratosis (AK) lesions at Day 57 within the face or scalp treatment areas, with each study achieving statistical significance ($p<0.0001$). Statistical significance ($p<0.001$) was achieved for both face and scalp subgroups as well. These two double-blind, randomized, vehicle-controlled, studies were designed as pivotal Phase 3 efficacy and safety studies to support the registration of KX2-391 (or KX-01) as field therapy for AK of the face and scalp. The studies, each conducted at 31 centers in the USA, enrolled a total of 702 subjects. KX2-391, or vehicle ointment, was applied once daily for 5 days. In addition to the clinical activity of KX2-391, the local skin reaction (LSR) profile was within expectations, in line with the Phase 2 study reported in the annual American Academy of Dermatology (AAD) meeting in February 2018 in San Diego. Both studies are still on-going to complete the one-year follow-up of the patients who had complete responses. Athenex will be submitting a request to the US FDA for a pre-NDA submission meeting to discuss the data and regulatory submission timelines. The Company plans to submit the topline and other related data from the Phase 3 studies for presentation at an upcoming scientific meeting.

Key Components of Results of Operations

Revenue

We derive our consolidated revenue primarily from (i) licensing and collaboration projects conducted by our Oncology Innovation Platform, which generates revenue in the form of upfront payments, milestone payments and payments received for providing research and development services for our collaboration projects and for other third parties, (ii) the sales of generic injectable products by our Commercial Platform, (iii) the sales of API, medical devices, and 503B products by our Global Supply Chain Platform, and (iv) grant awards from government agencies and universities for our continuing research and development efforts.

We do not anticipate revenue being generated from sales of our product candidates under development in our Oncology Innovation Platform until we have obtained regulatory approval. We cannot assure you that we will succeed in achieving regulatory approval for our drug candidates as planned, or at all.

Cost of Sales

Along with sourcing from third-party manufacturers, we manufacture clinical products in our cGMP facility in New York and APIs at our cGMP facility in China. Cost of sales primarily includes the cost of finished products, raw materials, labor costs, manufacturing overhead expenses and reserves for expected scrap, as well as transportation costs. Cost of sales also includes depreciation expense for production equipment, changes to our excess and obsolete inventory reserves, and certain direct costs such as shipping costs, net of costs charged to customers.

Research and Development Expenses

Research and development expenses consist of the costs associated with in-licensing of product candidates, conducting preclinical studies and clinical trials, activities related to regulatory filings and other research and development activities. Our current research and development activities mainly relate to the clinical development of the following programs:

Orascovery platform—Comprised of our in-licensed and novel P-gp inhibitor, HM30181A, that is combined with various chemotherapeutic agents and enables them to be absorbed into the blood when given orally:

- Oraxol, combining HM30181A with an oral dosage form of paclitaxel;
- Oratecan, combining HM30181A with an oral dosage form of irinotecan;
- Oradoxel, combining HM30181A with an oral dosage form of docetaxel;
- Oratopo, combining HM30181A with an oral dosage form of topotecan; and
- Oral eribulin, combining HM30181A with an oral dosage form of eribulin.

Src Kinase Inhibition platform—Targets the tyrosine kinase protein in regulating cell growth that leads to blockade of metastasis:

- KX-01 ointment, Src kinase inhibitor topically administered to treat skin cancers and pre-cancers;
- KX-01 oral, Src kinase inhibitor orally administered to treat certain solid and liquid tumors; and
- KX-02, Src kinase inhibitor orally administered to treat brain cancer, such as glioblastoma multiforme (GBM).

We expense research and development costs as incurred. We record costs for certain development activities, such as clinical trials, based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment or clinical site activations. We do not allocate employee-related costs, depreciation, rental and other indirect costs to specific research and development programs because these costs are deployed across multiple product programs under research and development.

We cannot determine with certainty the duration, costs and timing of the current or future preclinical or clinical studies of our drug candidates. The duration, costs, and timing of clinical studies and development of our drug candidates will depend on a variety of factors, including:

- The scope, rate of progress, and costs of our ongoing, as well as, any additional clinical studies and other research and development activities;
- Future clinical study results;
- Uncertainties in clinical study enrollment rates;
- Significant and changing government regulation; and
- The timing and receipt of any regulatory approvals.

A change in the outcome of any of these variables with respect to the development of a drug candidate could mean a significant change in the costs and timing associated with the development of that drug candidate.

Research and development activities are central to our business model. We expect our research and development expenses to continue to increase for the foreseeable future as we continue to support the clinical trials of Oraxol, Oratecan, Oradoxel, Oratopo, Oral Eribulin, KX-01 ointment, KX-01 oral and KX-02, as well as initiate and prepare for additional clinical and preclinical studies. We also expect spending to increase in the research and development for API, 503B and specialty products. There are numerous factors associated with the successful commercialization of any of our drug candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will likely impact our clinical development programs and plans.

Selling, General and Administrative Expenses

Selling, general and administrative, ("SG&A"), expenses primarily consist of compensation, including salary, employee benefits and stock-based compensation expenses for sales and marketing personnel, and for administrative personnel that support our general operations such as executive management, legal counsel, financial accounting, information technology, and human resources personnel. SG&A expenses also includes professional fees for legal, patent, consulting, auditing and tax services, as well as other direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies used in the selling, marketing, general and administrative activities. We expect to incur additional SG&A expenses in connection with being a public company, which may increase further when we are no longer able to rely on the "emerging growth company" exemption to certain disclosure and attestation requirements pursuant to the JOBS Act.

Results of Operations

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

The following table sets forth a summary of our condensed consolidated results of operations for the three months ended June 30, 2018 and 2017, together with the changes in those items in dollars and percentage. This information should be read together with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. Our operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Three Months Ended June 30,			
	2018	2017	Change	
	(in thousands)	(in thousands)	(in thousands)	%
Revenue	$ 11,565	$ 4,595	$ 6,970	152%
Cost of sales	(9,443)	(4,137)	(5,306)	128%
Research and development expenses	(26,572)	(17,597)	(8,975)	51%
Selling, general, and administrative expenses	(12,817)	(13,632)	815	-6%
Interest income (expense)	368	(3,281)	3,649	-111%
Unrealized loss on derivative liability	—	(4,587)	4,587	-100%
Income tax expense	(51)	(29)	(22)	76%
Net loss	(36,950)	(38,668)	1,718	-4%
Less: net loss attributable to non-controlling interests	(91)	(43)	(48)	112%
Net loss attributable to Athenex, Inc.	$ (36,859)	$ (38,625)	$ 1,766	

Revenue

Revenue for the three months ended June 30, 2018 was $11.6 million, an increase of $7.0 million, or 152%, as compared to $4.6 million for the three months ended June 30, 2017. The increase was primarily attributable to a $5.2 million increase in specialty products sold through our Commercial Platform, a $1.4 million increase in API and medical device sales, and $0.6 million in sales of our 503B products. This was offset by decreases in contract manufacturing revenue of $0.1 million and a decrease in grant revenue of $0.1 million.

Cost of Sales

Cost of sales for the three months ended June 30, 2018 totaled $9.4 million, an increase of $5.3 million, or 128%, as compared to $4.1 million for the three months ended June 30, 2017. This was primarily due to the increase of $4.1 million cost of sales from the recently launched specialty products and $1.2 million cost of sales from 503B and API products. The increase in gross profit was primarily due to the impact of the increase in shortage specialty product sales, which carry a higher margin than other product lines. Changes in availability of products and market demand could increase or decrease our revenue and gross profit.

Research and Development Expenses

Research and development ("R&D") expenses for the three months ended June 30, 2018 totaled $26.6 million, an increase of $9.0 million, or 51%, as compared to $17.6 million for the three months ended June 30, 2017. This was primarily due to an increase in clinical operations and included the following:

- $6.5 million increase of clinical trial costs with the progression of the Phase 3 trials of KX-01 Ointment and Oraxol;
- $2.0 million increase of employee salary and benefits, which was primarily attributable to hiring more research and development personnel to support our expanding research and clinical activities, including the expansion of our clinical R&D team in Taiwan;
- $1.7 million increase of R&D expenses related to the pre-launch activities of our proprietary products and the development of our specialty products;
- $0.5 million increase of R&D costs related to product testing of 503B products as they were introduced and production was scaled-up to a commercial level; and
- $0.3 million increase of the cost of preclinical studies as research was performed on an oral formulation of eribulin.

These increased costs were offset by a decrease in drug licensing costs of $1.3 million and a decrease in general and API R&D of $0.7 million.

Selling, General, and Administrative Expenses

SG&A expenses for the three months ended June 30, 2018 totaled $12.8 million, a decrease of $0.8 million, or 6%, as compared to $13.6 million for the three months ended June 30, 2017. This was primarily due to a decrease in employee compensation of $2.8 million from stock-based compensation incurred in the prior year in connection with our IPO, offset by the following:

- $1.9 million increase of other office expenses and professional fees for legal, consulting, and audit services related to operating as a public company; and
- $0.1 million of selling and marketing expenses related to the launch of our specialty products.

Interest Income (Expense)

Interest income for the three months ended June 30, 2018 totaled $0.4 million, a change of $3.7 million as compared to $3.3 million interest expense for the three months ended June 30, 2017. The interest income in the current period was generated from our short-term investments. The interest expense in the prior period was primarily incurred from the convertible bonds we issued between the third quarter of 2016 and the second quarter of 2017, which were converted into the Company's common stock in 2017.

Loss on Derivative Liability

Loss on derivative liability for the three months ended June 30, 2018 decreased by $4.6 million compared to the three months ended June 30, 2017. This decrease was due to the change in the fair value of the derivatives embedded within the convertible bonds we issued between the third quarter of 2016 and the second quarter of 2017. The derivative liability was no longer outstanding as of June 30, 2018.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

The following table sets forth a summary of our condensed consolidated results of operations for the six months ended June 30, 2018 and 2017, together with the changes in those items in dollars and percentage. This information should be read together with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. Our operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Six Months Ended June 30,			
	2018	2017	Change	
	(in thousands)	(in thousands)	(in thousands)	%
Revenue	$ 49,401	$ 9,176	$ 40,225	438%
Cost of sales	(20,769)	(6,976)	(13,793)	198%
Research and development expenses	(47,875)	(44,005)	(3,870)	9%
Selling, general, and administrative expenses	(25,897)	(23,431)	(2,466)	11%
Interest income (expense)	595	(5,657)	6,252	-111%
Unrealized loss on derivative liability	—	(8,863)	8,863	-100%
Income tax benefit	256	63	193	306%
Net loss	(44,289)	(79,693)	35,404	-44%
Less: net loss attributable to non-controlling interests	(132)	(80)	(52)	65%
Net loss attributable to Athenex, Inc.	$ (44,157)	$ (79,613)	$ 35,456	

Revenue

Revenue for the six months ended June 30, 2018 was $49.4 million, an increase of $40.2 million, or 438%, as compared to $9.2 million for the six months ended June 30, 2017. The increase was primarily attributable to $25.0 million upfront license fees related to the collaboration agreement with Almirall, S.A., a $13.8 million increase in specialty products sold through our Commercial Platform, a $1.2 million increase in API and medical device sales, and $1.0 million in sales of our 503B products. This was offset by decreases in other out-licensing fees of $0.5 million and contract manufacturing revenue of $0.3 million.

Cost of Sales

Cost of sales for the six months ended June 30, 2018 totaled $20.8 million, an increase of $13.8 million, or 198%, as compared to $7.0 million for the six months ended June 30, 2017. This was primarily due to the increase of $11.3 million cost of sales from the recently launched specialty products and $2.5 million cost of sales from 503B and API products. Apart of the $25.0 million out-licensing revenue from the Almirall agreement, the gross profit from product sales decreased primarily due to the impact of the costs incurred for the scale-up of production for new products in our 503B outsourcing facility. Changes in availability of products and market demand could increase or decrease our revenue and gross profit.

Research and Development Expenses

Research and development ("R&D") expenses for the six months ended June 30, 2018 totaled $47.9 million, an increase of $3.9 million, or 9%, as compared to $44.0 million for the six months ended June 30, 2017. This was primarily due to an increase in clinical operations and included the following:

- $13.4 million increase of clinical trial costs with the progression of the Phase 3 trials of KX-01 Ointment and Oraxol;
- $2.9 million increase of employee salary and benefits, which was primarily attributable to hiring more research and development personnel to support our expanding research and clinical activities, including the expansion of our clinical R&D team in Taiwan;
- $1.7 million increase of R&D expenses related to pre-launch activities and testing of our proprietary products and products for our Commercial Platform;
- $1.4 million increase of R&D costs related to product testing of 503B products as they were introduced and production was scaled-up to a commercial level; and
- $0.6 million increase of the cost of preclinical studies as research was performed on an oral formulation of eribulin.

These increased costs were offset by a decrease in drug licensing costs of $15.6 million and a decrease in general and API R&D of $0.5 million.

Selling, General, and Administrative Expenses

SG&A expenses for the six months ended June 30, 2018 totaled $25.9 million, an increase of $2.5 million, or 11%, as compared to $23.4 million for the six months ended June 30, 2017. This was primarily due to an increase in costs related to operating as a public company and included the following:

- $3.3 million increase of other office expenses and professional fees for legal, consulting, and audit services related to operating as a public company; and
- $0.7 million of selling and marketing expenses related to the launch of our specialty products.

These costs were offset by a decrease in employee compensation of $1.5 million from stock-based compensation incurred in the prior year in connection with our IPO.

Interest Income (Expense)

Interest income for the six months ended June 30, 2018 totaled $0.6 million, a change of $6.3 million as compared to $5.7 million interest expense for the six months ended June 30, 2017. The interest income in the current period was generated from our short-term investments. The interest expense in the prior period was primarily incurred from the convertible bonds we issued between the third quarter of 2016 and the second quarter of 2017, which were converted into the Company's common stock in 2017.

Loss on Derivative Liability

Loss on derivative liability for the six months ended June 30, 2018 decreased by $8.9 million compared to the six months ended June 30, 2017. This decrease was due to the change in the fair value of the derivatives embedded within the convertible bonds we issued between the third quarter of 2016 and the second quarter of 2017. The derivative liability was no longer outstanding as of June 30, 2018.

Liquidity and Capital Resources

Capital Resources

Since our inception, we have incurred net losses and negative cash flows from our operations. Substantially all of our losses have resulted from funding our R&D programs and SG&A costs associated with our operations. We incurred net losses of $44.2 million and $79.6 million for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, we had an accumulated deficit of $370.4 million. Our primary use of cash is to fund R&D costs. Our operating activities used $38.0 million and $48.8 million of cash during the six months ended June 30, 2018 and 2017, respectively. Our principal sources of liquidity as of June 30, 2018 were cash and cash equivalents totaling of $14.1 million and short-term investments totaling $66.6 million, which are generally U.S. government or high-quality investment grade corporate debt securities.

In June 2017, the Company sold an aggregate of 6,900,000 shares of its common stock at a price of $11.00 per share in its IPO for cash proceeds of $64.2 million, net of underwriting discounts and commissions of $6.1 million and offering costs of $5.6 million. In January 2018, the Company issued and sold 4,300,000 shares of its common stock at a public offering price of $15.25 per share. In addition, the Company granted the underwriters a 30-day option to purchase up to an additional 645,000 shares of common stock. In February 2018, the underwriters exercised their option to purchase an additional 465,000 shares of common stock at the offering price of $15.25 per share. Net proceeds of the 2018 offering were approximately $68.1 million, after deducting underwriting discounts and commissions and offering expenses of approximately $4.6 million.

Based on our current operating plan, we expect that our existing cash, cash equivalents and short-term investments as of June 30, 2018 as well as the $97.1 million net proceeds from the recent debt and equity financing will enable us to fund our operating expenses and capital expenditures requirements through at least mid-2019. We expect that our expenses will increase substantially as we continue to fund clinical development of our Orascovery and Src Kinase Inhibition research programs and fund new and ongoing research and development activities and working capital and other general corporate purposes. We have based our estimates on assumptions that might prove to be wrong, and we might use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of our drug candidates, we are unable to accurately estimate the amounts of increased capital outlays and operating expenditures necessary to complete the development and commercialization of our drug candidates.

Our future capital requirements will depend on many factors, including:

- Our ability to generate revenue from our Commercial Platform or otherwise;
- The costs, timing and outcome of regulatory reviews and approvals;
- Progress of our drug candidates to progress through clinical development successfully;
- The initiation, progress, timings, costs and results of nonclinical studies and clinical trials for our other programs and potential drug candidates;
- The number and characteristics of the drug candidate we pursue;
- The costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property related claims;
- The extent to which we acquire or in-license other products and technologies; and
- Our ability to maintain and establish collaboration arrangements on favorable terms, if at all.

We believe that the existing cash and cash equivalents and short-term investments will not be sufficient to enable us to complete all necessary development or commercially launch our proprietary drug candidates. Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances, licensing arrangements, and government grants. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders will be diluted, and the

terms of these securities may include liquidation or other preferences that adversely affect rights of holders of common stock. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends and might require the issuance of warrants, which could potentially dilute the ownership interest of holders of common stock. If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third parties, we might have to relinquish valuable rights to our technologies, future revenue streams or research programs or to grant licenses on terms that might not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we might be required to delay, limit, reduce, or terminate our product development or future commercialization efforts or grant rights to develop and market products or drug candidates that we would otherwise prefer to develop and market ourselves.

Cash Flows

The following table provides information regarding our cash flows for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Net cash used in operating activities	$ (38,029)	$ (48,803)
Net cash used in investing activities	(56,553)	(26,537)
Net cash provided by financing activities	69,099	96,791
Net effect of foreign exchange rate changes	267	574
Net (decrease) increase in cash and cash equivalents	$ (25,216)	$ 22,025

Net Cash Used in Operating Activities

The use of cash resulted primarily from our net loss adjusted for non-cash charges and changes in components of working capital. The primary use of our cash in the periods presented was to fund our research and development, regulatory and other clinical trial costs, drug licensing costs, inventory purchase, and other expenditures related to sales, marketing and administration.

Net cash used in operating activities was $38.0 million for the six months ended June 30, 2018. This resulted principally from our net loss of $44.3 million, adjusted for non-cash charges of $9.9 million, and by cash used in our operating assets and liabilities of $3.6 million. Our operating assets decreased $3.3 million for accounts receivable primarily related to API sales as our API supplies to clinical studies increased and external sales decreased, while inventory increased by $5.2 million primarily related to the specialty drugs, and prepaid and other expenses increased by $4.2 million primarily related to Dunkirk construction which would be reimbursed by New York State. Our operating liabilities increased by $2.6 million, mainly due to the increases in deferred revenue related to the out-licensing fee payment. Our net non-cash charges during the six months ended June 30, 2018 primarily consisted of $6.2 million of stock-based compensation expense and $1.7 million depreciation and amortization expense.

Net cash used in operating activities was $48.8 million for the six months ended June 30, 2017. This resulted principally from our net loss of $79.7 million, adjusted for non-cash charges of $39.4 million, and by cash used in our operating assets and liabilities of $8.5 million. Our net non-cash charges during the six months ended June 30, 2017 primarily consisted of $13.3 million of licensing fees settled by bonds and equity, $8.9 million of fair value change in derivative liabilities, $8.8 million of stock-based compensation expense, $3.4 million of convertible bonds interest, $3.0 million amortization of debt discount, and $1.7 million depreciation and amortization expense.

Net Cash Used in Investing Activities

Net cash used in investing activities was $56.6 million for the six months ended June 30, 2018, compared to $26.5 million for the six months ended June 30, 2017. The increase was primarily due to cash used in purchasing short-term investments, including commercial paper, corporate notes, and U.S. government bonds.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $69.1 million for the six months ended June 30, 2018, which primarily consisted of net proceeds of $68.1 million from our follow-on public offering, net of underwriter discount and offering costs of $4.6 million and $1.6 million from the exercise of employee stock options, compared with $96.8 million for the six months ended June 30, 2017, which consisted primarily of $75.9 million from the sales of common stock, $30.0 million from the issuance of convertible bonds, offset by $9.0 million in certain offering costs.

Contractual Obligations

A summary of our contractual obligations as of June 30, 2018 is as follows:

	Payments Due by Period				
	Within 1 Year	1 to 3 years	3 to 5 years	More than 5 years	Total Amounts Committed
	(in thousands)				
Operating leases	$ 2,542	$ 4,360	$ 5,099	$ 2,297	$ 14,298
Long-term debt	869	—	—	—	869
Capital lease obligations	185	329	52	—	566
Licensing fees	754	—	—	—	754
	$ 4,350	$ 4,689	$ 5,151	$ 2,297	$ 16,487

The following includes the Company's operating leases and the amounts committed under those leases by each location: (1) The rental of our global headquarters in the Conventus Center for Collaborative Medicine in Buffalo, NY with $9.1 million committed, (2) the rental of our research and development facility in the IC Development Centre in Hong Kong with $0.1 million committed, (3) the rental of the Commercial Platform headquarters in Chicago, IL with $2.5 million committed, (4) the rental of our clinical research and development facility in Cranford, NJ with $0.4 million committed, (5) the rental of our clinical data management center in Taipei, Taiwan with $0.8 million committed, (6) the rental of our Global Supply Chain distribution office in Houston, TX with $0.1 million committed, and (7) the rental of our Global Supply Chain API manufacturing facility in Chongqing, China with $1.3 million committed.

Off Balance Sheet Arrangements

We do not maintain any off-balance sheet partnerships, arrangements, or other relationships with unconsolidated entities or others, often referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Significant Judgments and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that the assumptions and estimates associated with research and development expenses, chargebacks, stock-based compensation and inventory reserves have the most significant impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

With the exception of the change in revenue recognition as a result of the adoption of ASC 606 (see Note 11 – *Revenue Recognition),* there have been no significant changes in our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Accounting Pronouncements

In the normal course of business, we evaluate all new accounting pronouncements issued by the FASB, SEC, or other authoritative accounting bodies to determine the potential impact they may have on our condensed consolidated financial statements. See Note 2 of the Notes to Condensed Consolidated Financial Statements contained in Item 1 of this quarterly report on Form 10-Q for additional information about these recently issued accounting standards and their potential impact on our financial condition or results of operations.

JOBS Act

Under Section 107(b) of the Jumpstart Our Business Startups Act of 2012, (the "JOBS Act,") an "emerging growth company" can delay the adoption of new or revised accounting standards until such time as those standards would apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, as a result, we will adopt new or revised accounting standards at the same time as other public companies that are not emerging growth companies. There are other exemptions and reduced reporting requirements provided by the JOBS Act that we are currently evaluating. For example, as an emerging growth company, we are exempt from Sections 14A (a) and (b) of the Exchange Act which would otherwise require us to (1) submit certain executive compensation matters to shareholder advisory votes, such as "say-on-pay," "say-on-frequency" and "say-on-golden parachutes;" and (2) disclose certain executive compensation related matters. We also rely on an exemption from the rule requiring us to provide an auditor's attestation report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and the rule requiring us to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will continue to remain an "emerging growth company" until the earliest of the following: (1) the last day of the fiscal year following the fifth anniversary of the date of the completion of our initial public offering, (2) the last day of the fiscal year in which our total annual gross revenue is equal to or more than $1 billion, (3) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years, or (4) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Foreign Currency Exchange Risk

A significant portion of our business is located outside the United States and, as a result, we generate revenue and incur expenses denominated in currencies other than the U.S. dollar, a majority of which is denominated in Chinese Renminbi, ("RMB"). In the six months ended June 30, 2018 and 2017, approximately 3% and 8%, respectively, of our sales, excluding intercompany sales, were denominated in foreign currencies. As a result, our revenue can be significantly impacted by fluctuations in foreign currency exchange rates. We expect that foreign currencies will represent a lower percentage of our sales in the future due to the anticipated growth of our U.S. business. Our international selling, marketing, and administrative costs related to these sales are largely denominated in the same foreign currencies, which somewhat mitigates our foreign currency exchange risk rate exposure.

Currency Convertibility Risk

A portion of our revenues and expenses, and a portion of our assets and liabilities are denominated in RMB. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China, ("PBOC"). However, the unification of exchange rates does not imply that RMB is readily convertible into U.S. dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approvals of foreign currency payments by the PBOC or other institutions require submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Additionally, the value of the RMB is subject to changes in Chinese central government policies and international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

Interest Rate Sensitivity

We had cash and cash equivalents of $14.1 million and short-term investments of $66.6 million as of June 30, 2018, which consisted primarily of U.S. government or high quality investment grade corporate debt securities. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates is not expected to have a material impact on our condensed consolidated financial condition or results of operations. We do not believe that our cash or cash equivalents have significant risk of default or illiquidity.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Board Chairman (Principal Executive Officer) and our Acting Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2018. The term "disclosure controls and procedures," as defined in Rule 13a15(e)

and 15d-15(e) under the Exchange Act means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2018, our Chief Executive Officer and Board Chairman (Principal Executive Officer) and our Acting Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer) concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

In addition to the other information contained in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our 2017 Form 10-K in evaluating our business, financial position, future results, and prospects. The information presented below updates and supplements those risk factors for events, changes and developments since the filing of the 2017 Form 10-K and should be read in conjunction with the risks and other information contained in the 2017 Form 10-K. The risks described in our 2017 Form 10-K, as updated below, are not the only risks we face. Additional risks that we do not presently know or that we currently believe are not material could also materially adversely affect our business, financial position, future results and prospects.

The Company entered into a $50.0 million senior secured loan agreement, which subjects the Company to significant interest rate and credit risk.

On June 29, 2018, the Company entered into a 5-year $50.0 million loan agreement with Perceptive, which closed on July 3, 2018, bearing interest at a floating per annum rate equal to LIBOR (with a floor of 2%) plus 9%. Thus, a change in the short-term interest rate environment (especially a material change) 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. As of June 30, 2018, we did not have any outstanding interest rate swap contracts.

We may not be able to refinance, extend, or repay our substantial indebtedness owed to our senior secured lender, which would have a material adverse effect on our financial condition and ability to continue as a going concern.

We anticipate that we will need to raise a significant amount of debt or equity capital in the future in order to repay our outstanding debt obligations owed to our senior secured lender when they mature on July 3, 2023 and fund our operations. We will owe our senior secured lender $50.0 million upon execution of the senior secured loan agreement. We are required to make monthly interest-only payments with a bullet payment of the principal at maturity. If we are unable to raise sufficient capital to repay these obligations at maturity and we are otherwise unable to extend the maturity dates or refinance these obligations, we would be in default. We cannot provide any assurances that we will be able to raise the necessary amount of capital to repay these obligations or that we will be able to extend the maturity dates or otherwise refinance these obligations. Upon a default on the senior debt, our senior secured lender would have the right to exercise its rights and remedies to collect, which would include foreclosing on our assets. Accordingly, a default would have a material adverse effect on our business and, if our senior secured lender exercises its rights and remedies, we would likely be forced to seek bankruptcy protection.

Covenants in the agreements governing our existing debt agreement restrict the manner in which we conduct our business.

The senior secured loan agreement contains various covenants that limit, subject to certain exemptions, our ability and/or our restricted subsidiaries' ability to, among other things:

- Incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;
- make loans, investments, or acquisitions;
- engage in any other business other than the business engaged in on the date of the loan agreement;
- pay dividends or make distributions on capital stock by any subsidiary;
- make any unscheduled payments on the Company's existing debt prior to the stated maturity thereof;
- sell assets and capital stock of our subsidiaries;
- enter into certain transactions with affiliates; and
- sell, transfer, license, lease, or dispose of our or our subsidiaries' assets.

The restrictions contained in our senior secured loan agreement governing our debt could adversely affect our ability to:

- finance our operations;
- make needed capital expenditures;

- make strategic acquisitions or investments or enter into alliances;
- withstand a future downturn in our business or the economy in general;
- engage in business activities, including future opportunities, that may be in our interest; and
- plan for or react to market conditions or otherwise execute our business strategies.

A breach of any of these covenants could result in a default under the senior secured loan agreement governing our debt. Further, additional indebtedness that we incur in the future may subject us to further covenants. If a default under any such loan agreement is not cured or waived, the default could result in the acceleration of debt, which could require us to repurchase or repay debt prior to the date it is otherwise due and that could adversely affect our financial condition.

Our ability to comply with the covenants contained in our senior secured loan agreement may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. Even if we are able to comply with all of the applicable covenants, the restrictions on our ability to manage our business in our sole discretion could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions, and other corporate opportunities that we believe would be beneficial to us. In addition, our obligations under the loan agreement are secured, on a first-priority basis, and such security interests could be enforced in the event of default by the collateral agent for the loan agreement.

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

Recent Sales of Unregistered Securities

On July 3, 2018, we issued 2,679,528 shares of our common stock at a purchase price of $18.66 per share for total consideration of $50.0 million in a private placement. These securities are exempt from registration under the Securities Act Section 4 (a)(2), however, we may be required to register the shares upon request by the investor.

Use of Proceeds from Registered Securities Offerings

On June 13, 2017, our Registration Statement on Form S-1(File No.333-217928) relating to the IPO of our common stock was declared effective by the SEC. Pursuant to such Registration Statement, we sold an aggregate of 6,900,000 shares of our common stock at a price of $11.00 per share for aggregate cash proceeds of approximately $64.2 million, net of underwriting discounts and commissions and offering costs.

On January 24, 2018, our Registration Statement on Form S-1(File No.333-222640) relating to the follow-on public offering of our common stock was declared effective by the SEC. Pursuant to such Registration Statement, we sold an aggregate of 4,765,000 shares of our common stock at a price of $15.25 per share for aggregate cash proceeds of approximately $68.1 million, net of underwriting discounts and commissions and offering costs.

There has been no material change in the expected use of the net proceeds from our public offerings, as described in our final prospectus filed with the SEC on June 15, 2017 and January 25, 2018, respectively, pursuant to Rule 424(b) of the Securities Act.

Repurchases of Equity Securities by the Issuer

None.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed or furnished as part of this Quarterly Report on Form 10-Q are set forth below.

		Incorporated by Reference (Unless Otherwise Indicated)			
Exhibit Number	**Exhibit Title**	**Form**	**File**	**Exhibit**	**Filing Date**
10.1	Transition Agreement by and between Athenex, Inc. and James Zukin dated April 27, 2018.	Form 8-K	001-38112	10.33	April 30, 2018
10.2	Stock Purchase Agreement dated as of June 29, 2018 by and between Athenex, Inc. and Perceptive Life Sciences Master Fund, Ltd.	Form 8-K	001-38112	10.1	July 2, 2018
10.3	Senior Secured Term Loan Agreement dated as June 30, 2018 by and between Athenex, Inc. and Perceptive Advisors LLC.	Form 8-K	001-38112	10.2	July 2, 2018
10.4 ^	License Agreement dated as of June 29, 2018 by and between Xiangxue Life Sciences Ltd. and Axis Therapeutics Limited.	Form 8-K	001-38112	10.3	July 2, 2018
10.5 ^	License Agreement dated as of June 29, 2018 by and between Athenex Therapeutics Limited and Avalon Polytom (HK) Limited Pegtomarginase.	Form 8-K	001-38112	10.4	July 2, 2018
10.6 ^	License and Supply Agreement dated as of June 29, 2018 by and between Athenex Therapeutics Limited and Avalon HepaPOC Limited Galactose Meter and Strip.	Form 8-K	001-38112	10.5	July 2, 2018
10.7	Registration Rights Agreement dated as of July 3, 2018 by and between Athenex, Inc. and Perceptive Life Sciences Master Fund, Ltd.	—	—	—	Filed herewith
10.8†	License and Development Agreement by and between Athenex, Inc., Almirall, S.A. and Aqua Pharmaceuticals LLC dated as of December 11, 2017*	Form 8-K	001-38112	10.1	December 15, 2017
31.1	Certification of the Chief Executive Officer and Board Chairman (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
31.2	Certification of the Acting Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
32.1	Certification of the Chief Executive Officer and Board Chairman (Principal Executive Officer) and the Acting Chief Accounting Officer and Treasurer (Principal Financial Accounting Officer) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
101.INS	XBRL Instance Document.	—	—	—	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	—	—	—	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	—	—	—	Filed herewith

Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated)			
		Form	File	Exhibit	Filing Date
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	—	—	—	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	—	—	—	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	—	—	—	Filed herewith

^ Confidential treatment is requested for certain confidential portions of this exhibit pursuant to Rule 406 under the Securities Act. In accordance with Rule 406, these confidential portions have been omitted from this exhibit and filed separately with the Commission.

†Confidential treatment has been granted for certain confidential portions of this exhibit pursuant to Rule 406 under the Securities Act. In accordance with Rule 406, these confidential portions have been omitted from this exhibit and filed separately with the Commission.

*The Company previously incorporated this exhibit by reference into its Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission on March 26, 2018. The Company is listing this exhibit to this Quarterly Report on Form 10-Q to correct an inaccurate hyperlink in the Form 10-K.

SIGNATURES

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

Athenex, Inc.

Date: August 14, 2018

By: /s/ Johnson Y.N. Lau
Chief Executive Officer and Board Chairman
(Principal Executive Officer)

Date: August 14, 2018

By: /s/ Li Shen
Acting Chief Accounting Officer and Treasurer
(Principal Financial and
Accounting Officer)

Exhibit 10.7

REGISTRATION RIGHTS AGREEMENT

dated as of July 3, 2018

by and between

ATHENEX, INC.,

and

PERCEPTIVE LIFE SCIENCES MASTER FUND, LTD.

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**") is made and entered into as of July 3, 2018 by and between Athenex, Inc., a company incorporated under the laws of the State of Delaware (the "**Company**") and Perceptive Life Sciences Master Fund, Ltd., a Cayman Islands exempted company (the "**Investor**").

RECITALS

WHEREAS, Investor has agreed to purchase from the Company, and the Company has agreed to sell to Investor, shares of common stock, par value US$0.001 per share (the "**Common Stock**") of the Company, on the terms and conditions set forth in the Share Purchase Agreement dated as of June 29, 2018 between the Company and Investor (the "**Share Purchase Agreement**"); and

WHEREAS, it is a condition to the Closing that the parties hereto enter into this Agreement to set forth certain rights and obligations of the parties hereto in connection with the transactions contemplated under the Share Purchase Agreement.

NOW, THEREFORE, in consideration of the premises set forth above, the mutual promises and covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS AND INTERPRETATION

Section 1.1 Definitions

. In this Agreement, except to the extent otherwise provided or that the context otherwise requires:

"**Affiliate**" means, in respect of a Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person, and (i) in the case of a natural person, shall include, without limitation, such Person's spouse, parents, children, siblings, mother-in-law and father-in-law and brothers and sisters-in-law, (ii) in the case of a Shareholder, shall include (A) any Person who holds shares as a nominee for such Shareholder, (B) any shareholder of such Shareholder, (C) any Person which has a direct and indirect interest in such Shareholder (including, if applicable, any general partner or limited partner) or any fund manager thereof; (D) any Person that directly or indirectly controls, is controlled by, under common control with, or is managed by such Shareholder or its fund manager, (E) the relatives of any individual referred to in (B) above, and (F) any trust controlled by or held for the benefit of such individuals. For the purpose of this definition, "control" (and correlative terms) shall mean the direct or indirect power, whether by contract, equity ownership or otherwise, to direct the policies or management of a Person, provided that the direct or indirect ownership of twenty-five percent (25%) or more of the voting power of a Person is deemed to constitute control of that Person;

"**Agreement**" has the meaning set forth in the Preamble;

"**Articles**" means the Company's Certificate of Incorporation, as amended from time to time;

"**beneficial ownership**" or "**beneficially own**" or similar term means beneficial ownership as defined under Rule 13d-3 under the Exchange Act;

"**Board**" and "**Board of Directors**" means the Board of Directors of the Company;

"**Business Day**" has the meaning as defined in the Articles;

"**Claim Notice**" has the meaning set forth in Section 2.9(c);

"**Closing**" means the closing of the transactions contemplated under the Share Purchase Agreement, being the date hereof;

"**Commission**" means the United States Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or other governmental agency administering the securities laws in the jurisdiction in which the Company's securities are registered or being registered;

"**Common Stock**" has the meaning set forth in the Recitals;

"**Company**" has the meaning set forth in the Preamble;

"**Confidential Information**" has the meaning set forth in Section 3.1;

"**Director(s)**" means the director(s) of the Company;

"**Email**" has the meaning set forth in Section 3.3;

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended;

"**Form S-3**" has the meaning set forth in Section 2.4(a);

"**Group Company**" means the Company's material subsidiaries, material consolidated affiliated entities and their material subsidiaries and "Group Companies" shall mean all of them;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Investor**" has the meaning set forth in the Preamble;

"**Nasdaq**" means the Nasdaq Global Select Market;

"**Permitted Transferee**" has the meaning set forth in Section 3.8;

"**Person**" means an individual, corporation, partnership, limited liability company, association, trust, unincorporated organization, or other entity;

"**Prospectus**" means (i) the prospectus included in any Registration Statement, as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments and all material incorporated by reference in such prospectus, and (ii) any "free writing prospectus" as defined in Rule 405 under the 1933 Act.

"**register**," "**registered**" and "**registration**" means (i) a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement, or (ii) in the context of a public offering in a jurisdiction other than the United States, a registration, qualification or filing under the applicable securities laws of such other jurisdiction;

"**Registrable Securities**" means (i) the Subject Shares, (ii) shares of the Common Stock of the Company issued as a dividend or other distribution with respect to, or in exchange for or in replacement of, any of the Subject Shares, directly, or indirectly, whether by merger, amendment to Articles, stock split, dividend, recapitalization, or otherwise; and (iii) any other shares of the Common Stock issued to the Investor upon exercise of the warrants pursuant to the Warrant. Notwithstanding the foregoing, "**Registrable Securities**" shall not include any Registrable Securities sold by a Person in a transaction in which rights under Section 2 are not assigned in accordance with this Agreement or any Registrable Securities sold in a public offering, whether sold pursuant to Rule 144, or in a registered offering, or otherwise;

"**Registration Expenses**" means all expenses incurred by the Company in complying with Section 2.4 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, the expense of any special audits incident to or required by any such registration and the reasonable fees and disbursements of one counsel for the Investor (which fees and disbursements of counsel shall be subject to an aggregate cap of US$35,000), and any fee charged by any depositary bank, transfer agent or share registrar, but excluding Selling Expenses. For the avoidance of doubt, the Company shall pay all expenses incurred in connection with a registration pursuant to Section 2 notwithstanding the cancellation or delay of the registration proceeding for any reason;

"**Restricted Securities**" means the securities of the Company required to bear the legend set forth in Section 2.2 hereof;

"**Rule 144**" has the meaning set forth in Section 2.3;

"**Securities**" means any share of the Common Stock or any equity interest of, or shares of any class in the share capital (common, preferred or otherwise) of, the Company and any convertible securities, options, warrants and any other type of equity or equity-linked securities convertible, exercisable or exchangeable for any such equity interest or shares of any class in the share capital of the Company;

"**Securities Act**" means the United States Securities Act of 1933 as amended from time to time, also referred to herein as the "**Act**";

"**Selling Expenses**" means all underwriting discounts and selling commissions;

"**Share Purchase Agreement**" has the meaning set forth in the Recitals;

"**Shareholder**" or "**Shareholders**" means Persons who hold the shares of the Common Stock from time to time;

"**Subject Shares**" means the shares of the Common Stock issued to Investor at the Closing;

"**Transaction Documents**" means this Agreement, the Share Purchase Agreement, the Warrant Agreement and each of the other agreements and documents entered into or delivered by the parties hereto in connection with the transactions contemplated hereby or thereby;

"**Violation**" has the meaning set forth in Section 2.9(a); and

"**Warrant**" means the Warrant, dated July 3, 2018, between the Company and the Investor, pursuant to which the Company has agreed to issue to the Investor a warrant with the right to purchase a number of shares of Common Stock subject to the terms and conditions as set forth therein.

Section 1.2 Interpretation and Rules of Construction

. In this Agreement, except to the extent otherwise provided or that the context otherwise requires:

(a) when a reference is made in this Agreement to an Article or Section, such reference is to an Article or Section of this Agreement;

(b) the headings for this Agreement are for reference purposes only and do not affect in any way the meaning or interpretation of this Agreement;

(c) the words "hereof," "herein" and "hereunder" and words of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement;

(d) all terms defined in this Agreement have the defined meanings when used in any certificate or other document made or delivered pursuant hereto, unless otherwise defined therein;

(e) the definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms; and

(f) references to a Person are also to its successors and permitted assigns.

ARTICLE II
TRANSFER RESTRICTIONS; REGISTRATION RIGHTS

Section 2.1 Transfer Restrictions

The Restricted Securities (including the Subject Shares) shall not be sold, assigned, transferred or pledged except upon the conditions specified in this Section 2, which conditions are

intended to, *inter alia*, ensure compliance with the provisions of applicable securities laws. Investor will cause any proposed purchaser, assignee, transferee or pledgee of any such shares held by such holder to agree in writing to take and hold such securities subject to the provisions and upon the conditions specified in this Agreement.

Section 2.2 Restrictive Legend; Execution by the Company

.

(a) Each certificate (if any) representing the Subject Shares, and any replacement securities issued in respect of the Subject Shares, shall (unless otherwise permitted by the provisions of Section 2.3 below) be stamped or otherwise imprinted with legends substantially in the following form (in addition to any legend required under applicable federal, state, local or non-United States law):

(i) "THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS. ANY ATTEMPT TO TRANSFER, SELL, OFFER TO SELL, PLEDGE, HYPOTHECATE OR OTHERWISE DISPOSE OF THIS INSTRUMENT IN VIOLATION OF THESE RESTRICTIONS SHALL BE VOID."

(ii) "THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO AND MAY ONLY BE SOLD, DISPOSED OF OR OTHERWISE TRANSFERRED IN COMPLIANCE WITH THE REGISTRATION RIGHTS AGREEMENT, DATED JULY 3, 2018 AND/OR THE SHARE PURCHASE AGREEMENT, DATED JUNE 29, 2018, ENTERED INTO BY THE HOLDER OF THESE SHARES AND THE COMPANY. COPIES OF SUCH AGREEMENTS ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY. SUCH LOCK-UP IS BINDING ON TRANSFEREES OF THESE SHARES. BY ACCEPTING ANY INTEREST IN SUCH SHARES THE PERSON ACCEPTING SUCH INTEREST SHALL BE DEEMED TO AGREE TO AND SHALL BECOME BOUND BY ALL THE PROVISIONS OF SAID AGREEMENTS AS APPLICABLE."

(b) Investor consents to the Company making a notation on its records and giving instructions to any transfer agent of the Restricted Securities in order to implement the restrictions on transfer established in this Section 2.2.

(c) The Company agrees that it will cause the certificates evidencing the shares of the Common Stock to bear the legend required by this Section 2.2, and it shall supply, free of charge, a copy of this Agreement to any holder of a certificate evidencing shares of the Common Stock containing such legend upon written request from such holder to the Company at its principal office. The parties hereto do hereby agree that the failure to cause the certificates evidencing the appropriate shares of the Common Stock to bear the legend required by this Section 2.2 and/or failure of the Company to supply, free of charge, a copy of this Agreement as provided under this Section 2.2 shall not affect the validity or enforcement of this Agreement.

Section 2.3 Notice of Proposed Transfers

.

The holder of each certificate representing the Subject Shares by acceptance thereof agrees to comply in all respects with the provisions of this Section 2.3. Prior to any proposed sale, assignment, transfer or pledge of any Subject Shares (other than (a) a transfer not involving a change in beneficial ownership, (b) in transactions involving the distribution without consideration of the Subject Shares by the holder to any of its partners, members, or retired partners or members, or to the estate of any of its partners or members or retired partners or members, (c) in transactions in compliance with Rule 144 promulgated under the Securities Act ("**Rule 144**"), (d) transfers by members that are entities to affiliated entities or funds (United States based or non-United States based), and (e) transfers to the Company by any holder of the Subject Shares pursuant to the Company's repurchase option set forth in any agreement entered into as of or after the date hereof if such agreement is approved by a majority of the Board), Investor shall give written notice to the Company of Investor's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and if reasonably requested by the Company, shall be accompanied, at such holder's expense, by either (a) a written opinion of legal counsel who shall be, and whose legal opinion shall be, reasonably satisfactory to the Company addressed to the Company, to the effect that the proposed transfer of the Subject Shares may be effected without registration under the Securities Act, or (b) a "no action" letter from the Commission to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the holder of such Subject Shares shall be entitled to transfer such Subject Shares in accordance with the terms of the notice delivered by the holder to the Company. For the avoidance of doubt, it shall not be reasonable for the Company to request that a notice be accompanied by any such opinion or "no action" letter if, among other things, both the transferor and the transferee have certified in writing that each of them is not a U.S. Person (as defined under Rule 902 of Regulation S promulgated under the Securities Act). Notwithstanding any of the foregoing exceptions to the notice requirements, all transferees shall be bound by the obligations of the transferor in this Agreement. Each certificate evidencing the Restricted Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legends set forth in Section 2.2 above, except that such certificate shall not bear such restrictive legends if in the opinion of counsel for such holder and the Company such legend is not required in order to establish compliance with any provision of the Securities Act.

Section 2.4 Registration

.

(a) Promptly following the date of the Closing (the "**Closing Date**") but no later than ninety (90) days after the Closing Date (the "**Filing Deadline**"), the Company shall prepare and file with the Commission one registration statement on Form S-3 (or, if Form S-3 is not then available to the Company, on Form S-1) (the "**Registration Statement**") covering the resale of the Registrable Securities. Subject to any Commission comments, such Registration Statement shall include the plan of distribution attached hereto as Exhibit A; provided, however, that Investor shall not be named as an "underwriter" in the Registration Statement without the Investor's prior written consent. Such Registration Statement shall not include any shares of Common Stock or other securities for the account of any other holder without the prior written consent of the Investor. The Registration Statement (and each amendment or supplement thereto,

and each request for acceleration of effectiveness thereof) shall be provided to the Investor and its counsel for reasonable advance comment prior to its filing or other submission.

(b) Expenses. The Company shall pay all Registration Expenses incurred in connection with each registration requested pursuant to this Section 2.4. Investor shall bear such its proportionate share (based upon the total number of shares sold in such registration other than for the account of the Company) of any Selling Expenses incurred in connection with such registration of securities.

(c) Maximum Frequency. Except as otherwise provided herein, Investor may request registration of Registrable Securities two (2) times under this Section 2.4.

(d) Deferral. Notwithstanding the foregoing, if the Company shall furnish to Investor a certificate signed by the CEO of the Company stating that in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such registration statement to be filed, then the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of Investor; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period; provided, further that during such ninety (90) day period, the Company shall not file any registration statement pertaining to the public offering of any securities of the Company.

Section 2.5 Effectiveness

(a) The Company shall use best efforts to have the Registration Statement declared effective as soon as practicable. The Company shall notify the Investor by facsimile or e-mail as promptly as practicable, and in any event, within twenty-four (24) hours, after any Registration Statement is declared effective and shall simultaneously provide the Investor with copies of any related Prospectus to be used in connection with the sale or other disposition of the securities covered thereby. If (A) a Registration Statement covering the Registrable Securities is not declared effective by the Commission prior to the earlier of (i) five (5) Business Days after the Commission shall have informed the Company that no review of the Registration Statement will be made or that the Commission has no further comments on the Registration Statement or (ii) the 120th day after the Closing Date (the 150th day if the Commission reviews the Registration Statement), or (B) after a Registration Statement has been declared effective by the Commission (the "**Effectiveness Deadline**"), sales cannot be made continuously pursuant to such Registration Statement for any reason (including without limitation by reason of a stop order, or the Company's failure to update the Registration Statement) (each such event, a "**Default**"). In the event that a Default occurs then, in addition to any other rights the Investor may have hereunder or under applicable law, on the first day of the occurrence of the Default, and on the same day of each succeeding month (if the applicable Default shall not have been cured by such date) until the applicable Default is cured, the Company shall pay to each Investor an amount in cash, as liquidated damages and not as a penalty ("**Liquidated Damages**"), equal to 1.0% of the aggregate purchase price paid by Investor pursuant to the Purchase Agreement for any Registrable Securities held by such Investor on the date of the Default and the same day of each succeeding month. The parties agree that in no event shall the aggregate amount of Liquidated Damages payable to Investor exceed, in the aggregate, twenty-five percent (25%) of the aggregate purchase price paid by Investor pursuant to the Purchase Agreement. If the Company fails to pay any Liquidated

Damages pursuant to this in full within five (5) Business Days after the date payable, the Company will pay interest thereon at a rate of 1.5% per month (or such lesser maximum amount that is permitted to be paid by applicable law) to the Investor, accruing daily from the date such Liquidated Damages are due until such amounts, plus all such interest thereon, are paid in full. The Liquidated Damages pursuant to the terms hereof shall apply on a daily pro-rata basis for any portion of a month prior to the cure of a Default, except in the case of the first occurrence of the Default. The Effectiveness Deadline for a Registration Statement shall be extended without default or Liquidated Damages hereunder in the event that the Company's failure to obtain the effectiveness of the Registration Statement on a timely basis results from the failure of Investor to timely provide the Company with information requested by the Company and necessary to complete the Registration Statement in accordance with the requirements of the Securities Act (in which case the Effectiveness Deadline would be extended with respect to Registrable Securities held by Investor).

(b) Rule 415; Cutback If at any time the Commission takes the position that the offering of some or all of the Registrable Securities in a Registration Statement is not eligible to be made on a delayed or continuous basis under the provisions of Rule 415 under the 1933 Act or requires any Investor to be named as an "underwriter", the Company shall use its commercially reasonable best efforts to persuade the Commission that the offering contemplated by the Registration Statement is a valid secondary offering and not an offering "by or on behalf of the issuer" as defined in Rule 415 and that none of the Investor is an "underwriter". The Investor shall have the right to participate or have their counsel participate in any meetings or discussions with the Commission regarding the Commission's position and to comment or have their counsel comment on any written submission made to the Commission with respect thereto. No such written submission shall be made to the Commission to which the Investor's counsel reasonably objects. In the event that, despite the Company's best efforts and compliance with the terms of this Section 2.5(b), the Commission refuses to alter its position, the Company shall (i) remove from the Registration Statement such portion of the Registrable Securities (the "**Cut Back Shares**") and/or (ii) agree to such restrictions and limitations on the registration and resale of the Registrable Securities as the Commission may require to assure the Company's compliance with the requirements of Rule 415 (collectively, the "**Commission Restrictions**"); provided, however, that the Company shall not agree to name any Investor as an "underwriter" in such Registration Statement without the prior written consent of such Investor. No Liquidated Damages shall accrue as to any Cut Back Shares until such date as the Company is able to effect the registration of such Cut Back Shares in accordance with any Commission Restrictions (such date, the "**Restriction Termination Date**" of such Cut Back Shares). From and after the Restriction Termination Date applicable to any Cut Back Shares, all of the provisions of this Section 2 (including the Liquidated Damages provisions) shall again be applicable to such Cut Back Shares; provided, however, that (i) the Filing Deadline for the Registration Statement including such Cut Back Shares shall be ten (10) Business Days after such Restriction Termination Date, and (ii) the date by which the Company is required to obtain effectiveness with respect to such Cut Back Shares shall be the 90th day immediately after the Restriction Termination Date. For the avoidance of doubt, for purposes of this Section 2.5(b), the term "best efforts" shall not require the Company to institute or maintain any action, suit or proceeding against the Commission or any member of the Staff of the Commission.

Section 2.6 Rights to Piggyback Registration

(a) If at any time following the date of this Agreement that any Registrable Securities remain outstanding (A) there is not one or more effective Registration Statements covering all of the Registrable Securities and (B) the Company proposes for any reason to register any shares of Common Stock under the 1933 Act (other than pursuant to a registration statement on Form S-4 or Form S-8 (or a similar or successor form)) with respect to an offering of Common Stock by the Company for its own account or for the account of any of its stockholders, it shall at each such time promptly give written notice to the holders of the Registrable Securities of its intention to do so (but in no event less than thirty (30) days before the anticipated filing date) and, to the extent permitted under the provisions of Rule 415 under the 1933 Act, include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within fifteen (15) days after receipt of the Company's notice (a "**Piggyback Registration**"). Such notice shall offer the holders of the Registrable Securities the opportunity to register such number of shares of Registrable Securities as each such holder may request and shall indicate the intended method of distribution of such Registrable Securities.

(a) Notwithstanding the foregoing, (A) if such registration involves an underwritten public offering, the Investor must sell their Registrable Securities to, if applicable, the underwriter(s) at the same price and subject to the same underwriting discounts and commissions that apply to the other securities sold in such offering (it being acknowledged that the Company shall be responsible for other expenses as set forth in Section 2.4(b)) and subject to the Investor entering into customary underwriting documentation for selling stockholders in an underwritten public offering, and (B) if, at any time after giving written notice of its intention to register any Registrable Securities pursuant to Section 2.6(a) and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to cause such registration statement to become effective under the 1933 Act, the Company shall deliver written notice to the Investors and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such registration; provided, however, that nothing contained in this Section 2.6(b) shall limit the Company's liabilities and/or obligations under this Agreement, including, without limitation, the obligation to pay liquidated damages under Section 2.5. If the managing underwriter(s) for the underwritten public offering advise the Company that the number of shares proposed to be included in the offering exceeds the number that can reasonably be sold in the offering, then the shares to be included in such offering shall be allocated, first, to the account of the Company, in the event that the public offering relates to a primary offering by or on behalf of the Company, or, if the offering is being made pursuant to a demand registration rights granted to one or more holders of Common Stock, such holders, second, to the Investor, and third, to any other holder of Common Stock having the right to include its shares in such offering.

Section 2.7 Obligations of the Company

Whenever required to effect the registration of any Registrable Securities under this Agreement, the Company shall keep Investor advised in writing as to the initiation of such registration and as to the completion thereof, and shall, at its expense promptly:

(a) Registration Statement. Prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts

to cause such registration statement to become effective, and keep any such registration statement effective for a period of one hundred and twenty (120) days or until Investor has completed the distribution described in the Registration Statement relating thereto, whichever occurs first.

(b) Amendments and Supplements. Prepare and file with the Commission such amendments and supplements to the Registration Statement and the Prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act or other applicable securities laws with respect to the disposition of all securities covered by such registration statement.

(c) Registration Statements and Prospectuses. Furnish to Investor such number of copies of Registration Statements and Prospectuses, including a preliminary prospectus, in conformity with the requirements of the Securities Act or other applicable securities laws, and such other documents as it may reasonably request in order to facilitate the disposition of the Registrable Securities owned by it that are included in such registration.

(d) Blue Sky. Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by Investor, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) Notification. Notify Investor at any time when a prospectus relating to its Registrable Securities is required to be delivered under the Securities Act or other applicable securities laws of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(f) Listing on Securities Exchange(s). Cause all such Registrable Securities registered pursuant hereto to be listed on the Nasdaq, or such other internationally recognized exchange, for long as the Company's securities are listed on such exchange.

Section 2.8 Furnish Information

.

It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.4 with respect to the Registrable Securities of Investor, that Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of such securities as shall be reasonably requested in writing by the Company to timely effect the registration of its Registrable Securities.

Section 2.9 Indemnification

.

The following indemnification provisions shall apply in the event any Registrable Securities are included in a registration statement under Section 2.4:

(a) By the Company. To the extent permitted by law, the Company will indemnify and hold harmless Investor, and the partners, officers, directors, employees, trustees

and legal counsel of Investor and each Person, if any, who controls Investor within the meaning of Section 15 of the Securities Act against any expenses, losses, claims, damages, or liabilities (joint or several) (or actions in respect thereof) to which they may become subject under the Securities Act, the Exchange Act or other applicable law, insofar as such expenses, losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (each a "**Violation**"):

(i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement, offering circular, preliminary prospectus, final prospectus or other document, or any amendments or supplements thereto;

(ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; or

(iii) any violation or alleged violation of the Securities Act, the Exchange Act, any federal or state or foreign securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or other applicable securities law in connection with the offering covered by such registration statement; and the Company will reimburse Investor, its partners, officers, directors, employees, legal counsel or controlling Person for any legal or other expenses reasonably incurred by them, as incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 2.9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by Investor, underwriter or controlling Person of Investor.

(b) By Investor. To the extent permitted by law, Investor will indemnify and hold harmless the Company and the partners, officers, directors, employees, trustees and legal counsel of the Company and each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, and any other Shareholder selling securities under such registration statement or any of such other Shareholder's partners, directors, officers, employees, trustees and legal counsel of such Shareholder and each Person, if any, who controls such Shareholder within the meaning of Section 15 of the Securities Act, against any expenses, losses, claims, damages or liabilities (joint or several) (or actions in respect thereof) to which the Company or any such director, officer, employee, trustee, legal counsel, controlling Person or other such Shareholder, partner or director, officer, employee or controlling Person of such other Shareholder may become subject under the Securities Act, the Exchange Act or other applicable law, insofar as such expenses, losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by Investor to the Company expressly for inclusion in such Registration Statement or Prospectus or amendment or supplement thereto, which constituted by the Investor an untrue statement of a material fact or any omission of a material fact required to be stated in the Registration Statement

or Prospectus or preliminary Prospectus or amendment or supplement thereto or necessary to make the statements therein not misleading: and Investor will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, employee, controlling Person or other Shareholder, partner, officer, employee, director or controlling Person of such other Shareholder in connection with investigating or defending any such loss, claim, damage, liability or action: provided, however, that the indemnity agreement contained in this Section 2.9(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of Investor, which consent shall not be unreasonably withheld; and provided, further that the total amounts payable in indemnity by Investor under this Section 2.9(b) plus any amount under Section 2.9(e) in respect of any Violation shall not exceed the net proceeds received by Investor in the registered offering out of which such Violation arises.

(c) Notice. Promptly after receipt by an indemnified party under this Section 2.9 of notice of the commencement of any claim or action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.9, deliver to the indemnifying party a written notice of the commencement thereof (a "**Claim Notice**") and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the reasonable fees and expenses to be paid by the indemnifying party (i) during the period from the delivery of a Claim Notice until retention of counsel by the indemnifying party; and (ii) if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Section 2.9 to the extent the indemnifying party is prejudiced as a result thereof, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.9.

(d) Defect Eliminated in Final Prospectus. The foregoing indemnity agreements of the Company and Investor are subject to the condition that, insofar as they relate to any untrue statement, alleged untrue statement, omission or alleged omission made in a preliminary prospectus or free writing prospectus on file with the Commission at the time the registration statement becomes effective, such indemnity agreement shall not inure to the benefit of any Person if an amended prospectus is filed with the Commission and delivered pursuant to the Securities Act at or prior to the time of sale (including, without limitation, a contract of sale, and as further contemplated by Rule 159 promulgated under the Securities Act) to the Person asserting the loss, liability, claim or damage.

(e) Contribution. In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) Investor exercising rights under this Agreement, or any controlling Person of Investor, makes a claim for indemnification pursuant to this Section 2.9 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact

that this Section 2.9 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of Investor or any such controlling Person in circumstances for which indemnification is provided under this Section 2.9; then, and in each such case, the Company and Investor will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that Investor is responsible for the portion represented by the percentage that the public offering price of its Registrable Securities offered by and sold under the registration statement bears to the public offering price of all securities offered by and sold under such registration statement, and the Company and any other selling Shareholders are responsible for the remaining portion; provided, however, that, in any such case: (A) Investor will not be required to contribute any amount in excess of the net proceeds received by Investor from the public offering price of all such Registrable Securities offered and sold by Investor pursuant to such registration statement; and (B) no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(f) Survival. The obligations of the Company and Investor under this Section 2.9 shall survive until the fifth (5th) anniversary of the completion of any offering of Registrable Securities pursuant to a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes.

Section 2.10 Rule 144 Reporting

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With a view to making available to Investor the benefits of certain rules and regulations of the Commission which may permit the sale of the Restricted Securities to the public without registration, the Company agrees to use its commercially reasonable efforts to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public;

(b) File with the Commission, in a timely manner, all reports and other documents required of the Company under the Securities Act or the Exchange Act, at all times after the effective date of the first registration under the Securities Act filed by the Company; and

(c) So long as Investor owns any Restricted Securities, furnish to Investor forthwith upon request, (i) a written statement by the Company as to its compliance with the reporting requirements of said Rule 144, and of the Exchange Act (at any time after it has become subject to such reporting requirements), (ii) a copy of the most recent annual, interim, quarterly or other report of the Company, and (iii) such other reports and documents as Investor may reasonably request in availing itself of any rule or regulation of the Commission allowing it to sell any such securities without registration.

ARTICLE III
GENERAL PROVISIONS

Section 3.1 Confidentiality

. Each party hereto hereby agrees that it will, and will cause its respective Affiliates and its and their respective representatives to, hold in strict confidence any non-public records, books, contracts, instruments, computer data and other data and information concerning the other parties hereto, whether in written, verbal, graphic, electronic or any other form provided by any party hereto (except to the extent that such information has been (a) previously known by such party on a non-confidential basis from a source other than the other parties hereto or its representatives, provided that, to such party's knowledge, such source is not prohibited from disclosing such information to such party or its representatives by a contractual, legal or fiduciary obligation to the other parties hereto or its representatives, (b) in the public domain through no breach of this Agreement by such party, (c) independently developed by such party or on its behalf, or (d) later lawfully acquired from other sources) (the "**Confidential Information**"). In the event that a party hereto is requested or required by law, governmental authority, rules of stock exchanges, or other applicable judicial or governmental order to disclose any Confidential Information concerning any of the other parties hereto, such party shall, to the extent legally permissible, notify the other party prior to making any such disclosure by providing the other party with the text of the disclosure requirement and draft disclosure at least 24 hours prior to making any such disclosure, and, if requested by another party, assist such other party to limit or minimize such disclosure.

Section 3.2 Termination

. Unless expressly provided otherwise herein, in addition to the other termination provisions in this Agreement, this Agreement shall terminate, and have no further force and effect, upon the earliest of: (a) a written agreement to that effect, signed by all parties hereto, and (b) the date following the Closing on which Investor no longer holds any shares of the Common Stock of the Company; provided that, notwithstanding the foregoing, Article II shall survive any termination of this Agreement until the specific provisions thereof terminate in accordance with their express terms.

Section 3.3 Notices

. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission and electronic mail transmission ("**Email**"), so long as a receipt of such Email is requested and received) and shall be given:

If to the Company:

Athenex, Inc.
Address: Conventus Building, 1001 Main Street, Suite 600, Buffalo, NY 14203, United States of America
Email: tbair@athenex.com
Facsimile: +1 716 800 6818
Attention: Teresa Bair, Vice President, Legal Affairs & Corporate Development

with a copy to:

Simpson Thacher & Bartlett LLP
Address: 35/F, ICBC Tower
3 Garden Road Central, Hong Kong
Email: dfertig@stblaw.com
Facsimile: +852 2514-7694
Attention: Daniel Fertig

If to Investor:

Perceptive Life Sciences Master Funds, Ltd.
Address: 51 Astor Place, 10th floor
New York, NY 10003
Email: Adam@perceptivelife.com
Attention: Adam Stone

with a copy to:

Tannenbaum Helpern Syracuse Hirschtritt LLP
Address: 900 Third Avenue
New York, NY 10022
Email: lallouz@thsh.com
Facsimile: +1 646 390-7005
Attention: David R. Lallouz

A party may change or supplement the addresses given above, or designate additional addresses, for the purposes of this Section 3.3 by giving the other parties written notice of the new address in the manner set forth above.

Section 3.4 Entire Agreement

. This Agreement and the other Transaction Documents, together with all the schedules and exhibits hereto and thereto and the certificates and other written instruments delivered in connection therewith from time to time on and following the date hereof, constitute and contain the entire agreement and understanding of the parties with respect to the subject matter hereof and thereof, and supersedes any and all prior negotiations, correspondence, agreements, understandings, duties or obligations between the parties respecting the subject matter hereof and thereof. Each party expressly represents and warrants that it is not relying on any oral or written representations, warranties, covenants or agreements outside of this Agreement and the other Transaction Documents.

Section 3.5 Governing Law

. This Agreement shall be governed by and construed in accordance with the law of the State of New York, without regard to conflict of law principles.

Section 3.6 Dispute Resolution

. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement

and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. To the extent that the Company has or hereafter may acquire any immunity (on the grounds of sovereignty or otherwise) from the jurisdiction of any court or from any legal process with respect to itself or its property, the Company irrevocably waives, to the fullest extent permitted by law, such immunity in respect of any such suit, action or proceeding. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 3.7 Severability

. If any provision of this Agreement is found to be invalid or unenforceable, then such provision shall be construed, to the extent feasible, so as to render the provision enforceable and to provide for the consummation of the transactions contemplated hereby on substantially the same terms as originally set forth herein, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Agreement, which shall remain in full force and effect unless the severed provision is essential to the rights or benefits intended by the parties. In such event, the parties shall use commercially reasonable efforts to negotiate, in good faith, a substitute, valid and enforceable provision or agreement, which most nearly effects the parties' intent in entering into this Agreement.

Section 3.8 Assignments and Transfers; No Third Party Beneficiaries

. Except as otherwise provided herein, this Agreement and the rights and obligations of the Company and Investor hereunder shall inure to the benefit of, and be binding upon, their respective successors and permitted assigns and legal representatives, but shall not otherwise be for the benefit of any third party. Notwithstanding anything to the contrary, without the prior written consent of the Company, the Investor may not assign any of its rights under this Agreement except to an Affiliate of the Investor (a " **Permitted Transferee**"), provided, however, that no Permitted Transferee or any other person may be assigned any of the foregoing rights unless the Company is given written notice by the assigning party stating the name and address of the assignee and identifying the securities of the Company as to which the rights in question are being assigned; and any such transferee shall execute and deliver to the Company and Investor a Deed of Adherence (in the same form and substance as set out in Schedule 1 hereto), subject to the terms and conditions hereof.

Section 3.9 Construction

. Each of the parties has participated in the drafting and negotiation of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement must be construed as if it is drafted by all the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of authorship of any of the provisions of this Agreement.

Section 3.10 Counterparts

. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other parties. A facsimile or "PDF" signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original.

Section 3.11 Aggregation of Shares

. All Securities held or acquired by Investor and/or its Permitted Transferees shall be aggregated together for the purpose of determining the availability of any rights of Investor under this Agreement.

Section 3.12 Specific Performance

. The parties hereto acknowledge and agree irreparable harm may occur for which money damages would not be an adequate remedy in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that, in addition to any other remedies at law or in equity, the parties to this Agreement shall be entitled to injunction to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement without posting any bond or other undertaking.

Section 3.13 Amendment; Waiver

. This Agreement may be amended, modified or supplemented only by a written instrument duly executed by all the parties hereto. The observance of any provision in this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by the written consent of the party against whom such waiver is to be effective. Any amendment or waiver effected in accordance with this Section 3.13 shall be binding upon the parties hereof and their respective assigns. It is agreed that no delay or omission to exercise any right, power or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Agreement, shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of or in any similar breach, default or noncompliance thereafter occurring.

Section 3.14 Public Announcements

. Without limiting any other provision of this Agreement, the parties hereto, to the extent permitted by applicable law, will consult with each other before issuance, and provide each other the opportunity to review, comment upon and agree on any press release or public statement with respect to this Agreement, the other Transaction Documents and the transactions contemplated hereby and thereby and the ongoing business relationship among the parties. The parties hereto will not issue any such press release or make any such public statement without the prior written consent of the other party, except as may be required by law or any listing agreement with or requirement of the Nasdaq or any other applicable securities exchange, provided that the disclosing party shall, to the extent permitted by applicable law or any listing agreement with or requirement of the Nasdaq or any other applicable securities exchange, and if reasonably practicable, inform the other parties about the disclosure to be made pursuant to such requirements prior to the disclosure.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

ATHENEX, INC.

By: /s/ Johnson Y.N. Lau
Name: Johnson Y.N. Lau
Title: Chairman and CEO

IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

PERCEPTIVE LIFE SCIENCES MASTER FUND, LTD.

By: /s/ James H. Mannix
Name: James H. Mannix
Title: Chief Operating Officer

Exhibit A

Plan of Distribution

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales effected after the date the registration statement of which this Prospectus is a part is declared effective by the SEC;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted by applicable law.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common

stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling stockholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants.

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act of 1933, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be “underwriters” within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are “underwriters” within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified

for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, to the extent applicable we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (2) the date on which all of the shares may be sold without restriction pursuant to Rule 144 of the Securities Act.

Schedule 1
FORM OF DEED OF ADHERENCE

THIS DEED is made the day of 20[ ] by [ ] of [ ] (the "**Permitted Transferee**") and is supplemental to the Registration Rights Agreement dated July 3, 2018 made between Athenex, Inc. (the "**Company**"), and Perceptive Life Sciences Master Fund, Ltd. (such agreement as amended, restated or supplemented from time to time, the "**Registration Rights Agreement**").

WITNESSETH as follows:

The Permitted Transferee confirms that it has been provided with a copy of the Registration Rights Agreement and all amendments, restatements and supplements thereto and hereby covenants with each of the parties to the Registration Rights Agreement from time to time to observe, perform and be bound by all the terms and conditions of the Registration Rights Agreement which are capable of applying to the Permitted Transferee to the intent and effect that the Permitted Transferee shall be deemed as and with effect from the date hereof to be a party to the Registration Rights Agreement and to be subject to the obligations thereof.

The address and facsimile number at which notices are to be served on the Permitted Transferee under the Registration Rights Agreement and the person for whose attention notices are to be addressed are as follows:

[*to insert contact details*]

Words and expressions defined in the Registration Rights Agreement shall have the same meaning in this Deed. This Deed shall be governed by and construed in accordance with the laws of the State of New York.

This Deed shall take effect as a deed poll for the benefit of the Company, [Perceptive Life Sciences Master Fund, Ltd.] and any other parties to the Registration Rights Agreement.

IN WITNESS whereof the Permitted Transferee has executed this Deed the day and year first above written.

THE COMMON SEAL of [ ].

was hereunto affixed)

in the presence of:)

_____
(Director)

_____
(Director/Secretary)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Johnson Y.N. Lau, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Athenex, Inc. (the registrant);

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(s) 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)) 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) [Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313];

   (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(s) 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.

Date: August 14, 2018

/s/ Johnson Y.N. Lau
Name: Johnson Y.N. Lau
Title: Chief Executive Officer and Board Chairman
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Li Shen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Athenex, Inc. (the registrant);

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(s) 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)) 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) [Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313];

   (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(s) 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.

Date: August 14, 2018

/s/ Li Shen
Name: Li Shen
Title: Acting Chief Accounting Officer and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Johnson Y.N. Lau, Chief Executive Officer of Athenex, Inc. (the "registrant") and Board Chairman (Principal Executive Officer), and Li Shen, Vice President of Financial Reporting and Acting Chief Accounting Officer of the registrant (Principal Financial and Accounting Officer), each hereby certifies that, to the best of their knowledge:

1. The registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2018, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition of the registrant at the end of the period covered by the Report and results of operations of the registrant for the period covered by the Report.

Date: August 14, 2018

/s/ Johnson Y.N. Lau
Name: Johnson Y.N. Lau
Title: Chief Executive Officer and Board Chairman
(Principal Executive Officer)

/s/ Li Shen
Name: Li Shen
Title: Acting Chief Accounting Officer and Treasurer
(Principal Financial and Accounting Officer)