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

FORM 10-Q

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

For the quarterly period ended January 31, 2021

or

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

For the transition period from _____ to _____

Commission file number: **001-32839**

AVID BIOSERVICES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**95-3698422**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

2642 Michelle Drive, Suite 200, Tustin, California 92780
(Address of principal executive offices and zip code)

(714) 508-6100
(Registrant's telephone number, including area code)

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

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

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 ý No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý	Smaller reporting company ý
			Emerging growth company o

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. o

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

As of March 1, 2021, the number of shares of registrant's common stock outstanding was 60,828,589.

AVID BIOSERVICES, INC.

Form 10-Q
For the Quarter Ended January 31, 2021

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As used in this Quarterly Report on Form 10-Q, except where the context otherwise requires or where otherwise indicated, the terms "we," "us," "our," and the "Company" refer to Avid Bioservices, Inc. and its consolidated subsidiaries.

PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AVID BIOSERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (In thousands, except par value)

	January 31, 2021	April 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70,894	$ 36,262
Accounts receivable	27,113	8,606
Contract assets	5,545	3,300
Inventory	11,946	10,883
Prepaid expenses	813	712
Total current assets	**116,311**	**59,763**
Property and equipment, net	32,162	27,105
Operating lease right-of-use assets	19,053	20,100
Restricted cash	350	350
Other assets	302	302
Total assets	**$ 168,178**	**$ 107,620**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,855	$ 5,926
Accrued payroll and related costs	6,500	3,019
Contract liabilities	47,707	29,120
Current portion of operating lease liabilities	1,334	1,228
Note payable	–	4,379
Other current liabilities	179	808
Total current liabilities	**62,575**	**44,480**
Operating lease liabilities, less current portion	20,233	21,244
Total liabilities	**82,808**	**65,724**
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000 shares authorized; 1,648 shares issued and outstanding at January 31, 2021 and April 30, 2020, respectively	2	2
Common stock, $0.001 par value; 150,000 shares authorized; 60,827 and 56,483 shares issued and outstanding at January 31, 2021 and April 30, 2020, respectively	61	56
Additional paid-in capital	647,157	612,909
Accumulated deficit	(561,850)	(571,071)
Total stockholders' equity	**85,370**	**41,896**
Total liabilities and stockholders' equity	**$ 168,178**	**$ 107,620**

See accompanying notes to condensed consolidated financial statements.

AVID BIOSERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited) (In thousands, except per share information)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	**2020**	**2021**	**2020**
Revenues	$ 21,806	$ 13,585	$ 68,262	$ 47,152
Cost of revenues	15,604	12,800	47,098	41,921
Gross profit	6,202	785	21,164	5,231
Operating expenses:				
Selling, general and administrative	4,018	2,996	12,009	10,989
Loss on lease termination	–	–	–	355
Total operating expenses	4,018	2,996	12,009	11,344
Operating income (loss)	2,184	(2,211)	9,155	(6,113)
Interest and other income, net	23	107	66	415
Net income (loss)	$ 2,207	$ (2,104)	$ 9,221	$ (5,698)
Comprehensive income (loss)	$ 2,207	$ (2,104)	$ 9,221	$ (5,698)
Series E preferred stock accumulated dividends	(1,442)	(1,442)	(3,604)	(3,604)
Net income (loss) attributable to common stockholders	$ 765	$ (3,546)	$ 5,617	$ (9,302)
Net income (loss) per share attributable to common stockholders:				
Basic	$ 0.01	$ (0.06)	$ 0.10	$ (0.17)
Diluted	$ 0.01	$ (0.06)	$ 0.10	$ (0.17)
Weighted average common shares outstanding:				
Basic	58,865	56,404	57,349	56,275
Diluted	60,097	56,404	58,058	56,275

See accompanying notes to condensed consolidated financial statements.

AVID BIOSERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited) (In thousands, except per share information)

	Three Months Ended January 31, 2021						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at October 31, 2020	1,648	$ 2	56,722	$ 57	$ 613,384	$ (564,057)	$ 49,386
Series E preferred stock dividends paid ($0.65625 per share)	–	–	–	–	(1,081)	–	(1,081)
Common stock issued, net of issuance of issuance costs of $2,359	–	–	3,833	4	32,137	–	32,141
Common stock issued under Employee Stock Purchase Plan	–	–	40	–	244	–	244
Exercise of stock options	–	–	213	–	1,474	–	1,474
Common stock issued upon vesting of restricted stock units	–	–	19	–	–	–	–
Stock-based compensation expense	–	–	–	–	999	–	999
Net income	–	–	–	–	–	2,207	2,207
Balance at January 31, 2021	1,648	$ 2	60,827	$ 61	$ 647,157	$ (561,850)	$ 85,370

	Three Months Ended January 31, 2020						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at October 31, 2019	1,648	$ 2	56,338	$ 56	$ 613,325	$ (564,199)	$ 49,184
Series E preferred stock dividends paid ($0.65625 per share)	–	–	–	–	(1,081)	–	(1,081)
Exercise of stock options	–	–	120	–	484	–	484
Common stock issued upon vesting of restricted stock units	–	–	21	–	–	–	–
Stock-based compensation expense	–	–	–	–	595	–	595
Net loss	–	–	–	–	–	(2,104)	(2,104)
Balance at January 31, 2020	1,648	$ 2	56,479	$ 56	$ 613,323	$ (566,303)	$ 47,078

See accompanying notes to condensed consolidated financial statements.

AVID BIOSERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
(Unaudited) (In thousands, except per share information)

	Nine Months Ended January 31, 2021						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at April 30, 2020	1,648	$ 2	56,483	$ 56	$ 612,909	$ (571,071)	$ 41,896
Series E preferred stock dividends paid ($1.96875 per share)	–	–	–	–	(3,244)	–	(3,244)
Common stock issued, net of issuance of issuance costs of $2,359	–	–	3,833	4	32,137	–	32,141
Common stock issued under Employee Stock Purchase Plan	–	–	72	–	423	–	423
Exercise of stock options	–	–	354	1	2,178	–	2,179
Common stock issued upon vesting of restricted stock units	–	–	85	–	–	–	–
Stock-based compensation expense	–	–	–	–	2,754	–	2,754
Net income	–	–	–	–	–	9,221	9,221
Balance at January 31, 2021	1,648	$ 2	60,827	$ 61	$ 647,157	$ (561,850)	$ 85,370

	Nine Months Ended January 31, 2020						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at April 30, 2019	1,648	$ 2	56,136	$ 56	$ 613,615	$ (560,605)	$ 53,068
Series E preferred stock dividends paid ($1.96875 per share)	–	–	–	–	(3,244)	–	(3,244)
Common stock issued under Employee Stock Purchase Plan	–	–	47	–	187	–	187
Exercise of stock options	–	–	247	–	916	–	916
Common stock issued upon vesting of restricted stock units	–	–	49	–	–	–	–
Stock-based compensation expense	–	–	–	–	1,849	–	1,849
Net loss	–	–	–	–	–	(5,698)	(5,698)
Balance at January 31, 2020	1,648	$ 2	56,479	$ 56	$ 613,323	$ (566,303)	$ 47,078

See accompanying notes to condensed consolidated financial statements.

AVID BIOSERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended January 31,	
	2021	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 9,221	$ (5,698)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,540	2,276
Stock-based compensation	2,754	1,849
Loss on lease termination	–	355
Loss on disposal of assets	–	13
Changes in operating assets and liabilities:		
Accounts receivable	(18,507)	(2,777)
Contract assets	(2,245)	(1,784)
Inventory	(1,063)	(3,008)
Prepaid expenses and other assets	(101)	(54)
Accounts payable	(951)	491
Accrued payroll and related costs	3,481	(555)
Contract liabilities	18,587	11,704
Other accrued expenses and liabilities	(394)	(32)
Net cash provided by operating activities	13,322	2,780
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,717)	(3,025)
Net cash used in investing activities	(5,717)	(3,025)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of issuance costs	32,141	–
Proceeds from exercise of stock options	2,179	916
Proceeds from issuance of common stock under employee stock purchase plan	423	187
Repayment of note payable	(4,379)	–
Dividends paid on preferred stock	(3,244)	(3,244)
Principal payments on finance lease	(93)	(78)
Net cash provided by (used in) financing activities	27,027	(2,219)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 34,632	$ (2,464)
Cash, cash equivalents and restricted cash, beginning of period	36,612	33,501
Cash, cash equivalents and restricted cash, end of period	$ 71,244	$ 31,037
Supplemental disclosures of non-cash activities:		
Unpaid purchases of property and equipment	$ 1,880	$ 489
Decapitalization of right-of-use assets upon lease termination and/or modification	$ –	$ 1,469

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets that sum to the total of the same amounts shown above:

	January 31, 2021	**April 30, 2020**	**January 31, 2020**	**April 30, 2019**
Cash and cash equivalents	$ 70,894	$ 36,262	$ 30,687	$ 32,351
Restricted cash	350	350	350	1,150
Total cash, cash equivalents and restricted cash	$ 71,244	$ 36,612	$ 31,037	$ 33,501

See accompanying notes to condensed consolidated financial statements.

Note 1 – Description of Company and Basis of Presentation

We are a dedicated contract development and manufacturing organization ("CDMO") that provides a comprehensive range of services from process development to Current Good Manufacturing Practices ("CGMP") clinical and commercial manufacturing, focused on biopharmaceutical drug substances derived from mammalian cell culture for biotechnology and pharmaceutical companies.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to quarterly reports on Form 10-Q, and accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2020, as filed with the SEC on June 30, 2020. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this Quarterly Report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year or any other interim period.

The unaudited condensed consolidated financial statements include the accounts of Avid Bioservices, Inc. and its subsidiaries. All intercompany accounts and transactions among the consolidated entities have been eliminated in the unaudited condensed consolidated financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts, as well as disclosures of commitments and contingencies in the financial statements and accompanying notes. Actual results could differ materially from those estimates and assumptions.

Note 2 – Summary of Significant Accounting Policies

Information regarding our significant accounting policies is contained in Note 2, "Summary of Significant Accounting Policies", of the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2020.

Revenue Recognition

Revenue recognized from services provided under our customer contracts are disaggregated into manufacturing and process development revenue streams.

Manufacturing revenue

Manufacturing revenue generally represents revenue from the manufacturing of customer products recognized over time utilizing an input method that compares the cost of cumulative work-in-process to date to the most current estimates for the entire cost of the performance obligation. Under a manufacturing contract, a quantity of manufacturing runs are ordered and the product is manufactured according to the customer's specifications and typically only one performance obligation is included. Each manufacturing run represents a distinct service that is sold separately and has stand-alone value to the customer. The products are manufactured exclusively for a specific customer and have no alternative use. The customer retains control of its product during the entire manufacturing process and can make changes to the process or specifications at its request. Under these agreements, we are entitled to consideration for progress to date that includes an element of profit margin.

Process development revenue

Process development revenue generally represents revenue from services associated with the custom development of a manufacturing process and analytical methods for a customer's product. Process development revenue is recognized over time utilizing an input method that compares the cost of cumulative work-in-process to date to the most current estimates for the entire cost of the performance obligation. Under a process development contract, the customer owns the product details and process, which has no alternative use. These process development projects are customized to each customer to meet its specifications and typically only one performance obligation is included. Each process represents a distinct service that is sold separately and has stand-alone value to the customer. The customer also retains control of its product as the product is being created or enhanced by our services and can make changes to its process or specifications upon request. Under these agreements, we are entitled to consideration for progress to date that includes an element of profit margin.

The following table summarizes our manufacturing and process development revenue streams (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	**2020**	**2021**	**2020**
Manufacturing revenues	$ 17,895	$ 11,525	$ 60,407	$ 40,422
Process development revenues	3,911	2,060	7,855	6,730
Total revenues	$ 21,806	$ 13,585	$ 68,262	$ 47,152

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

During the three and nine months ended January 31, 2021, we recognized revenue of $3.5 million and $26.3 million, respectively, for which the contract liability was recorded in a prior period.

During the three and nine months ended January 31, 2020, we recognized revenue of $0.6 million and $13.2 million, respectively, for which the contract liability was recorded in a prior period.

The transaction price for services provided under our customer contracts reflects our best estimates of the amount of consideration to which we are entitled in exchange for providing goods and services to our customers. In determining the transaction price, we considered the different sources of variable consideration including, but not limited to, discounts, credits, refunds, price concessions or other similar items. We have included in the transaction price some or all of an amount of variable consideration, utilizing the most likely method, only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The actual amount of consideration ultimately received may differ.

Management may be required to exercise judgement in estimating revenue to be recognized. Judgement is required in identifying performance obligations, estimating the transaction price, estimating the stand-alone selling prices of identified performance obligations, and estimating the progress towards the satisfaction of performance obligations. If actual results in the future vary from our estimates, the estimates will be adjusted, which will affect revenues in the period that such variances become known.

During the nine months ended January 31, 2021, changes in estimates for variable consideration related to the completion of certain performance obligations during the current year periods resulted in an increase in revenues of $1.1 million. There were no material adjustments in estimates for variable consideration for the three months ended January 31, 2021 and for the three and nine months ended January 31, 2020.

We apply the practical expedient available under ASC 606 that permits us not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. As of January 31, 2021, we do not have any unsatisfied performance obligations for contracts greater than one year.

Restricted Cash

Under the terms of an operating lease related to our facilities (Note 4), we are required to maintain, as collateral, a letter of credit, during the term of such lease. At January 31, 2021 and April 30, 2020, restricted cash of $0.4 million was pledged as collateral under the letter of credit.

Leases

We determine if an arrangement is or contains a lease at inception. Our operating leases with a term greater than one year are included in operating lease right-of-use assets, operating lease liabilities and operating lease liabilities, less current portion in our condensed consolidated balance sheets. Right-of-use assets represent our right to use an underlying asset during the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date, based on the present value of lease payments over the lease term. In determining the net present value of lease payments, we use our incremental borrowing rate which represents an estimated rate of interest that we would have to pay to borrow equivalent funds on a collateralized basis at the lease commencement date.

Our operating leases may include options to extend the lease which are included in the lease term when it is reasonably certain that we will exercise a renewal option. Operating lease expense is recognized on a straight-line basis over the expected lease term.

We elected the post-transition practical expedient to not separate lease components from non-lease components for all existing leases. We also elected a policy to not apply the recognition requirements of ASC 842 for short-term leases.

Inventory

Inventory consists of raw materials inventory and is valued at the lower of cost, determined by the first-in, first-out method, or net realizable value. We periodically review raw materials inventory for potential impairment and adjust inventory to its net realizable value based on the estimate of future use and reduce the carrying value of inventory as deemed necessary.

Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which are generally as follows:

Description	Estimated Useful Life
Leasehold improvements	Shorter of estimated useful life or lease term
Laboratory and manufacturing equipment	5 – 10 years
Furniture, fixtures and office equipment	5 – 10 years
Computer equipment and software	3 – 5 years

Construction-in-progress, which represents direct costs related to the construction of various equipment and leasehold improvements primarily associated with our manufacturing facilities, is not depreciated until the asset is completed and placed into service. No interest was incurred or capitalized as construction-in-progress as of January 31, 2021 and April 30, 2020. All of our property and equipment are located in the U.S. Property and equipment consist of the following (in thousands):

	January 31, 2021	April 30, 2020
Leasehold improvements	$ 21,230	$ 21,130
Laboratory and manufacturing equipment	16,094	15,033
Computer equipment and software	5,541	5,334
Furniture, fixtures and office equipment	715	685
Construction-in-progress	8,763	2,564
Total property and equipment, gross	$ 52,343	$ 44,746
Less: accumulated depreciation and amortization	(20,181)	(17,641)
Total property and equipment, net	$ 32,162	$ 27,105

Depreciation and amortization expense for the three and nine months ended January 31, 2021 was $0.9 million and $2.5 million, respectively.

Depreciation and amortization expense for the three and nine months ended January 31, 2020 was $0.8 million and $2.3 million, respectively.

Impairment

Long-lived assets are reviewed for impairment in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. If such events or changes in circumstances arise, we compare the carrying amount of the long-lived assets to the estimated future undiscounted cash flows expected to be generated by the long-lived assets. If the long-lived assets are determined to be impaired, any excess of the carrying value of the long-lived assets over its estimated fair value is recognized as an impairment loss. For the nine months ended January 31, 2021 and 2020, there were no indicators of impairment of the value of our long-lived assets and no cumulative impairment losses were recognized as of January 31, 2021.

Stock-Based Compensation

We account for stock options, restricted stock units and other stock-based awards granted under our equity compensation plans in accordance with the authoritative guidance for stock-based compensation. The estimated fair value of stock options granted to employees in exchange for services is measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is recognized as expense on a straight-line basis over the requisite service periods. The fair value of restricted stock units is measured at the grant date based on the closing market price of our common stock on the date of grant, and is recognized as expense on a straight-line basis over the period of vesting. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur. As of January 31, 2021 and April 30, 2020, there were no outstanding stock-based awards with market or performance conditions.

Comprehensive Income (Loss)

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

Fair Value Measurements

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

- Level 1 – Observable inputs, such as unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2 – Observable inputs other than quoted prices included in Level 1, such as assets or liabilities whose values are based on quoted market prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.

- Level 3 – Unobservable inputs that are supported by little or no market activity and significant to the overall fair value measurement of the assets or liabilities; therefore, requiring the company to develop its own valuation techniques and assumptions.

As of January 31, 2021 and April 30, 2020, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash equivalents, which are primarily invested in money market funds with one major commercial bank, are carried at fair value based on quoted market prices for identical securities (Level 1 input).

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses of Financial Instruments* ("ASU 2016-13"). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. As a smaller reporting company as defined by the SEC, ASU 2016-13 and its subsequent updates are effective for fiscal years beginning after December 15, 2022, which will be our fiscal year 2024 beginning May 1, 2023; however, early adoption is permitted. We are currently evaluating the impact this standard will have on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which eliminates, adds and modifies certain disclosure requirements of fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. We adopted ASU 2018-13 on May 1, 2020. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and other Internal-Use Software (Subtopic 350-40): *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). The new guidance aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirement for capitalizing implementation costs incurred to develop or obtain internal-use-software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. We adopted ASU 2018-15 on May 1, 2020. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes by removing certain exceptions and improving consistent application in certain areas of Topic 740. ASU 2019-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020, which will be our fiscal year 2022 beginning May 1, 2021. Early adoption is permitted. We are currently evaluating the impact this standard will have on our condensed consolidated financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, Debt with Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). The amendments in this ASU will eliminate the beneficial conversion and cash conversion accounting models for convertible instruments, as well as, amend the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. The ASU will also modify how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted earnings per share calculation. As a smaller reporting company as defined by the SEC, ASU 2020-06 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2023, which will be our fiscal year 2025 beginning May 1, 2024. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. We are currently evaluating the timing and impact of adopting ASU 2020-06 on our condensed consolidated financial statements and related disclosures.

Note 3 – Note Payable

On April 17, 2020, we entered into a promissory note (the "Note") with City National Bank, the lender, evidencing an unsecured loan pursuant to the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") of the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act") of approximately $4.4 million (the "PPP Loan"). We applied for and received the PPP Loan pursuant to the then published PPP qualification and certification requirements.

On April 23, 2020, the SBA, in consultation with the Department of Treasury, issued new guidance that created uncertainty regarding the qualification requirements for a PPP Loan (the "New Guidance"). In light of the New Guidance, we determined it appropriate to pay off the entire amount of the PPP Loan. Accordingly, on May 12, 2020, we paid off in full the principal and interest on the PPP Loan, resulting in the termination of the Note.

Note 4 – Leases

We currently lease office, manufacturing, laboratory and warehouse space in four buildings under three separate non-cancellable operating lease agreements. All of our leased facilities are located in close proximity in Tustin, California, have original lease terms ranging from 7 to 12 years, contain two multi-year renewal options, and scheduled rent increases of 3% on either an annual or biennial basis. A multi-year renewal option was included in determining the right-of-use asset and lease liability for two of our leases as we considered it reasonably certain that we would exercise such renewal options. In addition, two of our leases provide for periods of free rent, lessor improvements and tenant improvement allowances, of which certain of these improvements have been classified as leasehold improvements and are being amortized over the shorter of the estimated useful life of the improvements or the remaining life of the lease. The operating lease right-of-use assets and liabilities included in our accompanying condensed consolidated balance sheets primarily relate to these facility leases.

In September 2019, we terminated an operating lease for one of our non-manufacturing facilities that was primarily utilized for warehouse space. In connection with the termination of this lease, we removed the corresponding operating lease right-of-use asset and liability balances from our balance sheet and recognized a loss of $0.4 million, which amount is included in loss on lease termination in the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss) for the nine months ended January 31, 2020.

Certain of our facility leases require us to pay property taxes, insurance and common area maintenance. While these payments are not included as part of our lease liabilities, they are recognized as variable lease cost in the period they are incurred.

The components of lease cost included in our accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss) were as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	**2020**	**2021**	**2020**
Operating lease cost	$ 788	$ 798	$ 2,364	$ 2,570
Variable lease cost	112	155	433	488
Short-term lease cost	99	83	289	83
Total lease cost	$ 999	$ 1,036	$ 3,086	$ 3,141

Supplemental consolidated balance sheet and other information related to our operating leases as of January 31, 2021 and April 30, 2020 were as follows (in thousands, expect weighted average data):

	January 31, 2021	April 30, 2020
Assets		
Operating lease right-of-use assets	$ 19,053	$ 20,100
Liabilities		
Current portion of operating lease liabilities	$ 1,334	$ 1,228
Operating lease liabilities, less current portion	20,233	21,244
Total operating lease liabilities	$ 21,567	$ 22,472
Weighted average remaining lease term	9.8 years	10.5 years
Weighted average discount rate	7.4%	8.0%

Cash paid for amounts included in the measurement of lease liabilities for the nine months ended January 31, 2021 and 2020 was $2.2 million and $2.3 million, respectively, and is included in net cash provided by operating activities in our accompanying unaudited condensed consolidated statements of cash flows.

As of January 31, 2021, the maturities of our operating lease liabilities, which includes those derived from lease renewal options that we considered reasonably certain that we would exercise, were as follows (in thousands):

Fiscal Year Ending April 30,	**Total**
2021 (remaining period)	$ 749
2022	2,995
2023	3,010
2024	3,086
2025	3,171
Thereafter	18,767
Total lease payments	$ 31,778
Less: imputed interest	(10,211)
Total operating lease liabilities	$ 21,567

Note 5 – Stockholders' Equity

Series E Preferred Stock

Each share of issued and outstanding 10.50% Series E Convertible Preferred Stock $0.001 par value per share ("Series E Preferred Stock") is convertible at any time, at the option of the holder, into a number of shares of our common stock determined by dividing the liquidation preference of $25.00 per share Series E Preferred Stock, plus any accrued and unpaid dividends (whether or not earned or declared), by the then-current conversion price per share, currently $21.00 per share, rounded down to the nearest whole number. As of January 31, 2021, if all of our issued and outstanding shares of Series E Preferred Stock were converted at the conversion price of $21.00 per share, the holders of our Series E Preferred Stock would receive an aggregate of 1,978,783 shares of our common stock. However, because the conversion price of our Series E Preferred Stock is subject to adjustment from time to time in accordance with the applicable provisions of our certificate of incorporation, we have reserved the maximum number of shares of our common stock that could be issued upon the conversion of our Series E Preferred Stock upon a change of control event, assuming our shares of common stock are acquired for consideration of $5.985 per share or less. In this scenario, each outstanding share of our Series E Preferred Stock would be converted into 4.14 shares of our common stock, or 6,826,435 shares in the aggregate.

The Series E Preferred Stock has no stated maturity date or mandatory redemption and is senior to all of our other securities. We may redeem the Series E Preferred Stock for cash, in whole or in part, by paying the redemption price of $25.00 per share, plus any accrued and unpaid dividends to the redemption date. Holders of the Series E Preferred Stock have no voting rights, except as defined in the Certificate of Designations of Rights and Preferences filed with the Secretary of State of the State of Delaware on February 12, 2014.

Holders of our Series E Preferred Stock are entitled to receive cumulative dividends at the rate of 10.50% per annum based on the liquidation preference of $25.00 per share, or $2.625 per annum per share, and are payable quarterly in cash, on or about the first day of each January, April, July and October. For each of the three and nine months ended January 31, 2021 and 2020, we paid aggregate cash dividends of $1.1 million and $3.2 million, respectively, for issued and outstanding shares of our Series E Preferred Stock.

Sale of Common Stock

During December 2020, we completed an underwritten public offering pursuant to which we sold 3,833,335 shares of our common stock at the public offering price of $9.00 per share, including 500,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares. The aggregate gross proceeds we received from the public offering were $34.5 million, before deducting underwriting discounts and commissions and other offering related expenses of $2.4 million.

Note 6 – Equity Compensation Plans

Stock Incentive Plans

As of January 31, 2021, we had an aggregate of 6,497,353 shares of our common stock reserved for issuance under our stock incentive plans, of which 3,894,933 shares were subject to outstanding stock options and restricted stock units ("RSUs") and 2,602,420 shares were available for future grants of stock-based awards.

Stock Options

The following summarizes our stock option transaction activity for the nine months ended January 31, 2021:

	Stock Options	Grant Date Weighted Average Exercise Price
	(in thousands)	
Outstanding at May 1, 2020	2,896	$6.20
Granted	893	$7.43
Exercised	(353)	$6.18
Canceled or expired	(105)	$7.20
Outstanding at January 31, 2021	3,331	$6.50

Restricted Stock Units

The following summarizes our RSUs transaction activity for the nine months ended January 31, 2021:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at May 1, 2020	307	$5.23
Granted	355	$7.29
Vested	(86)	$5.12
Forfeited	(12)	$5.58
Outstanding at January 31, 2021	564	$6.54

Employee Stock Purchase Plan

The Avid Bioservices, Inc. 2010 Employee Stock Purchase Plan (the "ESPP") is a stockholder-approved plan under which eligible employees can purchase shares of our common stock, based on a percentage of their compensation, subject to certain limits. The purchase price per share is equal to the lower of 85% of the fair market value of our common stock on the first trading day of the offering period or on the last trading day of the six-month offering period.

During the nine months ended January 31, 2021, a total of 72,409 shares of our common stock were purchased under the ESPP at a weighted average purchase price of $5.84 per share. As of January 31, 2021, we had 1,076,326 shares of our common stock reserved for issuance under the ESPP.

Stock-Based Compensation

Stock-based compensation expense for the three and nine months ended January 31, 2021 and 2020 was comprised of the following (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Cost of revenues	$ 386	$ 248	$ 1,035	$ 679
Selling, general and administrative	613	347	1,719	1,170
Total stock-based compensation	$ 999	$ 595	$ 2,754	$ 1,849

As of January 31, 2021, the total estimated unrecognized compensation cost related to non-vested stock options and non-vested RSUs was $6.0 million and $3.1 million, respectively. These costs are expected to be recognized over weighted average vesting periods of 2.76 years and 2.88 years, respectively.

Note 7 – Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing our net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is computed by dividing our net income (loss) attributable to common stockholders by the sum of the weighted average number of shares of common stock outstanding during the period plus the potential dilutive effects of stock options, unvested RSUs, shares of common stock expected to be issued under our ESPP, and Series E Preferred Stock outstanding during the period.

Net income attributable to common stockholders represents our net income less Series E Preferred Stock accumulated dividends. Net loss attributable to common stockholders represents our net loss plus Series E Preferred Stock accumulated dividends. Series E Preferred Stock accumulated dividends include dividends declared for the period (regardless of whether or not the dividends have been paid) and dividends accumulated for the period (regardless of whether or not the dividends have been declared).

The potential dilutive effect of stock options, unvested RSUs, and shares of common stock expected to be issued under our ESPP during the period are calculated in accordance with the treasury stock method but are excluded if their effect is anti-dilutive. The potential dilutive effect of our Series E Preferred Stock outstanding during the period is calculated using the if-converted method assuming the conversion of Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. A reconciliation of the numerators and the denominators of the basic and dilutive net income (loss) per common share computations for the three and nine months ended January 31, 2021 and 2020, are as follows (in thousands, expect per share amounts):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	**2020**	**2021**	**2020**
Numerator				
Net income (loss)	$ 2,207	$ (2,104)	$ 9,221	$ (5,698)
Series E preferred stock accumulated dividends	(1,442)	(1,442)	(3,604)	(3,604)
Net income (loss) attributable to common stockholders	$ 765	$ (3,546)	$ 5,617	$ (9,302)
Denominator				
Weighted average common shares outstanding, basic	58,865	56,404	57,349	56,275
Effect of dilutive securities:				
Stock options	937	–	507	–
RSUs	279	–	188	–
ESPP	16	–	14	–
Weighted average common shares outstanding, dilutive	60,097	56,404	58,058	56,275
Net income (loss) per share, basic	$ 0.01	$ (0.06)	$ 0.10	$ (0.17)
Net income (loss) per share, diluted	$ 0.01	$ (0.06)	$ 0.10	$ (0.17)

The following table presents the securities excluded from the calculation of diluted net income (loss) per share for the three and nine months ended January 31, 2021 and 2020, as the effect of their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	**2020**	**2021**	**2020**
Stock options	325	2,106	1,665	2,721
RSUs	–	–	4	8
ESPP	–	–	2	–
Series E Preferred Stock	1,979	1,979	1,979	1,979
Total	2,304	4,085	3,650	4,708

Note 8 – Commitments and Contingencies

In March 2020, the World Health Organization declared the novel coronavirus disease (“COVID-19”) outbreak a global pandemic and recommended containment and mitigation measures worldwide. Since the announcement we have been monitoring this closely, and although the COVID-19 pandemic has not had a significant impact on our operations to date, the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is highly uncertain. Accordingly, we cannot provide any assurance that the COVID-19 pandemic will not have a material adverse impact on our operations or future results. The extent to which the COVID-19 pandemic may impact our future business, strategic initiatives, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity and resurgence of the COVID-19 pandemic, the effects of the COVID-19 pandemic on our workforce, customers, and vendors and the remedial actions and stimulus measures adopted by local and federal governments, and the extent to which normal economic and operating conditions can resume.

Note 9 – Subsequent Events

On March 3, 2021, our Board of Directors declared a quarterly cash dividend of $0.65625 per share on our outstanding Series E Preferred Stock. The dividend payment is equivalent to an annualized 10.50% per share, based on the $25.00 per share stated liquidation preference, accruing from January 1, 2021 through March 31, 2021. The cash dividend is payable on April 1, 2021 to holders of the Series E Preferred Stock of record on March 15, 2021.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of our operations should be read together with the financial statements and related notes of Avid Bioservices, Inc. included in Part I Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2020.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, including the anticipated future impact of the ongoing COVID-19 global pandemic on our business operations, that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results of operations to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. These forward-looking statements are subject to numerous risks and uncertainties, including the risks and uncertainties described under the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2020, those identified in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q, and in other filings we may make with the Securities and Exchange Commission from time to time. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements and, except as required by law, assume no obligation and do not intend to update these forward-looking statements.

Overview

We are a dedicated CDMO that provides a comprehensive range of services from process development to CGMP clinical and commercial manufacturing, focused on biopharmaceutical drug substances derived from mammalian cell culture. With 28 years of experience producing monoclonal antibodies and recombinant proteins, our services include CGMP clinical and commercial product manufacturing, bulk packaging, release and stability testing and regulatory submissions support. We also provide a variety of process development services, including upstream and downstream development and optimization, analytical methods development, testing and characterization.

Strategic Objectives

We have established and are currently executing on the following strategic objectives:

- Invest in additional manufacturing capacity and resources required for us to achieve our long-term growth strategy and meet the growth-demand of our customers' programs, moving from development through to commercial manufacturing;
- Broaden our market awareness through a diversified yet flexible marketing strategy;
- Continue to expand our customer base and programs with existing customers for both process development and manufacturing service offerings; and
- Increase our operating profit margin to best-in-class industry standards.

Third Quarter Highlights

The following summarizes select highlights from our third quarter ended January 31, 2021:

- Reported revenues of $21.8 million, an increase of 61%, or $8.2 million, compared to the same prior year period;
- Reported net income attributable to common stockholders of $0.8 million, or $0.01 per basic and diluted share;
- Ended the quarter with a backlog of $120 million, representing an all-time high for us;
- Completed an underwritten public offering of 3,833,335 shares of our common stock at the public offering price of $9.00 per share, including 500,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares. Net proceeds from the offering were $32.1 million, after deducting underwriting discounts and commissions and other offering related expenses. We intend to use these proceeds for the expansion of our manufacturing capabilities; and
- Continued to advance the two-phased expansion of our Myford facility as further discussed in the "Facility Expansion" section below.

Facility Expansion

During December 2020, we announced plans for a two-phased expansion of our Myford facility. The first phase expands the production capacity of our existing Myford North facility by the addition of a second downstream processing suite. The second phase further expands the capacity through the build out of a second manufacturing train, including both upstream and downstream processing suites within Myford South.

The first phase of our expansion plan was initiated during the second quarter of fiscal 2021 and is expected to take approximately 12 to 15 months to complete at an estimated cost of approximately $15 million. We estimate that the first phase of expansion could increase our annual revenue generating capacity by up to $50 million, bringing the combined annual revenue generating capacity of our Franklin and Myford North facilities to up to $170 million.

During February 2021, we announced the acceleration of the initiation of the second phase of expansion, which was driven by an increase in projected customer demand for our manufacturing services. Based on conceptual plans, we estimate that the Myford South expansion, which was initiated in February 2021, will take 18 to 24 months to complete at a cost of approximately $45 to $55 million. Upon completion, we estimate that the expansion of Myford South will increase our annual revenue generating capacity by an additional $100 million.

During December 2020, we completed an underwritten public offering of 3,833,335 shares of our common stock at the public offering price of $9.00 per share, including 500,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares. Net proceeds from the offering were $32.1 million, after deducting underwriting discounts and commissions and other offering related expenses. We intend to use the net proceeds from the offering for these expansions.

Impact of COVID-19 Global Pandemic

In March 2020, the World Health Organization declared the novel coronavirus disease ("COVID-19") outbreak a global pandemic. To date, the COVID-19 pandemic has not had a significant impact on our operations, as we have been able to continue to operate our manufacturing facilities and provide essential services to our customers. Additionally, in an effort to protect the health and safety of our employees and in compliance with state regulations, we have instituted a work-from-home policy for employees who can perform their job functions offsite, implemented daily temperature checking, social distancing requirements and other measures to allow manufacturing and other personnel essential to production to continue work within our manufacturing facilities, and suspended all non-essential employee travel.

The full extent to which COVID-19 will directly or indirectly impact our business, financial condition, and results of operations will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19, the actions taken to contain it or treat its impact and the economic impact on local, regional, national and international markets. We will continue to assess the potential impact of the COVID-19 pandemic on our business, financial condition, and results of operations. For a further discussion of potential risks to our business from the COVID-19 pandemic, please refer to *"Part II, Item 1A—Risk Factors"* in this Quarterly Report on Form 10-Q.

Performance and Financial Measures

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

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

Revenues

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

Gross Profit

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

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are composed of corporate-level expenses including personnel and support costs of corporate functions such as executive management, finance and accounting, business development, legal, human resources, information technology, project management, and other centralized services. SG&A expenses include corporate legal fees, audit and accounting fees, investor relation expenses, non-employee director fees, corporate facility related expenses, and other expenses relating to our general management, administration, project management, and business development activities. SG&A expenses are generally not directly proportional to revenues, but we expect such expenses to increase over time to support the needs of our growing company.

Results of Operations

The following table compares the unaudited condensed consolidated statements of operations for the three and nine months ended January 31, 2021 and 2020 (in thousands):

	Three Months Ended January 31,			Nine Months Ended January 31,		
	2021	2020	$ Change	2021	2020	$ Change
Revenues	$ 21,806	$ 13,585	$ 8,221	$ 68,262	$ 47,152	$ 21,110
Cost of revenues	15,604	12,800	2,804	47,098	41,921	5,177
Gross profit	6,202	785	5,417	21,164	5,231	15,933
Operating expenses:						
Selling, general and administrative	4,018	2,996	1,022	12,009	10,989	1,020
Loss on lease termination	–	–	–	–	355	(355)
Total operating expenses	4,018	2,996	1,022	12,009	11,344	665
Operating income (loss)	2,184	(2,211)	4,395	9,155	(6,113)	15,268
Interest and other income, net	23	107	(84)	66	415	(349)
Net income (loss)	$ 2,207	$ (2,104)	$ 4,311	$ 9,221	$ (5,698)	$ 14,919

Three Months Ended January 31, 2021 Compared to Three Months Ended January 31, 2020

Revenues

Revenues for the three months ended January 31, 2021 and 2020 were $21.8 million and $13.6 million, respectively, an increase of $8.2 million or 61%. The increase in revenues can be attributed to a $6.4 million increase in manufacturing revenues primarily due to an increase in the number and scope of manufacturing runs in-process and/or completed in the current year period compared to the prior year period, combined with a $1.8 million increase in process development revenues. The increase in revenues was attributed to the following components of our revenue streams:

	$ millions
Net increase in manufacturing revenues	$ 6.4
Net increase in process development revenues	1.8
Total increase in revenues	$ 8.2

Additionally, as previously disclosed, prior-year period manufacturing revenue was impacted by a production interruption.

Gross Profit

Gross profit for the three months ended January 31, 2021 and 2020 was $6.2 million and $0.8 million, respectively, an increase of approximately $5.4 million, and gross margins for such periods were 28% and 6%, respectively. The increase in gross profit for the current-year period can primarily be attributed to increased revenues, partially offset by an increase in payroll related costs. In addition, the prior-year period gross profit was impacted by certain costs associated with the production interruption described above, which costs were not incurred during the current-year period.

Selling, General and Administrative Expenses

SG&A expenses for the three months ended January 31, 2021 and 2020 were $4.0 million and $3.0 million, respectively, an increase of approximately $1.0 million or 34%. As a percentage of revenue, SG&A expenses for the three months ended January 31, 2021 and 2020 were 18% and 22%, respectively. The net increase in SG&A expenses was attributed to the following components:

	$ millions
Increase in accrued bonus expenses	$ 1.0
Increase in stock-based compensation expense	0.3
Decrease in separation related expenses	(0.2)
Net decrease in all other SG&A expenses	(0.1)
Total increase in SG&A expenses	$ 1.0

Operating Income (Loss)

Operating income was $2.2 million for the three months ended January 31, 2021 compared to an operating loss of $2.2 million for the same period in the prior year. This $4.4 million improvement in year-over-year operating income (loss) can primarily be attributed to a $5.4 million increase in gross profit, offset by an increase in SG&A expense of approximately $1.0 million.

Nine Months Ended January 31, 2021 Compared to Nine Months Ended January 31, 2020

Revenues

Revenues for the nine months ended January 31, 2021 and 2020, were $68.3 million and $47.2 million, respectively, an increase of $21.1 million or 45%. The increase in revenues can be attributed to a $20.0 million increase in manufacturing revenues primarily due to an increase in the number and scope of manufacturing runs in-process and/or completed in the current-year period compared to the prior year period, combined with a $1.1 million increase in process development revenues. In addition, the current-year period increase in manufacturing revenues includes: (i) $3.1 million in fees recorded during the first quarter of fiscal 2021 from a customer that had reached its inventory requirements with fewer manufacturing runs than expected, therefore not utilizing all their reserved capacity that had been scheduled for the third quarter of fiscal 2021, and (ii) the recognition of $1.1 million from changes in estimated variable revenue consideration as a result of completing performance obligations for certain projects during the second quarter of fiscal 2021, therefore increasing revenue recognized for those projects during the period. The increase in revenues was attributed to the following components of our revenue streams:

	$ millions
Net increase in manufacturing revenues	$ 20.0
Net increase in process development revenues	1.1
Total increase in revenues	$ 21.1

Additionally, growth in manufacturing revenues during the nine months ended January 31, 2021 was supplemented by $4.3 million from the completion of certain manufacturing runs during the first quarter of fiscal 2021 that had been postponed during the second half of fiscal 2020 as a result of a previously disclosed production interruption.

Gross Profit

Gross profit for the nine months ended January 31, 2021 and 2020 was $21.2 million and $5.2 million, respectively, an increase of approximately $15.9 million, and gross margins for such periods were 31% and 11%, respectively. The increase in gross profit for the current-year period can primarily be attributed to increased revenues, which includes the aforementioned fees associated with a customer's unused capacity of $3.1 million and the $1.1 million associated with the change in variable revenue consideration, partially offset by an increase in payroll related costs and increased facility and equipment related costs. Excluding the $3.1 million fees associated with a customer's unused capacity and the $1.1 million in additional variable revenue consideration, gross margin for the nine months ended January 31, 2021 was approximately 27%. Additionally, the prior-year period gross profit was impacted by certain costs associated with the production interruption described above, which costs were not incurred during the current-year period.

Selling, General and Administrative Expenses

SG&A expenses for the nine months ended January 31, 2021 and 2020 were $12.0 million and $11.0 million, respectively, an increase of approximately $1.0 million or 9%. As a percentage of revenue, SG&A expenses for the nine months ended January 31, 2021 and 2020 were 18% and 23%, respectively. The net increase in SG&A expenses was attributed to the following components:

	$ millions
Increase in accrued bonus expenses	$ 1.5
Increase in stock-based compensation expense	0.5
Increase in payroll and benefit costs	0.3
Decrease in separation related expenses	(1.1)
Net decrease in all other SG&A expenses	(0.2)
Total increase in SG&A expenses	$ 1.0

Loss on Lease Termination

In the second quarter of the nine-month prior year period ended January 31, 2020, we terminated an operating lease for one of our non-manufacturing facilities that was primarily utilized for warehouse space. The lease termination was primarily driven by our efforts to reduce costs by leveraging available warehouse space in our other facilities. In connection with the termination of this lease, we removed the corresponding operating lease right-of-use asset and liability balances from our balance sheet and recognized a loss of $0.4 million. Additionally, the lease termination released $0.3 million of restricted cash that was pledged as collateral under a letter of credit required by the terminated lease.

Operating Income (Loss)

Operating income was $9.2 million for the nine months ended January 31, 2021 compared to an operating loss of $6.1 million for the same period in the prior year. This $15.3 million improvement in year-over-year operating income (loss) can primarily be attributed to a $15.9 million increase in gross profit combined with the absence of the loss on lease termination recognized in the prior year period, as discussed above, partially offset by an increase in SG&A expense of approximately $1.0 million.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows from operating activities as well as our cash and cash equivalents on hand.

In addition, during December 2020, we completed an underwritten public offering of 3,833,335 shares of our common stock at the public offering price of $9.00 per share, including 500,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares. Net proceeds realized from the offering were $32.1 million, after deducting underwriting discounts and commissions and other offering related expenses.

As of January 31, 2021, we had cash and cash equivalents of $70.9 million. We believe that our existing cash on hand and our anticipated cash flows from operating activities will be sufficient to fund our operations for at least the next 12 months from the date of this Quarterly Report.

We currently expect to finance our operations with our existing cash on hand and our anticipated cash flows from operations. If cash flows from operations are not sufficient to support our operations or capital requirements, then we will need to obtain additional equity or debt financing to fund our future operations. We may raise these funds at the appropriate time, accessing the form of capital that we determine is most appropriate considering the markets available to us and their respective costs of capital, such as through the issuance of debt or through the public offering of securities. These financings may not be available on acceptable terms, or at all. Our ability to raise additional capital in the equity and debt markets is dependent on a number of factors including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties including, but not limited to, our financial results, economic and market conditions, and global financial crises and economic downturns, including those caused by widespread public health crises such as the COVID-19 pandemic, which may cause extreme volatility and disruptions in capital and credit markets. If we are unable to fund our continuing operations through these sources, we may not be able to complete planned projects or we may need to restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us. Any of these actions could materially harm our business, financial condition, results of operations, and future prospects.

The following table presents our cash flows from operating, investing and financing activities for the nine months ended January 31, 2021 and 2020 (in thousands):

	Nine Months Ended January 31,	
	2021	**2020**
Cash, cash equivalents and restricted cash [(1)]	$ 71,244	$ 31,037
Net cash provided by operating activities	13,322	2,780
Net cash used in investing activities	(5,717)	(3,025)
Net cash provided by (used in) financing activities	27,027	(2,219)

(1) As of January 31, 2021 and 2020, cash, cash equivalents and restricted cash included $0.4 million that was restricted from general use, related to cash that was pledged as collateral under a letter of credit under the terms of a facility lease agreement.

Net Cash Provided by Operating Activities

During the nine months ended January 31, 2021, net cash provided by operating activities increased by $10.5 million to $13.3 million from $2.8 million of net cash provided by operating activities during the nine months ended January 31, 2020.

Net cash provided by operating activities for the nine months ended January 31, 2021 was primarily attributable to net income of $9.2 million combined with non-cash adjustments to net income of $5.3 million related to depreciation and amortization and stock-based compensation, offset by cash flows from the net change in operating assets and liabilities of $1.2 million.

Net cash provided by operating activities for the nine months ended January 31, 2020 was primarily attributable to a net loss of $5.7 million, offset by non-cash adjustments to net loss of $4.5 million related to depreciation and amortization, stock-based compensation and loss on lease termination, and cash flows from the net change in operating assets and liabilities of $4.0 million.

Net Cash Used in Investing Activities

During the nine months ended January 31, 2021, net cash used in investing activities increased by $2.7 million to $5.7 million from $3.0 million of net cash used in investing activities during the nine months ended January 31, 2020.

Net cash used in investing activities for the nine months ended January 31, 2021 and 2020 consisted of $5.7 million and $3.0 million, respectively, used to acquire property and equipment primarily related to our manufacturing and development operations.

Net Cash Provided by (Used in) Financing Activities

During the nine months ended January 31, 2021, net cash provided by financing activities increased by $29.2 million to $27.0 million from $2.2 million of net cash used in financing activities during the nine months ended January 31, 2020.

Net cash provided by financing activities for the nine months ended January 31, 2021 consisted primarily of $32.1 million in net proceeds in connection with an underwritten public offering of our common stock at the public offering price of $9.00 per share (as further described in Note 5 of the Notes to the Condensed Consolidated Financial Statements), $2.2 million of proceeds from the exercise of stock options and $0.4 million of proceeds from the issuance of common stock under our ESPP, partially offset by $4.4 million of cash used to repay in full a promissory note issued pursuant to the Paycheck Protection Program (as further described in Note 3 of the Notes to the Condensed Consolidated Financial Statements) and $3.2 million of cash used to pay preferred dividends to holders of our Series E Preferred Stock.

Net cash used in financing activities for the nine months ended January 31, 2020 consisted primarily of cash used to pay preferred dividends to holders of our Series E Preferred Stock of $3.2 million, partially offset by $0.9 million of proceeds from the exercise of stock options and $0.2 million of proceeds from the issuance of common stock under our ESPP.

Contractual Obligations

During the nine months ended January 31, 2021, there were no material changes in our contractual obligations and commitments, as described in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2020.

Critical Accounting Policies and Estimates

Our discussion and analysis of our consolidated financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We review our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. During the nine months ended January 31, 2021, there were no significant changes in our critical accounting policies as previously disclosed by us in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2020.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements applicable to us, please refer to Note 2, *Summary of Significant Accounting Policies*, in the accompanying notes to our unaudited condensed consolidated financial statements.

Backlog

Our backlog represents, as of a point in time, future revenue from work not yet completed under signed contracts. As of January 31, 2021, our backlog was $120 million, as compared to $65 million as of April 30, 2020. While we anticipate that most of our backlog will be recognized as revenue by the end of our next fiscal year, our backlog is subject to a number of risks and uncertainties, including the risk that a customer timely cancels its commitments prior to our initiation of manufacturing services, in which case we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments; the risk that a customer may experience delays in its program(s) or otherwise, which could result in the postponement of anticipated manufacturing services; the risk that we may not successfully execute on all customer projects; or a potential negative impact from the COVID-19 global pandemic, any of which could have a negative impact on our liquidity, reported backlog and future revenue.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the nine months ended January 31, 2021, there were no material changes in the market risks described in the "Quantitative and Qualitative Disclosures About Market Risk" section of our Annual Report on Form 10-K for the fiscal year ended April 30, 2020.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of January 31, 2021, the end of the period covered by this Quarterly Report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of January 31, 2021.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting, during the quarter ended January 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and the related notes thereto, before making a decision to invest in our securities. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently believe are not material, also may become important factors that affect us and impair our business operations. The occurrence of any of the events or developments discussed in the risk factors below could have a material and adverse impact on our business, financial condition, results of operations and cash flows and, in such case, our future prospects would likely be materially and adversely affected.

Risks Related to the COVID-19 Pandemic

Our business, financial condition, and results of operations may be adversely affected by global health epidemics, including the COVID-19 pandemic.

In March 2020, the World Health Organization declared the novel coronavirus disease ("COVID-19") outbreak a global pandemic. COVID-19 has spread across the globe and is affecting worldwide economic activity. Any public health epidemic, including the COVID-19 pandemic, may affect our operations and those of third parties on which we rely, including our customers and suppliers. Our business, financial condition, and results of operations may be affected by: disruptions in our customers' abilities to fund, develop, or bring to market products as anticipated; delays in or disruptions to the conduct of clinical trials by our customers; cancellations of contracts or confirmed orders from our customers; customers' inability to maintain agreed upon payment terms; and the inability, difficulty, or additional cost or delays in obtaining key raw materials, components, and other supplies from our existing supply chain as distribution of such items is being prioritized by the federal government (such as under the United States Defense Production Act) to those companies producing therapeutics or vaccines for COVID-19; among other factors caused by the COVID-19 pandemic. Our operations could be disrupted if some of our employees become ill or are otherwise absent from work as a result of the COVID-19 pandemic. Additionally, governmental restrictions, including travel restrictions, quarantines, shelter-in-place orders, curfews, business closures, new safety requirements or regulations, or restrictions on the import or export of certain materials, or other operational issues related to the COVID-19 pandemic may have an adverse effect on our business and results of operations. We continue to monitor our operations and governmental recommendations and have made modifications for an indefinite period to our normal operations because of the COVID-19 pandemic, including requiring most non-production related employees to work remotely which may increase cyber security risks or create data accessibility concerns.

Risks Related to Our Business

We have a history of losses and may have future losses.

We have incurred net losses in most fiscal years since we began operations in 1981, including net losses of $10.5 million and $4.2 million for the fiscal years ended April 30, 2020 and 2019, respectively. As of January 31, 2021, we had an accumulated deficit of $562 million. We have only recently begun generating positive cash flows from operations. However, if we fail to continue generating sufficient revenue, we may not continue to generate positive cash flows from operations.

Our ability to fund our operations is dependent on the amount of cash on hand and our ability to generate positive cash flow to sustain our current operations. At January 31, 2021, we had $70.9 million in cash and cash equivalents. Although it is difficult to forecast all of our future liquidity requirements, we believe that our cash and cash equivalents on hand, combined with our projected cash flows from operations will be sufficient to fund our operations beyond one year after the date our unaudited condensed consolidated financial statements are issued.

In the event a customer timely cancels its commitments prior to our initiation of manufacturing services, we may be required to refund some or all of the advance payments made to us under those canceled commitments, which would have a negative impact on our liquidity, reported backlog and future revenue. Further, in the event we are unable to secure sufficient business to support our current operations, we may need to raise additional capital in the equity markets in order to fund our future operations. We may raise funds through the issuance of debt or equity. These financings may not be available to us on acceptable terms, or at all. Our ability to raise additional capital in the equity and debt markets is dependent on a number of factors including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties including, but not limited to, our financial results and economic and market conditions. Further, global financial crises and economic downturns, including those caused by widespread public health crises such as the global novel coronavirus disease, may cause extreme volatility and disruptions in capital and credit markets, and may impact our ability to raise additional capital when needed on acceptable terms, if at all. If we are unable to fund our continuing operations through these sources, we may need to restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us. Any of these actions could materially harm our business, financial condition, results of operations, and future prospects.

A significant portion of our revenue comes from a limited number of customers.

Our revenue has historically been derived from a small number of customers. For example, for the fiscal years ended April 30, 2020, 2019 and 2018, we derived approximately 63%, 64% and 86% of our revenues from our top three customers, respectively. We continue to be dependent on a limited number of customers for a substantial majority of our revenue. The loss of, or a significant reduction of business from, any of our major customers could have a material adverse effect on our business, financial condition, and results of operations.

We generally do not have long-term customer contracts and our backlog cannot be relied upon as a future indicator of sales.

We generally do not have long-term contracts with our customers, and existing contracts and purchase commitments may be canceled under certain circumstances. As a result, we are exposed to market and competitive price pressures on every order, and our agreements with customers do not provide assurance of future sales. Our customers are not required to make minimum purchases and, in certain circumstances, may cease using our services at any time without penalty. Our backlog should not be relied on as a measure of anticipated demand or future revenue, because the orders constituting our backlog may be subject to changes in delivery schedules or cancellation without significant penalty to the customer. Any reductions, cancellations or deferrals in customer orders would negatively impact our business.

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

Our operating results are significantly influenced by our capacity utilization and, as such, if we are unable to utilize our facilities to capacity, our margins could be adversely affected, and our financial condition and results of operations will be adversely affected.

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

Our operations require various raw materials, including proprietary media, resins, buffers, and filters, in addition to numerous additional raw materials supplied primarily by third parties. We or our customers specify the raw materials and other items required to manufacture their product and, in some cases, specify the suppliers from whom we must purchase these raw materials. In certain instances, the raw materials and other items can only be supplied by a limited number of suppliers and, in some cases, a single source, or in limited quantities. If third-party suppliers do not supply raw materials or other items on a timely basis, it may cause a manufacturing run to be delayed or canceled which would adversely impact our financial condition and results of operations. Additionally, we do not have long-term supply contracts with any of our single source suppliers. If we experience difficulties acquiring sufficient quantities of required materials or products from our existing suppliers, or if our suppliers are found to be non-compliant with the FDA's quality system regulation, CGMPs or other applicable laws or regulations, we would be required to find alternative suppliers. If our primary suppliers become unable or unwilling to perform, any resulting delays or interruptions in the supply of raw materials required to support our manufacturing of CGMP pharmaceutical-grade products would ultimately delay our manufacture of products for our customers, which could materially and adversely affect our financial condition and operating results. Furthermore, third-party suppliers may fail to provide us with raw materials and other items that meet the qualifications and specifications required by us or our customers. If third-party suppliers are not able to provide us with raw materials that meet our or our customers' specifications on a timely basis, we may be unable to manufacture their product or it could prevent us from delivering products to our customers within required timeframes. Any such delay in delivering our products may create liability for us to our customers for breach of contract or cause us to experience order cancellations and loss of customers. In the event that we manufacture products with inferior quality components and raw materials, we may become subject to product liability claims caused by defective raw materials or components from a third-party supplier or from a customer, or our customer may be required to recall its products from the market.

All of our manufacturing facilities are situated in a single location in California, which increases our exposure to significant disruption to our business as a result of unforeseeable developments in a single geographic area.

We operate our manufacturing facilities in Tustin, California. It is possible that we could experience prolonged periods of reduced production due to unforeseen catastrophic events occurring in or around our facilities. It is also possible that operations could be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, earthquakes or accidents. As a result, we may be unable to shift manufacturing capabilities to alternate locations, accept materials from suppliers, meet customer shipment needs or address other severe consequences that may be encountered, and we may suffer damage to our reputation. Our financial condition and results of our operations could be materially adversely affected were such events to occur.

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

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

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

We intend to continue to grow our business operations as demand for our services increases and increase the number of our employees to accommodate such potential growth, which may cause us to experience periods of rapid growth and expansion. This potential future growth could create a strain on our organizational, administrative and operational infrastructure, including manufacturing operations, quality control, technical support and other administrative functions. Our ability to manage our growth properly will require us to continue to improve our operational, financial and management controls.

As we expect our commercial operations and sales volume to grow, we will need to continue to increase our capacity for manufacturing, customer service, billing and general process improvements and expand our internal quality assurance program, among other things. We are currently in the early stages of an expansion to our manufacturing facilities which will more than double our revenue generating capacity, and which could put a strain on our organizational, administrative, and operational infrastructure, including manufacturing operations and quality control. There is no guarantee that we will be able to manage the expansion of our facilities and operations, or that our systems, procedures or controls will be adequate to support our expanded facilities and operations.

We may also need to purchase additional equipment, some of which can take several months or more to procure, install and validate, and increase our manufacturing, maintenance, software and computing capacity to meet increased demand. We may not be able to successfully implement the increase in scale, expansion of personnel, purchase and validation of equipment or process enhancements, which could adversely affect our ability to increase revenues.

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

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

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

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

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

We manufacture products intended for use in humans. These activities could expose us to risk of liability for personal injury or death to persons using such products. We seek to reduce our potential liability through measures such as contractual indemnification provisions with customers (the scope of which may vary by customer, and the performances of which are not secured) and insurance maintained by us and our customers. We could be materially adversely affected if we are required to pay damages or incur defense costs in connection with a claim that is outside the scope of the indemnification agreements, if the indemnity, although applicable, is not performed in accordance with its terms or if our liabilities exceed the amount of applicable insurance or indemnity. In addition, we could be held liable for errors and omissions in connection with the services we perform. We currently maintain product liability and errors and omissions insurance with respect to these risks. Our insurance coverage may not be adequate or insurance coverage may not continue to be available on terms acceptable to us.

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

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

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

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

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

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

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

We depend on our ability to attract and retain qualified scientific and technical employees, as well as a number of key executives. These employees may voluntarily terminate their employment with us at any time. We may not be able to retain key personnel, or attract and retain additional qualified employees. We do not maintain key-man or similar policies covering any of our senior management or key personnel. Our inability to attract and retain key personnel would have a material adverse effect on our business.

We have federal and state net operating loss, or NOL, carry forwards which, if we were to become profitable, could be used to offset/defer federal and state income taxes. Our ability to use such carry forwards to offset future taxable income may be subject to certain limitations related to changes in ownership of our stock and decisions by California and other states to limit or suspend NOL carry forwards.

As of April 30, 2020, we had federal and state NOL carry forwards of approximately $427 million and $277 million, respectively. These NOL carry forwards could potentially be used to offset certain future federal and state income tax liabilities. The federal net operating loss carry forwards generated prior to January 1, 2018 expire in fiscal years 2021 through 2038. The federal net operating loss generated after January 1, 2018 of $19.8 million can be carried forward indefinitely. Net operating losses generated after 2017 through 2020 may offset future taxable income without limitation. Utilization of net operating losses generated subsequent to 2020 are limited to 80% of future taxable income. However, utilization of NOL carry forwards may be subject to a substantial annual limitation pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions due to ownership changes that have occurred previously or that could occur in the future. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. A Section 382 analysis was completed as of the fiscal year ended April 30, 2019 and we subsequently reviewed such activity through April 30, 2020 and determined that no such change in ownership has occurred. However, ownership changes occurring subsequent to April 30, 2020 may impact the utilization of our NOL carry forwards and other tax attributes. Additionally, states may impose other limitations on the use of state NOL carry forwards. We are subject to California's recent suspension of NOL carry forwards for the taxable years beginning in 2020 and lasting through 2022. Any limitation may result in expiration of a portion of the carry forwards before utilization. If we were not able to utilize our carry forwards, we would be required to use our cash resources to pay taxes that would otherwise have been offset, thereby reducing our liquidity.

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

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

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

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

We may seek to grow our business through acquisitions of complementary businesses, and the failure to manage acquisitions, or the failure to integrate them with our existing business, could harm our financial condition and operating results.

From time to time, we may consider opportunities to acquire other companies, products or technologies that may enhance our manufacturing capabilities, expand the breadth of our markets or customer base, or advance our business strategies. Potential acquisitions involve numerous risks, including: problems assimilating the acquired service offerings, products or technologies; issues maintaining uniform standards, procedures, quality control and policies; unanticipated costs associated with acquisitions; diversion of management's attention from our existing business; risks associated with entering new markets in which we have limited or no experience; increased legal and accounting costs relating to the acquisitions or compliance with regulatory matters; and unanticipated or undisclosed liabilities of any target.

We have no current commitments with respect to any acquisition. We do not know if we will be able to identify acquisitions we deem suitable, whether we will be able to successfully complete any such acquisitions on favorable terms or at all, or whether we will be able to successfully integrate any acquired service offerings, products or technologies. Our potential inability to integrate any acquired service offerings, products or technologies effectively may adversely affect our business, operating results and financial condition.

Risks Related to Our Customers

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

We depend on, and have no control over, consumer demand for the products we manufacture for our customers. Consumer demand for our customers' products could be adversely affected by, among other things, delays in health regulatory approval, the inability of our customers to demonstrate the efficacy and safety of their products, the loss of patent and other intellectual property rights protection, the emergence of competing or alternative products, including generic drugs, the degree to which private and government payment subsidies for a particular product offset the cost to consumers and changes in the marketing strategies for such products and the outbreak of a pandemic such as the COVID-19 pandemic. Additionally, if the products we manufacture for our customers do not gain market acceptance, our revenues and profitability may be adversely affected.

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

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

Our customers' failure to receive or maintain regulatory approval for their product candidates could negatively impact our revenues and profitability.

Our success depends upon the regulatory approval of the products we manufacture. As such, if our customers experience a delay in, or failure to receive, approval for any of their product candidates or fail to maintain regulatory approval of their products and we are not able to manufacture these products, our revenue and profitability could be adversely affected. Additionally, if the FDA or a comparable foreign regulatory authority does not approve of our facilities for the manufacture of a customer product or if it withdraws such approval in the future, our customers may choose to identify alternative manufacturing facilities and/or relationships, which could significantly impact our ability to expand our manufacturing capacity and capabilities and achieve profitability.

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

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

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

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

Risks Related to the Industry in Which We Operate

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

Our industry is highly regulated. We are required to comply with the regulatory requirements of various local, state, provincial, national and international regulatory bodies having jurisdiction in the countries or localities in which we manufacture products or in which our customers' products are distributed. In particular, we are subject to laws and regulations concerning development, testing, manufacturing processes, equipment and facilities, including compliance with CGMPs, import and export, and product registration and listing, among other things. As a result, most of our facilities are subject to regulation by the FDA, as well as regulatory bodies of other jurisdictions where our customers have marketing approval for their products including, but not limited to, the EMA, ANVISA and/or Health Canada, depending on the countries in which our customers market and sell the products we manufacture on their behalf. As we expand our operations, we may be exposed to more complex and new regulatory and administrative requirements and legal risks, any of which may require expertise in which we have little or no experience. It is possible that compliance with new regulatory requirements could impose significant compliance costs on us. Such costs could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

Risks Related to the Ownership of Our Common Stock

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

As of January 31, 2021, an aggregate of 6,497,353 shares of common stock were reserved for issuance under outstanding stock options and restricted stock units, or available for future issuance under our equity incentive plans. Additionally, as of January 31, 2021, there were 1,076,326 shares of common stock reserved for and available for issuance under our ESPP and up to 6,826,435 shares of common stock issuable upon conversion of our outstanding Series E Preferred Stock. The issuance of additional shares of common stock upon the exercise, release or conversion, as applicable, of any of the foregoing securities, or the perception that such issuances may occur, would have a dilutive impact on other stockholders and could have a material negative effect on the market price of our common stock.

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

The market price of our common stock has generally been highly volatile and is likely to continue to be highly volatile. For instance, the market price of our common stock has ranged from $2.24 to $8.44 per share over the last three fiscal years ended April 30, 2020.

The market price of our common stock may be significantly impacted by many factors including the following:

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

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

Anti-takeover provisions in our certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could prevent or delay a change in control of our company, even if such change in control would be beneficial to our stockholders.

Provisions of our certificate of incorporation and amended and restated bylaws could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such change in control would be beneficial to our stockholders. These include: authorizing the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt; no provision for the use of cumulative voting for the election of directors; limiting the ability of stockholders to call special meetings; requiring all stockholder actions to be taken at a meeting of our stockholders (i.e. no provision for stockholder action by written consent); and establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, the Delaware General Corporation Law prohibits us, except under specified circumstances, from engaging in any mergers, significant sales of stock or assets or business combinations with any stockholder or group of stockholders who owns at least 15% of our common stock.

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

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

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

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

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

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

ITEM 5. OTHER INFORMATION

Director Resignation

On March 2, 2021, Mr. Patrick Walsh notified our Chairman of the Board of Directors (the "Board") of his decision to resign, effective immediately, from his position as a member of the Board. Mr. Walsh's resignation was to pursue other opportunities and did not result from any disagreements with our management or the Board on any matter relating to our operations, policies or practice.

ITEM 6. EXHIBITS

(a) Exhibits:

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. *
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. *
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Taxonomy Extension Instance Document. *
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	XBRL Presentation Extension Linkbase Document. *

* Filed herewith.

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.

AVID BIOSERVICES, INC.

Date: March 8, 2021

By: /s/ Nicholas S. Green
Nicholas S. Green
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 8, 2021

By: /s/ Daniel R. Hart
Daniel R. Hart
Chief Financial Officer
(signed both as an officer duly authorized to sign on behalf of the Registrant and Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nicholas S. Green, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Bioservices, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the periods covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 8, 2021

Signed: /s/ Nicholas S. Green
Nicholas S. Green
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel R. Hart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avid Bioservices, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the periods covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 8, 2021

Signed: /s/ Daniel R. Hart
Daniel R. Hart
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Nicholas S. Green, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended January 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc. at the dates and for the periods indicated.

Dated: March 8, 2021

Signed: /s/ Nicholas S. Green
Nicholas S. Green
President and Chief Executive Officer
(Principal Executive Officer)

I, Daniel R. Hart, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended January 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc. at the dates and for the periods indicated.

Dated: March 8, 2021

Signed: /s/ Daniel R. Hart
Daniel R. Hart
Chief Financial Officer
(Principal Financial Officer)

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