

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

FORM 10-Q

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

For the quarterly period ended January 31, 2023

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-32839

**AVID BIOSERVICES, INC.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**95-3698422**

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

**14191 Myford Road, Tustin, California, 92780**

*(Address of principal executive offices, 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
<b>Common Stock, \$0.001 par value per share</b>	<b>CDMO</b>	<b>The NASDAQ Stock Market LLC</b>

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

62,547,056 shares of registrant's common stock were outstanding as of March 6, 2023.

**AVID BIOSERVICES, INC.**  
**Form 10-Q**  
**For the Fiscal Quarter Ended January 31, 2023**

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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 subsidiary.*

**PART I—FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements**

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

	<b>January 31, 2023</b>	<b>April 30, 2022</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 59,916	\$ 126,166
Accounts receivable, net	14,826	20,547
Contract assets	10,388	5,369
Inventory	45,102	26,062
Prepaid expenses and other current assets	2,111	1,879
Total current assets	132,343	180,023
Property and equipment, net	164,292	92,955
Operating lease right-of-use assets	34,463	36,806
Deferred tax assets	114,580	115,082
Other assets	4,402	4,627
Restricted cash	350	350
Total assets	<u>\$ 450,430</u>	<u>\$ 429,843</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 36,392	\$ 9,504
Accrued compensation and benefits	8,400	8,418
Contract liabilities	37,750	53,798
Current portion of operating lease liabilities	3,024	2,969
Other current liabilities	1,753	1,072
Total current liabilities	87,319	75,761
Convertible senior notes, net	140,359	139,577
Operating lease liabilities, less current portion	35,659	37,886
Finance lease liabilities, less current portion	1,698	2,093
Total liabilities	265,035	255,317
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000 shares authorized; no shares issued and outstanding at respective dates	—	—
Common stock, \$0.001 par value; 150,000 shares authorized; 62,523 and 61,807 shares issued and outstanding at respective dates	62	62
Additional paid-in capital	615,841	605,841
Accumulated deficit	(430,508)	(431,377)
Total stockholders' equity	185,395	174,526
Total liabilities and stockholders' equity	<u>\$ 450,430</u>	<u>\$ 429,843</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Revenues	\$ 38,018	\$ 31,508	\$ 109,467	\$ 88,371
Cost of revenues	28,193	22,421	86,378	58,707
Gross profit	9,825	9,087	23,089	29,664
Operating expenses:				
Selling, general and administrative	7,107	5,818	20,320	15,311
Total operating expenses	7,107	5,818	20,320	15,311
Operating income	2,718	3,269	2,769	14,353
Interest expense	(620)	(718)	(1,841)	(2,125)
Other income (expense), net	432	(303)	627	(154)
Net income before income taxes	2,530	2,248	1,555	12,074
Income tax expense	2,069	–	686	–
Net income	\$ 461	\$ 2,248	\$ 869	\$ 12,074
Comprehensive income	\$ 461	\$ 2,248	\$ 869	\$ 12,074
Net income per share:				
Basic	\$ 0.01	\$ 0.04	\$ 0.01	\$ 0.20
Diluted	\$ 0.01	\$ 0.04	\$ 0.01	\$ 0.19
Weighted average common shares outstanding:				
Basic	62,388	61,631	62,166	61,394
Diluted	63,726	63,872	63,634	63,711

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended January 31, 2023</b>				
	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-In</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>	<b>Equity</b>	
Balance at October 31, 2022	62,308	\$ 62	\$ 612,102	\$ (430,969)	\$ 181,195
Common stock issued under equity compensation plans	215	–	995	–	995
Stock-based compensation expense	–	–	2,744	–	2,744
Net income	–	–	–	461	461
Balance at January 31, 2023	62,523	\$ 62	\$ 615,841	\$ (430,508)	\$ 185,395

	<b>Three Months Ended January 31, 2022</b>				
	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-In</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>	<b>Equity</b>	
Balance at October 31, 2021	61,552	\$ 62	\$ 600,266	\$ (549,223)	\$ 51,105
Common stock issued under equity compensation plans	173	–	1,111	–	1,111
Stock-based compensation expense	–	–	2,111	–	2,111
Net income	–	–	–	2,248	2,248
Balance at January 31, 2022	61,725	\$ 62	\$ 603,488	\$ (546,975)	\$ 56,575

	<b>Nine Months Ended January 31, 2023</b>				
	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-In</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>	<b>Equity</b>	
Balance at April 30, 2022	61,807	\$ 62	\$ 605,841	\$ (431,377)	\$ 174,526
Common stock issued under equity compensation plans	716	–	2,573	–	2,573
Stock-based compensation expense	–	–	7,427	–	7,427
Net income	–	–	–	869	869
Balance at January 31, 2023	62,523	\$ 62	\$ 615,841	\$ (430,508)	\$ 185,395

	<b>Nine Months Ended January 31, 2022</b>				
	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-In</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>	<b>Equity</b>	
Balance at April 30, 2021	61,069	\$ 61	\$ 637,534	\$ (559,859)	\$ 77,736
Cumulative-effect adjustment from modified retrospective adoption of ASU 2020-06	–	–	(42,431)	810	(41,621)
Common stock issued under equity compensation plans	656	1	3,033	–	3,034
Stock-based compensation expense	–	–	5,352	–	5,352
Net income	–	–	–	12,074	12,074
Balance at January 31, 2022	61,725	\$ 62	\$ 603,488	\$ (546,975)	\$ 56,575

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,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 869	\$ 12,074
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Stock-based compensation	7,427	5,352
Depreciation and amortization	5,326	3,060
Amortization of debt issuance costs	782	766
Deferred income taxes	502	–
Loss on disposal of property and equipment	82	385
Changes in operating assets and liabilities:		
Accounts receivable, net	5,721	(9,167)
Contract assets	(5,019)	2,768
Inventory	(19,040)	(9,183)
Prepaid expenses and other assets	(7)	(2,204)
Accounts payable	2,904	(3,621)
Accrued compensation and benefits	(18)	(1,052)
Contract liabilities	(16,048)	8,222
Other accrued expenses and liabilities	833	1,453
Net cash (used in) provided by operating activities	(15,686)	8,853
Cash flows from investing activities:		
Purchase of property and equipment	(52,761)	(31,845)
Net cash used in investing activities	(52,761)	(31,845)
Cash flows from financing activities:		
Proceeds from issuance of common stock under equity compensation plans	2,573	3,034
Principal payments on finance lease	(376)	–
Net cash provided by financing activities	2,197	3,034
Net decrease in cash, cash equivalents and restricted cash	(66,250)	(19,958)
Cash, cash equivalents and restricted cash, beginning of period	126,516	170,265
Cash, cash equivalents and restricted cash, end of period	\$ 60,266	\$ 150,307
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 224	\$ 914
Cash paid for income taxes	\$ 220	\$ –
Supplemental disclosures of non-cash activities:		
Unpaid purchases of property and equipment in accounts payable	\$ 23,984	\$ 780
Unpaid finance lease obligation	\$ –	\$ 40
Right-of-use assets obtained upon operating lease modification, net	\$ –	\$ 4,554
Right-of-use assets obtained in exchange for operating lease obligations	\$ –	\$ 16,093
Property and equipment obtained in exchange for finance lease obligation	\$ –	\$ 2,760

See accompanying notes to condensed consolidated financial statements.

**AVID BIOSERVICES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**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 of biologics for the biotechnology and biopharmaceutical industries.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“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 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, 2022, as filed with the SEC on June 29, 2022. 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 subsidiary. 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, 2022.

**Revenue Recognition**

Revenue recognized from services provided under our customer contracts is 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 at a specified scale with prescribed dates, where the product is manufactured according to the customer’s specifications and typically includes only one performance obligation. 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 includes only one performance obligation. 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,	
	2023	2022	2023	2022
Manufacturing revenues	\$ 32,182	\$ 26,170	\$ 91,277	\$ 73,858
Process development revenues	5,836	5,338	18,190	14,513
Total revenues	<u>\$ 38,018</u>	<u>\$ 31,508</u>	<u>\$ 109,467</u>	<u>\$ 88,371</u>

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, 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 consolidated 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, 2023, we recognized revenue of \$8.3 million and \$35.2 million, respectively, for which the contract liability was recorded in a prior period.

During the three and nine months ended January 31, 2022, we recognized revenue of \$6.9 million and \$31.7 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. For contracts with multiple performance obligations, we allocate transaction price to each performance obligation identified in a contract on a relative standalone selling price basis. We generally determine relative standalone selling prices based on the price observed in the customer contract for each distinct performance obligation. If observable standalone selling prices are not available, we may estimate the applicable standalone selling price based on the pricing of other comparable services or on a price that we believe the market is willing to pay for the applicable service.

In determining the transaction price, we also 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.



In addition, our customer contracts generally include provisions entitling us to a cancellation or postponement fee when a customer cancels or postpones its commitments prior to our initiation of services, therefore not utilizing their reserved capacity. The determination of such cancellation and postponement fees are based on the terms stated in the related customer contract but are generally considered substantive for accounting purposes and create an enforceable right and obligation due to us when the cancellation or postponement occurs. Accordingly, we recognize such fees, subject to variable consideration, as revenue upon the cancellation or postponement date utilizing the most likely method.

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, estimating variable consideration, 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 three and nine months ended January 31, 2023, we recognized revenue of \$3.0 million for changes in estimates for variable consideration under a contract where uncertainties have been resolved. During the three and nine months ended January 31, 2022, changes in estimates for variable consideration resulted in a decrease in revenues of \$1.2 million and \$12.4 million, respectively. These changes in estimates for variable consideration can primarily be attributed to a dispute with a customer, which was recently resolved, over the payment of certain cancellation fees incurred in fiscal 2022 and due to us under the terms of the contract (Note 8).

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, 2023, we do not have any unsatisfied performance obligations for contracts greater than one year.

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

### Restricted Cash

Under the terms of an operating lease related to one of our facilities (Note 4), we are required to maintain a letter of credit as collateral. Accordingly, at January 31, 2023 and April 30, 2022, restricted cash of \$0.4 million was pledged as collateral under the letter of credit.

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 in the unaudited condensed consolidated statements of cash flows (in thousands):

	<b>January 31, 2023</b>	<b>April 30, 2022</b>	<b>January 31, 2022</b>	<b>April 30, 2021</b>
Cash and cash equivalents	\$ 59,916	\$ 126,166	\$ 149,957	\$ 169,915
Restricted cash	350	350	350	350
Total cash, cash equivalents and restricted cash	<u>\$ 60,266</u>	<u>\$ 126,516</u>	<u>\$ 150,307</u>	<u>\$ 170,265</u>

### Accounts Receivable, Net

Accounts receivable is primarily comprised of amounts owed to us for services provided under our customer contracts and are recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. We apply judgement in assessing the ultimate realization of our receivables and we estimate an allowance for doubtful accounts based on various factors, such as the aging of our receivables, historical experience, and the financial condition of our customers.

## 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 asset, which are generally as follows:

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

Costs for property and equipment not yet placed into service have been capitalized as construction-in-progress. These costs are primarily related to equipment and leasehold improvements associated with our manufacturing facilities and will be depreciated in accordance with the above guidelines once placed into service. Interest costs incurred during construction of major capital projects are capitalized as construction-in-progress until the underlying asset is ready for its intended use, at which point the interest costs are amortized as depreciation expense over the life of the underlying asset. Interest capitalized as construction-in-progress for the three and nine months ended January 31, 2023 was \$0.1 million and \$0.4 million, respectively. No interest was capitalized as construction-in-progress for the three and nine months ended January 31, 2022. All our property and equipment are located in the United States. Property and equipment consist of the following (in thousands):

	<b>January 31, 2023</b>	<b>April 30, 2022</b>
Leasehold improvements	\$ 48,410	\$ 37,345
Laboratory and manufacturing equipment	34,301	30,089
Computer equipment and software	4,948	5,326
Furniture, fixtures and office equipment	1,681	843
Construction-in-progress	103,886	43,809
Total property and equipment, gross	193,226	117,412
Less: accumulated depreciation and amortization	(28,934)	(24,457)
Total property and equipment, net	\$ 164,292	\$ 92,955

Depreciation and amortization expense for the three and nine months ended January 31, 2023 was \$1.9 million and \$5.3 million, respectively.

Depreciation and amortization expense for the three and nine months ended January 31, 2022 was \$1.0 million and \$3.1 million, respectively.

## 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 (“ROU”) assets, operating lease liabilities and operating lease liabilities, less current portion in our consolidated balance sheets. ROU 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 ROU 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.

Our finance lease with a term greater than one year is included as an asset within property and equipment, net and a lease liability equal to the present value of the minimum lease payments is included in other current liabilities and finance lease liabilities, less current portion in our consolidated balance sheets. The present value of the finance lease payments is calculated using the implicit interest rate in the lease. Finance lease ROU assets are amortized on a straight-line basis over the expected useful life of the asset and the carrying amount of the lease liability is adjusted to reflect interest, which is recorded as interest expense.

Leases with an initial term of 12 months or less are not recorded on our consolidated balance sheets and lease expense for these short-term leases is recognized on a straight-line basis over the lease term. We have also elected the practical expedient to not separate lease components from non-lease components.

## 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, 2023 and 2022, 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, 2023.

## Stock-Based Compensation

We account for stock options, restricted stock units, performance stock units and other stock-based awards granted under our equity compensation plans in accordance with the authoritative guidance of ASC 718, *Compensation – Stock 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 an expense on a straight-line basis over the requisite service periods. The fair value of restricted stock units and performance stock units is measured at the grant date based on the closing market price of our common stock on the date of grant. For restricted stock units, the fair value is recognized as an expense on a straight-line basis over the requisite service periods. For performance stock units, which are subject to performance conditions, the fair value is recognized as expense on a straight-line basis over the requisite service periods when the achievement of such performance condition is determined to be probable. If a performance condition is not determined to be probable or is not met, no stock-based compensation expense is recognized, and any previously recognized expense is reversed. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur.

## Debt Issuance Costs

Debt issuance costs related to convertible senior notes are recorded as a deduction that is netted against the principal value of the debt and are amortized to interest expense using the effective interest method over the contractual term of the debt (Note 3).

## Comprehensive Income

Comprehensive income is the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income is equal to our net income 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, 2023 and April 30, 2022, we did not have any Level 2 or Level 3 financial assets and our cash equivalents of \$50.8 million and \$116.3 million, respectively, were invested in money market funds with one major commercial bank and carried at fair value based on quoted market prices for identical securities (Level 1 input). We consider the fair value of our convertible senior notes to be a Level 2 financial liability due to limited trading activity of the senior convertible notes (Note 3). We did not have any other Level 2 or Level 3 financial liabilities as of January 31, 2023 and April 30, 2022.

## Accounting Standards Not Yet Adopted

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. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates*, which required entities to make a one-time determination of whether an entity is eligible to be a smaller reporting company as of November 15, 2019 for the purpose of determining the effective date of ASU 2016-13. We determined that we were eligible to be a smaller reporting company as of November 15, 2019, and therefore, ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, which will be our fiscal year 2024 beginning May 1, 2023. We do not anticipate the adoption of this standard will have a material impact on our condensed consolidated financial statements.

## Note 3 – Debt

### Convertible Senior Notes Due 2026

In March 2021, we issued \$143.8 million in aggregate principal amount of 1.25% exchangeable senior notes due 2026 (“Convertible Notes”) in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds we received from the issuance of Convertible Notes was \$138.5 million, after deducting initial purchaser discounts and other debt issuance related expenses of \$5.3 million.

The Convertible Notes are senior unsecured obligations and accrue interest at a rate of 1.25% per annum, payable semi-annually in arrears on March 15 and September 15 of each year. The Convertible Notes mature on March 15, 2026, unless earlier redeemed or repurchased by us or converted at the option of the holders. The Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election in the manner and subject to the terms and conditions provided in the indenture (the “Indenture”) governing the Convertible Notes.

The initial conversion rate for the Convertible Notes is approximately 47.1403 shares of our common stock per \$1,000 principal amount, which represents an initial conversion price of approximately \$21.21 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain events in accordance with the terms of the Indenture. In addition, following certain corporate events that occur prior to the maturity date, we will, in certain circumstances, increase the conversion rate for a holder who elects to convert their Convertible Notes in connection with such a fundamental change, as defined in the Indenture.

Holders of the Convertible Notes may convert their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding September 15, 2025, only under the following circumstances: (1) During any fiscal quarter commencing after the fiscal quarter ended July 31, 2021, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) During the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price (as defined in the Indenture) per \$1,000 principal amount of the Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the exchange rate on each such trading day; (3) If we call any or all of the Convertible Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; and (4) Upon the occurrence of specified corporate events as described in the Indenture.

On or after September 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders at their option may convert their Convertible Notes at any time, regardless of the foregoing circumstances.

We may not redeem the Convertible Notes prior to March 20, 2024. On or after March 20, 2024, the Convertible Notes are redeemable for cash, whole or in part, at our option, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

If we undergo a fundamental change (as defined in the Indenture), holders may require us to repurchase for cash all or any portion of their Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding the redemption date.

The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding Convertible Notes may declare the entire principal of all the Convertible Notes plus accrued and unpaid interest to be immediately due and payable.

As of January 31, 2023, the conditions allowing holders of the Convertible Notes to convert had not been met and, therefore, the Convertible Notes are classified as a long-term liability on the unaudited condensed consolidated balance sheets at January 31, 2023 and April 30, 2022.

The net carrying amount of the Convertible Notes is as follows (in thousands):

	<b>January 31, 2023</b>	<b>April 30, 2022</b>
Principal	\$ 143,750	\$ 143,750
Unamortized issuance costs	(3,391)	(4,173)
Net carrying amount	<u>\$ 140,359</u>	<u>\$ 139,577</u>

As of January 31, 2023, the estimated fair value of the Convertible Notes was approximately \$147.7 million. The fair value was determined based on the last actively traded price per \$100 of the Convertible Notes for the period ended January 31, 2023 (Level 2).

The following table summarizes the interest expense recognized related to the Convertible Notes for the three and nine months ended January 31, 2023 and 2022 (in thousands):

	<b>Three Months Ended January 31,</b>		<b>Nine Months Ended January 31,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Contractual interest expense	\$ 328	\$ 449	\$ 963	\$ 1,347
Amortization of issuance costs	262	257	782	766
Total interest expense	<u>\$ 590</u>	<u>\$ 706</u>	<u>\$ 1,745</u>	<u>\$ 2,113</u>

### **Capped Call Transactions**

In connection with the issuance of the Convertible Notes, we entered into privately negotiated capped call transactions (the “Capped Calls”) with certain financial institution counterparties (the “Option Counterparties”). We used \$12.8 million of the net proceeds from the issuance of the Convertible Notes to pay the cost of the Capped Calls. The Capped Calls cover, subject to customary anti-dilution adjustments, the aggregate number of shares of our common stock that initially underlie the Convertible Notes, and are generally expected to reduce the potential dilution of our common stock upon any conversion of the Convertible Notes, as the case may be, with such reduction and/or offset subject to a cap, based on the cap price of the Capped Calls. The cap share price of the Capped Calls is approximately \$28.02 per share, which represents a premium of 75% over the last reported sale price of our common stock on March 9, 2021 and is subject to certain adjustments under the terms of the Capped Calls. However, there would nevertheless be dilution upon conversion of the Convertible Notes to the extent that such market price exceeds the capped share price as measured under the terms of the Capped Calls.

We evaluated the Capped Calls under ASC 815-10 and determined that they should be accounted for as a separate transaction from the Convertible Notes and that the Capped Calls met the criteria for equity classification. Therefore, the cost of \$12.8 million to purchase the Capped Calls was recorded as a reduction to additional paid-in capital in the consolidated balance sheet at April 30, 2021. The Capped Calls will not be subsequently remeasured as long as the conditions for equity classification continue to be met. As of January 31, 2023 and April 30, 2022, there were no conversions of our Convertible Notes, and therefore, there was no activity with respect to the Capped Calls. We believe the conditions for equity classification continue to be met as of January 31, 2023 and April 30, 2022.

### **Note 4 – Leases**

We currently lease certain office, manufacturing, laboratory and warehouse space located in Orange County, California under operating lease agreements. Our leased facilities have original lease terms ranging from 7 to 12 years, contain 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 one of our leases as we considered it reasonably certain that we would exercise such renewal option. In addition, certain 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/or are being amortized over the shorter of the estimated useful life of the improvements or the remaining life of the lease.

Certain of our operating 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 operating lease cost for the three and nine months ended January 31, 2023 and 2022 were as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Operating lease cost	\$ 1,060	\$ 1,051	\$ 3,233	\$ 2,828
Variable lease cost	348	221	1,145	620
Short-term lease cost	187	163	514	379
Total lease cost	<u>\$ 1,595</u>	<u>\$ 1,435</u>	<u>\$ 4,892</u>	<u>\$ 3,827</u>

We also lease certain manufacturing equipment under a 5-year finance lease that commenced in the second quarter of fiscal year 2022. Finance lease costs were not significant for the three and nine months ended January 31, 2023 and 2022.

Supplemental consolidated balance sheet and other information related to our operating and finance leases as of January 31, 2023 and April 30, 2022 were as follows (in thousands, expect weighted average data):

Leases	Classification	January 31, 2023	April 30, 2022
<b>Assets</b>			
Operating	Operating lease right-of-use assets	\$ 34,463	\$ 36,806
Finance	Property and equipment, net	2,584	2,728
Total leased assets		<u>\$ 37,047</u>	<u>\$ 39,534</u>
<b>Liabilities</b>			
Current:			
Operating	Current portion of operating lease liabilities	\$ 3,024	\$ 2,969
Finance	Other current liabilities	524	505
Non-current:			
Operating	Operating lease liabilities, less current portion	35,659	37,886
Finance	Finance lease liabilities, less current portion	1,698	2,093
Total lease liabilities		<u>\$ 40,905</u>	<u>\$ 43,453</u>

Weighted average remaining lease term (years):

Operating leases	11.8	12.4
Finance lease	3.9	4.7

Weighted average discount rate

Operating leases	3.3%	3.3%
Finance lease	5.3%	5.3%

Cash paid for amounts included in the measurement of operating lease liabilities was \$3.0 million and \$1.6 million for the nine months ended January 31, 2023 and 2022, respectively, and is included in net cash (used in) provided by operating activities in our accompanying unaudited condensed consolidated statements of cash flows. Cash paid for amounts included in the measurement of finance lease liabilities was not significant for the nine months ended January 31, 2023.

As of January 31, 2023, the maturities of our lease liabilities, which includes those derived from lease renewal options that we considered it reasonably certain that we would exercise, were as follows (in thousands):

<b>Fiscal Year Ending April 30,</b>	<b>Operating Leases</b>	<b>Finance Lease</b>	<b>Total</b>
2023 (remaining period)	\$ 1,114	\$ 157	\$ 1,271
2024	4,140	629	4,769
2025	4,060	629	4,689
2026	4,167	629	4,796
2027	4,199	419	4,618
Thereafter	28,708	–	28,708
Total lease payments	\$ 46,388	\$ 2,463	\$ 48,851
Less: imputed interest	(7,705)	(241)	(7,946)
Total lease liabilities	<u>\$ 38,683</u>	<u>\$ 2,222</u>	<u>\$ 40,905</u>

## Note 5 – Equity Compensation Plans

### Stock Incentive Plans

As of January 31, 2023, we had an aggregate of 8,348,068 shares of our common stock reserved for issuance under our stock incentive plans, of which 4,075,987 shares were subject to outstanding stock options, restricted stock units (“RSUs”) and performance stock units (“PSUs”) and 4,272,081 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, 2023:

	<b>Stock Options</b>	<b>Grant Date Weighted Average Exercise Price</b>
	<i>(in thousands)</i>	
Outstanding at May 1, 2022	2,505	\$ 6.88
Granted	–	\$ –
Exercised	(254)	\$ 6.84
Canceled or expired	(53)	\$ 9.94
Outstanding at January 31, 2023	<u>2,198</u>	<u>\$ 6.81</u>



## Restricted Stock Units

The following summarizes our RSUs transaction activity for the nine months ended January 31, 2023:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
	<i>(in thousands)</i>	
Outstanding at May 1, 2022	642	\$ 14.89
Granted	738	\$ 17.65
Vested	(309)	\$ 14.08
Forfeited	(34)	\$ 17.15
Outstanding at January 31, 2023	<u>1,037</u>	<u>\$ 17.02</u>

## Performance Stock Units

The Compensation Committee of the Board of Directors grants PSUs to our executives. The PSUs are subject to annual vesting over three consecutive fiscal year performance periods with the first one-third vesting on April 30 of the year following the grant date, and each successive one-third vesting on April 30 of the following two years respectively (each a “Performance Period”). Each PSU that vests represent the right to receive one share of our common stock. The number of shares that will vest for each Performance Period, if any, is based upon the attainment of certain predetermined financial metrics for each such Performance Period. Depending on the actual financial metrics achieved relative to the target financial metrics for such Performance Periods, the number of PSUs issued could range from 0% to 200% of the target amount. The number of granted shares included in the table below is based on a maximum 200% achievement of each financial metric during each Performance Period (the “Maximum Performance Target”). If a financial metric is achieved at a rate below the Maximum Performance Target, or is not achieved, the corresponding portion of the PSUs that do not vest are forfeited.

The following summarizes our PSUs transaction activity for the nine months ended January 31, 2023:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
	<i>(in thousands)</i>	
Outstanding at May 1, 2022	233	\$ 25.31
Granted	609	\$ 18.09
Vested	–	\$ –
Forfeited	–	\$ –
Outstanding at January 31, 2023	<u>842</u>	<u>\$ 20.09</u>

## Employee Stock Purchase Plan

The Avid Bioservices, Inc. 2010 Employee Stock Purchase Plan (the “ESPP”) is a stockholder-approved plan under which 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 six-month offering period or on the last trading day of the six-month offering period. During the nine months ended January 31, 2023, a total of 68,646 shares of our common stock were purchased under the ESPP at a weighted average purchase price per share of \$12.22. As of January 31, 2023, we had 963,316 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, 2023 and 2022 was comprised of the following (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Cost of revenues	\$ 1,017	\$ 694	\$ 2,749	\$ 1,855
Selling, general and administrative	1,727	1,417	4,678	3,497
Total stock-based compensation	<u>\$ 2,744</u>	<u>\$ 2,111</u>	<u>\$ 7,427</u>	<u>\$ 5,352</u>

As of January 31, 2023, the total estimated unrecognized compensation cost related to non-vested stock options and RSUs was \$1.6 million and \$16.6 million, respectively. These costs are expected to be recognized over weighted average vesting periods of 1.2 and 2.8 years, respectively.

As of January 31, 2023, there was \$11.0 million of total estimated unrecognized compensation cost related to non-vested PSUs associated with the Performance Periods ending April 30, 2023, 2024 and 2025. These costs are expected to be recognized over the weighted average vesting period of 1.1 years, however, we will assess the likelihood of achieving the predetermined financial metrics associated with each Performance Period on a quarterly basis and the expense recognized, if any, will be adjusted accordingly.

## Note 6 – Income Taxes

We are subject to taxation in the United States and various states jurisdictions in which we conduct our business.

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items arising in that quarter. On a quarterly basis, we update our estimate of the annual effective tax rate, and if the estimated annual tax rate changes, we make a cumulative adjustment in that quarter.

The tax expense recorded for the third quarter of fiscal year 2023 differs from the U.S. federal statutory tax rate of 21% due primarily to the tax impact of state income taxes, stock-based compensation, non-deductible officers' compensation and transportation fringe benefits.

For the three and nine months ended January 31, 2023, we recorded income tax expense of \$2.1 million and \$0.7 million, respectively, resulting in an effective tax rate of 82.6% and 44.9%, respectively.

We have no material uncertain tax positions as of January 31, 2023. It is our policy to recognize interest and penalties related to income tax matters in interest expense and other income (expense), net, respectively, in our unaudited condensed consolidated statements of operations and comprehensive income. There was no accrued interest or penalties associated with uncertain tax positions as of January 31, 2023.

## Note 7 – Net Income Per Common Share

Basic net income per common share is computed by dividing our net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing our net income 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 and PSUs, shares of common stock expected to be issued under our ESPP, and Convertible Notes.

The potential dilutive effect of stock options, unvested RSUs and PSUs, 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 Convertible Notes is calculated using the if-converted method assuming the conversion of our Convertible Notes 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 per common share computations are as follows (in thousands, except per share amounts):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
<b>Numerator</b>				
Net income	\$ 461	\$ 2,248	\$ 869	\$ 12,074
<b>Denominator</b>				
Weighted average basic common shares outstanding	62,388	61,631	62,166	61,394
Effect of dilutive securities:				
Stock options	1,129	1,862	1,239	1,926
RSUs, PSUs and ESPP	209	379	229	391
Weighted average dilutive common shares outstanding	63,726	63,872	63,634	63,711
Net income per share:				
Basic	\$ 0.01	\$ 0.04	\$ 0.01	\$ 0.20
Diluted	\$ 0.01	\$ 0.04	\$ 0.01	\$ 0.19

The following table presents the potential dilutive securities excluded from the calculation of diluted net income per share for the periods presented as the effect of their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Stock options	45	40	49	37
RSUs and PSUs	807	3	695	5
Convertible Notes	6,776	6,776	6,776	6,776
Total	7,628	6,819	7,520	6,818

#### Note 8 – Commitments and Contingencies

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

### *Humanigen Arbitration*

On December 17, 2021, we filed a Demand for Arbitration claiming more than \$20.5 million in damages against Humanigen, Inc. (“Humanigen”) with the American Arbitration Association (“AAA”) entitled, Avid Bioservices, Inc. v. Humanigen, Inc. (AAA Case No. 01-21-0018-0523). The Demand contains three claims for: (1) breach of contract concerning the process development and manufacturing master services agreement (“MSA”); (2) anticipatory breach of contract concerning the capacity expansion and contribution/commitment letter (“Letter Agreement”); and (3) trade libel and commercial disparagement. On January 6, 2022, Humanigen filed an Answer to our Demand, denying the allegations and asserting affirmative defenses. On July 1, 2022, Humanigen filed its counterclaims against us in the form of a complaint in the Orange County Superior Court (Case No. 30-2022-01268184) alleging three claims for (1) breach of the MSA seeking return or reimbursement of the amounts Humanigen paid us before cancelling the MSA, (2) declaratory relief that Humanigen has no remaining obligations under the Letter Agreement, and (3) unfair business practices. On July 19, 2022, we filed a motion with the state court to compel all claims by Humanigen against us to arbitration before the AAA. On October 17, 2022, the state court granted our motion to compel all of Humanigen’s claims against us to arbitration and denied Humanigen’s motion to stay the arbitration. As a result of the court having granted our motion, on November 3, 2022, Humanigen filed its Demand for Arbitration realleging the breach of the MSA and unfair business practices claims which it had initially filed in state court. On November 10, 2022, we filed an Answer to Humanigen’s Demand, denying the allegations and asserting affirmative defenses. On February 21, 2023, we entered into a Confidential Settlement and Mutual Releases Agreement with Humanigen resolving the arbitration proceeding and all disputes between the parties.

## 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 condensed consolidated unaudited 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, 2022.*

### Cautionary Statement Regarding Forward-Looking Statements

*This Quarterly Report on Form 10-Q contains forward-looking statements 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, 2022, 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 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 of biologics for the biotechnology and biopharmaceutical industries. With 30 years of experience producing monoclonal antibodies and recombinant proteins, our services include 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 continue to execute on a growth strategy that seeks to align with the growth of the biopharmaceutical drug substance contract services market. That strategy encompasses the following 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 market awareness through a diversified yet flexible marketing strategy;
- Expand our customer base and programs with existing customers for both process development and manufacturing service offerings;
- Explore strategic opportunities both within our core business as well as in adjacent and/or synergistic service offerings in order to enhance and/or broaden our capabilities; 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, 2023:

- Reported revenues of \$38.0 million, an increase of 21%, or \$6.5 million, compared to the same prior year period;
- Reported net income of \$0.5 million, or \$0.01 per basic and diluted share;
- Expanded our customer base and programs with existing customers and ended the quarter with a backlog of approximately \$176 million;
- Further enhanced our mammalian cell offerings with the addition of in-house cell line development services; and
- Continued to advance the second phase of expansion of our Myford facility and the construction of our cell and gene therapy facility.

### **Facility Expansions**

During fiscal year 2021, we announced plans for a two-phased expansion of our Myford facility. The first phase, which expanded the production capacity of our Myford facility by adding an additional downstream processing suite, was completed in January 2022. The second phase, which was recently completed in March 2023, further expands our capacity with the addition of a second manufacturing train, including both upstream and downstream processing suites. This phase is now operational, and we are actively scheduling new business into the suites. We estimate that as of January 31, 2023, the remaining cost associated with the completion of our Myford facility expansion is approximately \$6 million.

In October 2021, we announced plans to expand our CDMO service offerings into viral vector development and manufacturing services for the rapidly growing cell and gene therapy (“CGT”) market. This expansion will consist of a two-phased approach including constructing a world-class, single purpose-built CGT development and CGMP manufacturing facility in Costa Mesa, California (the “CGT Facility”). In June 2022, we completed the first phase with the opening of our new analytical and process development laboratories. This phase is operational and we have been generating revenue from these laboratories since the second quarter of fiscal 2023. The second phase of construction includes the build out of CGMP manufacturing suites, which are expected to be online by the end of the third calendar quarter of 2023. We estimate that as of January 31, 2023, the remaining cost to complete our CGT Facility construction is approximately \$20 million.

In June 2022, we announced plans to further expand the process development capacity of our mammalian cell culture services, by adding new suites within our existing process development laboratory space. This expansion is expected to be online by the end of the first calendar quarter of 2023. We estimate that as of January 31, 2023 the remaining cost to complete our PD construction is approximately \$2 million.

Upon completion of these expansion projects, we estimate that our combined facilities will have the potential to bring our total revenue generating capacity to up to approximately \$400 million annually, depending on the mix of future customer projects.

### **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, operating income and interest expense.

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. Manufacturing revenue generally represents revenue from the manufacturing of customer products derived from mammalian cell culture covering clinical through commercial manufacturing runs. 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.

## 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 compensation, benefits, recruiting fees, and stock-based compensation within the manufacturing, process and analytical development, quality assurance, quality control, validation, supply chain, project management and facilities functions. Overhead costs primarily include the rent, common area maintenance, utilities, property taxes, security, materials and supplies, software, small equipment, and depreciation costs incurred at our manufacturing and laboratory locations.

## Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are composed of corporate-level expenses, including compensation, benefits, recruiting fees, and stock-based compensation of corporate functions such as executive management, finance and accounting, business development, legal, human resources, information technology, and other centralized services. SG&A expenses also 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, and business development activities.

## Results of Operations

The following table compares the unaudited condensed consolidated statements of operations for the three and nine months ended January 31, 2023 and 2022 (in thousands):

	Three Months Ended January 31,			Nine Months Ended January 31,		
	2023	2022	\$ Change	2023	2022	\$ Change
Revenues	\$ 38,018	\$ 31,508	\$ 6,510	\$ 109,467	\$ 88,371	\$ 21,096
Cost of revenues	28,193	22,421	5,772	86,378	58,707	27,671
Gross profit	9,825	9,087	738	23,089	29,664	(6,575)
Operating expenses:						
Selling, general and administrative	7,107	5,818	1,289	20,320	15,311	5,009
Total operating expenses	7,107	5,818	1,289	20,320	15,311	5,009
Operating income	2,718	3,269	(551)	2,769	14,353	(11,584)
Interest expense	(620)	(718)	98	(1,841)	(2,125)	284
Other income (expense), net	432	(303)	735	627	(154)	781
Net income before income taxes	2,530	2,248	282	1,555	12,074	(10,519)
Income tax expense	2,069	–	2,069	686	–	686
Net income	\$ 461	\$ 2,248	\$ (1,787)	\$ 869	\$ 12,074	\$ (11,205)

## Three Months Ended January 31, 2023 Compared to Three Months Ended January 31, 2022

### Revenues

Revenues for the three months ended January 31, 2023 were \$38.0 million compared to \$31.5 million for the same period in the prior year, an increase of \$6.5 million, or 21%. The year-over-year increase in revenues can primarily be attributed to increases in manufacturing runs, process development services provided to new customers, and revenue recognized in the current year period for changes in estimated variable consideration under a contract where uncertainties have been resolved. The increase in revenues was attributed to the following components of our revenue streams:

	<b>\$ millions</b>
Net increase in manufacturing revenues	\$ 6.0
Net increase in process development revenues	0.5
Total increase in revenues	<u>\$ 6.5</u>

### Gross Profit

Gross profit for the three months ended January 31, 2023 was \$9.8 million (26% gross margin) compared to \$9.1 million (29% gross margin) for the same period in the prior year, an increase of \$0.7 million. The increase in gross profit can primarily be attributed to an increase in revenues, partially offset by increases in compensation and benefit related expenses and facility and equipment related costs. During the three months ended January 31, 2023 as compared with the prior year period, our labor, overhead and depreciation expenses increased primarily due to the hiring of personnel and additional facility and equipment related costs in anticipation of the commissioning of our mammalian and cell and gene therapy CGMP facility expansions. This decrease in margin was partially offset by a current year period benefit to margin from revenue associated with a change in variable consideration under a contract where uncertainties have been resolved. In addition, the same period in the prior year included a margin benefit from unutilized capacity fees. Excluding all of these factors, our third quarter gross margin was slightly higher than the same prior year period.

We expect our gross profit will continue to be impacted in the short-term as we continue the hiring of personnel and incur additional facility and equipment related costs in-line with our anticipated growth.

### Selling, General and Administrative Expenses

SG&A expenses were \$7.1 million for the three months ended January 31, 2023 compared to \$5.8 million for the same period in the prior year, an increase of \$1.3 million, or 22%. The net increase in SG&A expenses was attributed to the following components:

	<b>\$ millions</b>
Increase in compensation and benefit related expenses	\$ 0.9
Increase in legal and accounting fees	0.2
Increase in consulting and other professional fees	0.1
Net increase in all other SG&A expenses	0.1
Total increase in SG&A expenses	<u>\$ 1.3</u>

As a percentage of revenues, SG&A expenses for the three months ended January 31, 2023 and 2022 were 19% and 18%, respectively. 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.



### ***Operating Income***

Operating income was \$2.7 million for the three months ended January 31, 2023 compared to operating income of \$3.3 million for the same period in the prior year. This \$0.6 million decrease in year-over-year operating income can be attributed to the \$1.3 million increase in SG&A expenses offset by the \$0.7 million increase in gross profit described above.

### ***Other Income (Expense), net***

Other income (expense), net (“OI&E”) was income of \$0.4 million for the three months ended January 31, 2023 compared to expense of \$0.3 million for the same period in the prior year. The increase in year-over-year OI&E can primarily be attributed to an increase in interest income of \$0.4 million combined with a \$0.4 million decrease in loss on disposal of property and equipment.

### ***Income Tax Expense***

Income tax expense was \$2.1 million for the three months ended January 31, 2023 compared to no income tax expense for the same period in the prior year. The increase in income tax expense can be attributed to the recording of net income tax expense in the current year period whereas in the prior year period there was no income tax expense due to a full valuation allowance being in place.

## **Nine Months Ended January 31, 2023 Compared to Nine Months Ended January 31, 2022**

### ***Revenues***

Revenues for the nine months ended January 31, 2023 were \$109.5 million compared to \$88.4 million for the same period in the prior year, an increase of approximately \$21.1 million, or 24%. The year-over-year increase in revenues can primarily be attributed to increases in manufacturing runs, process development services provided to new customers, and revenue recognized in the current year period for changes in estimated variable consideration under a contract where uncertainties have been resolved. The increase in revenues was attributed to the following components of our revenue streams:

	<b>\$ millions</b>
Net increase in manufacturing revenues	\$ 17.4
Net increase in process development revenues	3.7
Total increase in revenues	<u>21.1</u>

### ***Gross Profit***

Gross profit for the nine months ended January 31, 2023 was \$23.1 million (21% gross margin) compared to \$29.7 million (34% gross margin) for the same period in the prior year, a decrease of \$6.6 million. The decrease in gross profit can primarily be attributed to increases in compensation and benefit related expenses and facility and equipment related costs, partially offset by increased revenues. During the nine months ended January 31, 2023 as compared with the prior year period, our labor, overhead and depreciation expenses increased primarily due to the hiring of personnel and additional facility and equipment related costs in anticipation of the commissioning of our mammalian and cell and gene therapy CGMP facility expansions. This decrease in margin was partially offset by a current year period benefit to margin from revenue associated with a change in variable consideration under a contract where uncertainties have been resolved. In addition, the same period in the prior year included a margin benefit from unutilized capacity fees. Excluding all of these factors, our year-to-date period gross margin was approximately in-line with the same prior year period.

### ***Selling, General and Administrative Expenses***

SG&A expenses were \$20.3 million for the nine months ended January 31, 2023 compared to \$15.3 million for the same period in the prior year, an increase of \$5.0 million, or 33%. As a percentage of revenues, SG&A expenses for the nine months ended January 31, 2023 and 2022 were 19% and 17%, respectively. The net increase in SG&A expenses was attributed to the following components:

	<b>\$ millions</b>
Increase in compensation and benefit related expenses	\$ 3.2
Increase in legal and accounting fees	0.6
Increase in consulting and other professional fees	0.4
Increase in facility and related expenses	0.2
Increase in travel expenses	0.2
Increase in trade show expenses	0.1
Net increase in all other SG&A expenses	0.3
Total increase in SG&A expenses	<u>\$ 5.0</u>

### ***Operating Income***

Operating income was \$2.8 million for the nine months ended January 31, 2023 compared to \$14.4 million for the same period in the prior year. This \$11.6 million decrease in year-over-year operating income can be attributed to the \$6.6 million decrease in gross profit described above combined with a \$5.0 million increase in SG&A expenses.

### ***Interest Expense***

Interest expense was \$1.8 million for the nine months ended January 31, 2023 compared to \$2.1 million for the same period in the prior year, a decrease of \$0.3 million. The decrease can primarily be attributed to interest expense of \$0.4 million capitalized as construction-in-progress during the current year period compared to no interest capitalized during the same prior year period.

### ***Other Income (Expense), net***

OI&E was income of \$0.6 million for the nine months ended January 31, 2023 compared to expense of \$0.2 million for the same period in the prior year. The increase in year-over-year OI&E can primarily be attributed to an increase in interest income of \$0.5 million combined with a \$0.3 million decrease in loss on disposal of property and equipment.

### ***Income Tax Expense***

Income tax expense was \$0.7 million for the nine months ended January 31, 2023 compared to no income tax expense for the same period in the prior year. The increase in income tax expense can be attributed to the recording of net income tax expense in the current year period whereas in the prior year period there was no income tax expense due to a full valuation allowance being in place.

## Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash and cash equivalents on hand and cash flows generated from operations. As of January 31, 2023, we had cash and cash equivalents of \$59.9 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.

If cash flows from operations are not sufficient to support our operations or capital requirements, including our mammalian and cell and gene therapy facility expansions, then we may need to obtain additional equity or debt financing to fund our future operations and/or such expansions. 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 several 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, which may cause extreme volatility and disruptions in capital and credit markets. 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 or it may contain restrictions on the operations of our business.

### Cash Flows

The following table compares our cash flow activities for the nine months ended January 31, 2023 and 2022 (in thousands):

	Nine Months Ended January 31,		
	2023	2022	\$ Change
Net cash (used in) provided by operating activities	\$ (15,686)	\$ 8,853	\$ (24,539)
Net cash used in investing activities	\$ (52,761)	\$ (31,845)	\$ (20,916)
Net cash provided by financing activities	\$ 2,197	\$ 3,034	\$ (837)

#### *Net Cash (Used in) Provided by Operating Activities*

Net cash used in operating activities for the nine months ended January 31, 2023 was a result of net income of \$0.9 million combined with non-cash adjustments to net income of \$14.1 million primarily related to stock-based compensation, depreciation and amortization expense, amortization of debt issuance costs and deferred income taxes, offset by a reduction in working capital as a result of a net change in operating assets and liabilities of \$30.7 million.

Net cash provided by operating activities for the nine months ended January 31, 2022 was a result of net income of \$12.1 million combined with non-cash adjustments to net income of \$9.6 million primarily related to depreciation and amortization, stock-based compensation and amortization of debt issuance costs, offset by a reduction in working capital as a result of a net change in operating assets and liabilities of \$12.8 million.

#### *Net Cash Used in Investing Activities*

Net cash used in investing activities for the nine months ended January 31, 2023 and 2022 consisted of \$52.8 million and \$31.8 million, respectively, used to acquire property and equipment primarily related to the expansion of our facilities and operations.

### *Net Cash Provided by Financing Activities*

Net cash provided by financing activities for the nine months ended January 31, 2023 consisted of \$2.6 million in net proceeds from the issuance of common stock under our equity compensation plans, offset by \$0.4 million in principal payments on a finance lease.

Net cash provided by financing activities for the nine months ended January 31, 2022 consisted of \$3.0 million in net proceeds from the issuance of common stock under our equity compensation plans.

### **Cash Requirements**

Our material cash requirements include the following contractual and other obligations.

#### *Convertible Senior Notes*

In March 2021, we issued \$143.8 million in aggregate principal amount of 1.25% exchangeable senior notes due 2026 (“Convertible Notes”) in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds we received from the issuance of Convertible Notes was \$138.5 million, after deducting initial purchaser discounts and other debt issuance related expenses of \$5.3 million.

The Convertible Notes are senior unsecured obligations and accrue at a rate of 1.25% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2021. The Convertible Notes mature on March 15, 2026, unless earlier redeemed or repurchased by us or converted at the option of the holders. The Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election in the manner and subject to the terms and conditions provided in the indenture governing the Convertible Notes.

As of January 31, 2023, the aggregate principal amount outstanding of our Convertible Notes was \$143.8 million. For additional information regarding the Convertible Notes, see Note 3 of the notes to unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q.

#### *Leases*

We lease certain office, manufacturing, laboratory, and warehouse space located in Orange County, California under multiple operating lease agreements. Our leased facilities have original lease terms ranging from 7 to 12 years, contain multi-year renewal options, and scheduled rent increases of 3% on either an annual or biennial basis. We also lease certain manufacturing equipment under a 5-year finance lease that expires in December 2026. As of January 31, 2023, we had outstanding lease obligations of \$48.9 million, of which \$1.3 million is payable in the remainder of fiscal 2023, \$4.8 million is payable in fiscal 2024, \$4.7 million is payable in fiscal 2025, \$4.8 million is payable in fiscal 2026, \$4.6 million is payable in fiscal 2027, and \$28.7 million is payable thereafter.

#### *Capital Expenditures*

Our fiscal year 2023 capital expenditures primarily relate to our mammalian and cell and gene therapy facility expansions in Orange County, California as further discussed in the “Facility Expansions” section above. During the nine months ended January 31, 2023, our capital expenditures were \$52.8 million, and \$24.0 million were incurred and accrued as of January 31, 2023, for a total of approximately \$76.7 million. We currently anticipate that our total capital expenditures for fiscal 2023 will be approximately \$90 million.

## **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, 2023, 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, 2022.

### *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 contained in this Quarterly Report on Form 10-Q.

### *Backlog*

Our backlog represents, as of a point in time, future revenue from contracted customer work not yet completed. As of January 31, 2023, our backlog was approximately \$176 million, as compared to approximately \$153 million as of April 30, 2022. While we anticipate the majority of our backlog will be recognized as revenue over the next twelve (12) months, our backlog is subject to a number of risks and uncertainties, including but not limited to: the risk that a customer cancels its commitments prior to our initiation of 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 services; the risk that we may not successfully execute on all customer projects; and the risk that commencement of customer projects may be postponed due to supply chain delays, any of which could have a negative impact on our liquidity, reported backlog and future revenues and profitability.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

During the nine months ended January 31, 2023, 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, 2022.

## **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, 2023, 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, 2023.

**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, 2023, 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

Please refer to Note 8, *Commitments and Contingencies*, in the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report, which is incorporated into this item by reference.

### Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, results of operations and cash flows. For a detailed discussion of the risks that affect our business, please refer to Part I, Item IA, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended April 30, 2022. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K.

### Item 6. Exhibits

(a) Exhibits:

10.1	<a href="#"><u>Executive Severance Plan adopted December 5, 2022</u></a> <sup>(1)</sup>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended</u></a> .*
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended</u></a> .*
32	<a href="#"><u>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</u></a> .*
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.*
104	Cover Page Interactive Data File (formatted in iXBRL, and included in exhibit 101).*

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(1) Incorporated by reference to Exhibit 10.1 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 9, 2022.

\* 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 13, 2023

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

Date: March 13, 2023

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)



**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 13, 2023

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

**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 13, 2023

Signed: /s/ Daniel R. Hart

Daniel R. Hart  
Chief Financial Officer  
(Principal Financial Officer)

**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, 2023 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 13, 2023

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, 2023 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 13, 2023

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.*