

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

FORM 10-K

(Mark One)

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

For the fiscal year ended April 30, 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**

(Address of principal executive offices)

**92780**

(Zip Code)

**(714) 508-6100**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, \$0.001 par value per share</b>	<b>CDMO</b>	<b>The NASDAQ Stock Market LLC</b>

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

Large accelerated filer	<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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant period pursuant to § 240.10D-1(b).

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

The aggregate market value of the shares of common stock held by non-affiliates of the registrant as of October 31, 2022, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$887.3 million, calculated based on the closing price of the registrant's

common stock as reported by The NASDAQ Capital Market.

62,729,154 shares of registrant's common stock were outstanding as of June 9, 2023.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

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

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**AVID BIOSERVICES, INC.**  
**Form 10-K**  
**For the Fiscal Year Ended April 30, 2023**

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### **Cautionary Note on Forward-Looking Statements**

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

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

## **PART I**

### **ITEM 1. BUSINESS**

#### **Overview**

We are a dedicated contract development and manufacturing organization (“CDMO”) that provides a comprehensive range of services from process development to Current Good Manufacturing Practices (“CGMP”) clinical and commercial manufacturing of biologics for the biotechnology and biopharmaceutical industries. With 30 years of experience producing biologics, our services include clinical and commercial drug substance 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 method development, cell line development, testing and characterization.

#### **Business Strategy**

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 continuing objectives:

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

#### **Our Competitive Strengths**

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

- *Expertise in Mammalian Cell Culture Manufacturing:* We believe that continued consolidation in the CDMO industry has resulted in a limited number of qualified, agile and independent CDMOs with mammalian cell culture-based biologics development and manufacturing capabilities. The mammalian cell culture production method is highly suitable for manufacturing complex molecules (examples include monoclonal antibodies, next-generation antibodies and recombinant proteins), and we believe the benefits of the mammalian cell culture production method have played a significant role in accelerating the proliferation of biologics therapies. We believe we are well positioned in the industry, given our expertise in mammalian cell culture for biologics manufacturing.

- *Broad Spectrum of Services to Support Customers from Early Stage Development to Commercial:* We provide fully integrated and customized biomanufacturing services that support our customers from the early preclinical stage to commercial launch and supply. We believe pharmaceutical companies generally prefer to engage with CDMOs that are able to work with a product throughout its lifecycle and have long-standing track records of regulatory compliance and quality control. Our Process Development, CGMP Drug Substance Biomanufacturing, Project Management, Quality Systems and Quality Control are all supported by modern facilities designed to meet customer needs from early stage development to commercial supply. We differentiate our capabilities through several key criteria: (i) we employ a customer-centric approach and collaborate with our customers to tailor customized development and manufacturing services; (ii) our agile manufacturing and development capabilities allow for rapid responses to shifting production requirements, leading to strong customer satisfaction and retention; and (iii) our single-use bioreactors contribute to enhanced manufacturing efficiency for our customers and reduce our capital spending needs.
- *Strong Regulatory Track Record:* Historically, developing the expertise to comply with stringent regulatory audits and validation requirements has been a challenge for both pharmaceutical companies and CDMOs, and has been seen as a significant barrier to entry for many CDMOs, as facilities can take years to construct and properly validate. We believe pharmaceutical companies place a premium on working with CDMOs that can ensure a high degree of regulatory compliance, which decreases execution risk. We have a strong regulatory track record, consisting of a 20-year inspection history. Since 2005 we have successfully completed eight pre-approval inspections, including six U.S. Food and Drug Administration (“FDA”) inspections since 2013, none of which resulted in any Form 483 observations by the FDA. Further, we routinely successfully comply with audits by large pharmaceutical companies.
- *Modern and Optimized Infrastructure:* With the recent expansion of our Myford facility and the ongoing construction of our single purpose-built cell and gene therapy development and CGMP manufacturing facility, as further discussed below, we continue to position our business to capitalize on increasing demand in the biologics manufacturing industry for modular cleanroom space, onsite analytical and process development laboratories and single-use bioreactors. These developments have driven demand among pharmaceutical companies for facilities that can develop and produce pilot scale batches (up to 200 liters) in process development using a process train that matches the single-use bioreactors in CGMP production. With single-use bioreactors ranging from 200 to 2,000 liters, our CGMP Myford facility offering more than 20,000 liters of total capacity is designed to provide our customers with the desired efficiency, flexibility and capacity.
- *Significant Manufacturing Experience with a Proven Track Record:* We have 30 years of experience producing monoclonal antibodies and recombinant proteins, over 18 years of CGMP commercial manufacturing experience and over 15 years of experience with single-use bioreactor technology. We believe this experience, combined with our management team’s and board of directors’ deep experience in the CDMO and pharmaceutical industry, positions us to take advantage of positive long-term industry trends.

## Our Growth Strategy

We believe we have a significant opportunity to continue to drive organic growth by leveraging our strengths, broadening our capabilities, increasing our capacity and improving our market visibility through the following strategies:

- *Diversify Customer Base:* We have diversified and expanded our customer base and have developed marketing and sales strategies designed to further diversify our customer base and drive new customer acquisitions, while also continuing to leverage our existing relationships to support new programs with our existing customers.
- *Expand Service Offerings:* We have invested in strategic opportunities to expand our service offerings. During fiscal 2022, we expanded our CDMO service offering into viral vector development and manufacturing services for the rapidly growing cell and gene therapy (“CGT”) market. In addition, during fiscal 2023, we added in-house cell line development services, further rounding out our mammalian cell offering.
- *Expand Process Development Capabilities:* We have expanded our process development capabilities in order to make our operations more attractive to emerging, mid-sized and large pharmaceutical companies. For example, during calendar year 2019 we expanded our total available process development and laboratory space, upgrading the infrastructure and equipment within our existing process development laboratories, and implementing new state-of-the-art technologies and equipment (including benchtop bioreactors and pilot scale manufacturing up to 200 liters) designed to facilitate efficient, high-throughput development of innovative upstream and downstream manufacturing processes that transfer directly into our CGMP manufacturing facility. In the fourth quarter of fiscal 2023, we further expanded the process development capacity of our mammalian cell culture services by adding new suites within our existing process development laboratory space that have the potential to increase our revenue generating capabilities by approximately \$25 million. We will continue to explore the addition of capabilities and services that bring value to our customers, enhancing their processing design, speeding their time to market and supporting these activities with state-of-the-art analytics.
- *Expand Manufacturing Footprint and Enhance Efficiencies:* During fiscal 2021, we initiated 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 completed in March 2023, further expanded our capacity with the addition of a second manufacturing train, including both upstream and downstream processing suites. During fiscal 2022, we initiated the construction of a world-class, single purpose-built CGT development and CGMP manufacturing facility in Costa Mesa, California. In June 2022, we completed the first phase of our two-phase construction plan with the opening of our new analytical and process development laboratories. The second phase of construction is the build-out of CGMP manufacturing suites, which is expected to be online by the third quarter of calendar 2023. Upon completion of the entire build out of our CGT facility, we estimate that this expansion, combined with our existing facilities, which includes the recently completed Myford facility expansion, has the potential to bring our total annual revenue generating capacity to approximately \$400 million, depending on the mix of projects.
- *Increase Operating Margins:* We believe we have the opportunity to drive operating margin expansion by utilizing our available capacity, and implementing continuous process efficiencies. We believe increased facility capacity utilization resulting from the growth strategies described herein will improve operating margins.
- *Reinvest in Equipment and Facilities:* We believe that re-investing in our laboratory and manufacturing equipment and facilities is strategically important to meet future customer demand. For example, as discussed above, we recently completed two mammalian cell capacity expansion projects and continue to advance the build-out of our CGT facility, which we believe will allow us to meet the demands of our growing backlog of customer projects.

· *Explore & Invest in Strategic Opportunities:* We will evaluate potential synergistic strategic opportunities, that we believe would add:

- o Capabilities/services to our existing biologics development and manufacturing offerings that enhance our ability to provide our customers with more tailored and better solutions; and/or
- o Adjacent capabilities/services to service other segments of the biologic's development and manufacturing segment of the market, that we feel would value our experience, in particular our technical, commercial and regulatory experience, all combined with a high touch, flexible and customer-centric level of service.

## **Our Facilities**

### *Mammalian Cell Facilities*

Our 84,000 square foot Myford facility, located in Orange County, California, utilizes single-use equipment up to the 2,000-liter manufacturing scale to accommodate a fully disposable biomanufacturing process for products from clinical development to commercial supply. In April 2023, we announced the completion of our newly expanded manufacturing capacity within the Myford facility which included the addition of both upstream and downstream CGMP manufacturing suites. Our Myford facility includes single-use bioreactors (200-liter to 2,000-liter), four downstream processing suites, quality control labs for environmental and analytical testing, and cell bank cryofreezers, warehousing and material storage (including walk-in cold rooms), offering more than 20,000 liters of total capacity.

Following the recent completion of our newly expanded Myford facility, we transitioned customer products previously manufactured in our Franklin facility to our Myford facility. As a result, our manufacturing services have fully transitioned to a single-use disposable platform.

Our state-of-the-art upstream, downstream and pilot-scale development space is located on the same campus as our Myford facility. During the fourth quarter of fiscal 2023, we further expanded the process development capacity of our mammalian cell culture services by adding new suites within our existing process development laboratory space, which has doubled our total process development capacity.

### *Cell and Gene Therapy Facility*

We have taken and continue to take steps to explore and invest in strategic opportunities to expand our service offerings. During fiscal 2022, we commenced the expansion of our CDMO service offering into viral vector development and manufacturing services for the rapidly growing CGT market. This expansion consists of a two-phased approach to the construction of 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. 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 quarter of calendar 2023.

## **Manufacturing and Raw Materials**

We manufacture CGMP pharmaceutical-grade products for our customers. The process for manufacturing generally uses commercially available raw materials from multiple suppliers, and in some instances, from a single source supplier. We rely on third parties to supply most of the necessary raw materials and supplies for the products we manufacture on behalf of our customers and our inability to obtain such raw materials or supplies may adversely impact our business, financial condition, and results of operations. See "Risk Factors—Risks Related to Our Business" for additional discussion of raw materials supplied by third party vendors for the products we manufacture for our customers.

## **Regulatory Matters**

We have a strong and proven regulatory track record, including 20 years of inspection history. To date, we have been audited and qualified by large and small domestic and foreign biotechnology companies interested in the production of biologic material for clinical and commercial use. Additionally, we have been audited by several regulatory agencies, including the FDA, the European Medicines Agency (“EMA”), the Brazilian Health Surveillance Agency (“ANVISA”), the Canadian Health Authority (“Health Canada”), the California Department of Health and the Australian Department of Health.

We are required to comply with the regulatory requirements of various local, state, national and international regulatory bodies having jurisdiction in the countries or localities where we manufacture products or where our customers’ products are distributed. In particular, we are subject to laws and regulations concerning research and development, testing, manufacturing processes, equipment and facilities, including compliance with CGMPs, labeling and distribution, import and export, and product registration and listing. As a result, our facilities are subject to regulation by the FDA, as well as regulatory bodies of other jurisdictions where our customers have marketing approval for their products including, but not limited to, the EMA, ANVISA, Health Canada, and the Australian Department of Health. We are also required to comply with environmental, health and safety laws and regulations, as discussed in “Environmental and Safety Matters” below. These regulatory requirements impact many aspects of our operations, including manufacturing, developing, labeling, packaging, storage, distribution, import and export and record keeping related to customers’ products. Noncompliance with any applicable regulatory requirements can result in government refusal to approve facilities for manufacturing products or products for commercialization.

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

## **Environmental and Safety Matters**

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

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

## **Intellectual Property**

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

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

## **Segment Information**

Our business is organized into one reportable operating segment, our contract manufacturing and development services segment. In addition, we had no foreign-based operations and no long-lived assets located in foreign countries as of and for the fiscal years ended April 30, 2023, 2022 and 2021.

## **Customers**

Revenues have historically been derived from a small customer base. Although we continue to expand our customer base, we remain dependent on a limited number of customers for a substantial majority of our revenues. For the fiscal years ended April 30, 2023, 2022 and 2021, we derived approximately 65%, 60% and 76% of our revenues from our top three customers, respectively. The loss of, or a significant reduction of business from, any of our primary customers could have a material adverse effect on our business, financial condition and results of operations. Refer to Note 2, “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements for additional financial information regarding our customer concentration.

## **Seasonality**

Our business is not subject to seasonality. However, the timing of customer orders, the scale, scope, mix, and the duration of our fulfillment of such customer orders can result in variability in our periodic revenues.

## **Backlog**

Our backlog represents, as of a point in time, expected future revenue from work not yet completed under signed contracts. As of April 30, 2023, our backlog was approximately \$191 million, a 25% increase as compared to approximately \$153 million as of April 30, 2022. While we anticipate a significant amount of our backlog will be recognized over the next five (5) fiscal quarters, our backlog is subject to a number of risks and uncertainties, including but not limited to: the risk that a customer timely 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.

## **Competition**

Our competition in the CDMO market includes a number of full-service contract manufacturers and large pharmaceutical companies that have the ability to insource manufacturing. Also, some pharmaceutical companies have been seeking to divest all or portions of their manufacturing capacity, and any such divested assets may be acquired by our competitors. Some of our significantly larger and global competitors have substantially greater financial, marketing, technical and other resources than we do. Moreover, additional competition may emerge and may, among other things, create downward pricing pressure, which could negatively impact our financial condition and results of operations.

## **Human Capital**

As of April 30, 2023, we had 365 employees. All of our employees are based in Orange County, California, with the exception of a small number of employees primarily within our sales, marketing and supply chain functions who are located in various other states. None of our employees are represented by labor unions or are covered by a collective bargaining agreement with respect to their employment. We have not experienced any work stoppages, and we consider our relationship with our employees to be good.

We consider talent acquisition, development, engagement and retention a key driver to our business success and are committed to developing a comprehensive, cohesive and positive company culture focused on quality and a commitment to the safety and health of our employees, customers and the general public. We accomplish these initiatives through the following:

### ***Talent Acquisition and Retention***

We are dedicated to attracting and retaining exceptional talent, recognizing their vital contribution to our success. In a highly competitive employment market, particularly for science, technology, engineering and math (“STEM”) skills, our talent acquisition team employs a comprehensive approach. We embrace alternative degree paths, establish collaborative relationships with organizations, schools, and universities, and have launched an internship program to build a pipeline of early-career talent.

### ***Total Rewards***

We have implemented a total rewards program which we believe allows us to compete for top talent in the Southern California market. Our total rewards philosophy has been to create investment in our workforce by offering competitive compensation and benefits package. We provide all full-time employees with compensation packages that include base salary, annual discretionary incentive bonuses, and long-term equity awards. We also offer comprehensive employee benefits, including life, disability, and health insurance (including medical, dental and vision), dependent care and flexible spending accounts, paid time off, leaves (including medical, maternity and paternity leaves), Employee Stock Purchase Program, a 401(k) plan with a company match and educational assistance. It is our expressed intent to be an employer of choice in our industry by providing market-competitive compensation and benefits package.

### ***Health, Safety, and Wellness***

The health, safety, and wellness of our employees is a priority in which we have always invested and will continue to do so. We provide our employees and their families with access to a variety of innovative, flexible, and convenient health and wellness programs. Program benefits are intended to provide protection and security, so employees can have peace of mind concerning events that may require time away from work or that may impact their financial well-being.

### ***Diversity, Equity, and Inclusion***

We believe a diverse workforce is critical to our success and we are fundamentally committed to creating and maintaining a work environment in which employees are treated fairly, with dignity, decency, respect and in accordance with all applicable laws. We strive to create a professional work environment that is free from all forms of harassment, discrimination and bullying in the workplace, including sexual harassment and any form of retaliation. We are an equal opportunity employer and we strive to administer all human resources actions and policies without regard to race, color, religion, sex, national origin, ethnicity, age, disability, sexual orientation, gender identification or expression, past or present military or veteran status, marital status, familial status, or any other status protected by applicable law. Our management team and employees are expected to exhibit and promote honest, ethical, and respectful conduct in the workplace. All employees must adhere to a code of business conduct and ethics and our employee handbook, which combined, define standards for appropriate behavior and are annually trained to help prevent, identify, report, and stop any type of discrimination and harassment. Our recruitment, hiring, development, training, compensation, and advancement is based on qualifications, performance, skills, and experience without regard to gender, race, or ethnicity.

### ***Training and Development***

We believe in encouraging employees in becoming lifelong learners by providing ongoing learning and leadership training opportunities. As part of onboarding of new employees, we provide comprehensive training regarding CGMP, environmental, health and safety practices, as well as job function specific training. Many of these training programs are repeated annually and are supplemented by other periodic training programs to maintain and improve employee awareness of safety and other issues. Several times per year we provide supervisory training to newly promoted, or soon to be promoted employees, as well as sponsor more senior employees' participation in external leadership programs. We listen to the needs of our employees and employ appropriate training methods ranging from in-house, partnering with outside vendors, attending conferences and networking events. Additionally, we applied for and received training funds through a State of California program supporting the biotechnology industry through the development of future biotech workers. This program provides us with additional funds to help supplement our training programs.

We have a formal annual review process not only to determine pay and equity adjustments tied to individual contributions, but to identify areas where training and development may be needed. In addition, we strive to provide real-time recognition of employee performance, including through a web-based portal where employees can be nominated for various levels of spot awards and accumulate points towards the purchase of gifts.

### ***Company Culture***

We are committed to instilling a company culture that is focused on integrity, transparency, quality and respect. We expect our employees to observe the highest levels of business ethics, integrity, mutual respect, tolerance and inclusivity. Our employee handbook and Code of Business Conduct and Ethics set forth policies reflecting these values and provide direction for registering complaints in the event of any violation of our policies. We maintain an "open door" policy at all levels of our organization and any form of retaliation against an employee is strictly prohibited.

### ***Employee Engagement***

We believe that in order to be successful, we must build and maintain a relationship with our employees that focuses on transparency and listening to their recommendations. We proactively communicate through all-employee meetings, department meetings, one-on-one meetings and check-ins. Employee input regarding our organizational climate is solicited at least annually through a combination of internal and external surveys solicited from all employees. We routinely use the information gathered in these processes to address identified key areas for improvement.

## Corporate Responsibility and Sustainability

In fiscal 2022 we engaged a third-party consultant to assist us with our establishment of a more formal environmental, social, governance (“ESG”) and sustainability program. Working with the consultant, and under the oversight of our Corporate Governance Committee, we embarked on a comprehensive initiative to assess, benchmark and prioritize our ESG and sustainability practices. In addition, our executive leadership team assembled a working team to formally launch the first phase of this initiative focusing on sustainable procurement and other environmental initiatives, including the engagement of EcoVadis, a leading global corporate social responsibility and sustainability company, to help us establish and enhance processes supporting strong ESG practices throughout our supply chain. This arrangement provides an independent supplier assessment against 21 criteria in categories of environment, labor and human rights, ethics, and sustainable procurement. During fiscal 2023 we focused on building our supplier procurement program with EcoVadis, ultimately onboarding more than 90% of our procurement spend with rated suppliers in the EcoVadis program. As we continue to build our sustainable procurement program, we have also approved a supplier code of conduct, which formalizes our commitment to build a network of suppliers consisting of ethical and reliable partners. In addition to our sustainable procurement program, we have formalized an executive steering team to drive overall ESG initiatives and their associated workstreams for our people, community and environment.

## Company Information

We were originally incorporated in the State of California in June 1981 and reincorporated in the State of Delaware in September 1996. Our principal executive offices are located at 14191 Myford Road, Tustin, California, 92780 and our telephone number is (714) 508-6100. Our principal website address is [www.avidbio.com](http://www.avidbio.com). The information on, or that can be accessed through, our website is not part of this Annual Report.

## Available Information

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

## ITEM 1A. RISK FACTORS

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

### Risks Related to Our Business

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

Our revenues have historically been derived from a limited number of customers. Although we continue to expand our customer base, we remain dependent on a limited number of customers for a substantial majority of our revenues. For example, for the fiscal years ended April 30, 2023, 2022 and 2021, we derived approximately 65%, 60% and 76% of our revenues from our top three customers, respectively. The loss of, or a significant reduction of business from, any of our primary customers could have a material adverse effect on our business, financial condition, and results of operations.

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

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

***We are making a significant investment by expanding our CDMO service offering into the development and manufacture of viral vectors which will subject us to a number of risks and uncertainties that could adversely affect our operations and financial results.***

Our expansion of our CDMO service offering into viral vector development and manufacturing services for the cell and gene therapy market involves a number of risks that could adversely affect our operations and financial results, including the following risks:

- we may experience delays in the construction of the manufacturing facility, including delays in the receipt, installation and/or validation of necessary equipment;
- we may experience significant cost overruns associated with the construction of the facility;
- our entry into a new service offering may distract our executive teams' focus on our core mammalian cell culture operations;
- we may be unable to timely hire qualified individuals to manage and our viral vector operations; and
- we may experience delays and other challenges engaging viral vector customers due to our lack of operating experience in the viral vector market.

In addition to the foregoing, we have commenced a service offering that is currently dominated by a small number of larger organizations with established viral vector operations and significantly greater financial resources with whom we may experience difficulties in competing for talent and customers. If we are unable to manage these risks, our business and operating results could be materially harmed.

***We have made a significant capital investment in our Myford facility in order to meet potential future mammalian cell culture development and manufacturing needs and, as a result, we depend on the success of attracting new and retaining existing customers' business.***

In the fourth quarter of fiscal 2023, we completed the expansion of our Myford facility, which significantly expanded its production capacity. This expansion represents a substantial investment in our manufacturing capabilities, and has resulted in a significant increase in our fixed costs. If we are not able to utilize the additional capacity from this expansion, our margins could be adversely affected. Further, our future revenues may not be sufficient to ensure the economical operation of this expanded capacity, in which case, our results of operations could be adversely affected.

***Our rapid growth during the past three fiscal years may not be indicative of our future growth, and if we continue to grow rapidly, we may fail to manage our growth effectively.***

From the fiscal year ended April 30, 2020 through the fiscal year ended April 30, 2023, our revenues have increased from \$59.7 million to \$149.3 million, representing growth in revenues of 150% over the three year period. We believe our ability to continue to experience revenue growth will depend on a number of factors, including our ability to:

- complete the construction of our cell and gene therapy facility;
- continue to expand our customer base, and identify and focus on additional development and manufacturing opportunities with existing customers;
- effectively compete with our competitors in the contract development and manufacturing sector;
- continue to broaden our market awareness through a diversified, yet flexible, marketing strategy; and
- selectively pursue complementary or adjacent service offerings, either organically or through acquisition.

Moreover, we continue to expand our headcount and operations. We grew from 227 employees as of April 30, 2020 to 365 employees as of April 30, 2023. We anticipate that we will continue to expand our operations and headcount in the near term and beyond. This potential future growth could place a significant strain on our management, administrative, operational and financial resources, company culture and infrastructure. Our success will depend in part on our ability to manage this growth effectively while retaining personnel. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in adding new customers, maintaining our strong quality systems, declines in quality or customer satisfaction, increases in costs, system failures, difficulties in introducing new features or solutions, the need for more capital than we anticipate or other operational difficulties, and any of these difficulties could harm our business performance and results of operations.

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

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

***We, and certain of our customers may, maintain cash at financial institutions, often in balances that exceed federally-insured limits. The failure of financial institutions could adversely affect our access to our funds, our ability to pay operational expenses or make other payments, and the ability of our customers to pay us for our services.***

We, and certain of our customers may, maintain cash in accounts that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. If such banking institutions were to fail, we and/or potentially certain of our customers could lose all or a portion of those amounts held in excess of such insurance limitations. For example, the FDIC took control of Silicon Valley Bank on March 10, 2023. Although we did not have any cash or cash equivalents at Silicon Valley Bank and the Federal Reserve subsequently announced that account holders would be made whole, the FDIC may not make all account holders whole in the event of future bank failures. In addition, even if account holders are ultimately made whole with respect to a future bank failure, account holders’ access to their accounts and assets held in their accounts may be substantially delayed. Any material loss that we and/or our customers may experience in the future or inability for a material time period to access our or their cash and cash equivalents could have an adverse effect on our ability to pay our operational expenses or make other payments, and/or our customers’ ability to pay us for services rendered (or may cause them to cancel scheduled services) which could adversely affect our business.

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

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

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

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

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

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

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

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

***Our business, financial condition, and results of operations may be adversely affected by pandemics or similar public health crises.***

Public health crises such as pandemics or similar outbreaks may affect our operations and those of third parties on which we rely, including our customers and suppliers. Our business, financial condition, and results of operations may be affected by: disruptions in our customers' abilities to fund, develop, or bring to market products as anticipated; delays in or disruptions to the conduct of clinical trials by our customers; cancellations of contracts or confirmed orders from our customers; and inability, difficulty, or additional cost or delays in obtaining key raw materials, components, and other supplies from our existing supply chain; among other factors caused by a public health crises.

For example, the COVID-19 pandemic led to the implementation of various responses, including government-imposed quarantines, travel restrictions and other public health safety measures. The extent to which future pandemics impact our operations and/or those of our customers and suppliers will depend on future developments, which are highly uncertain and unpredictable, including the duration or recurrence of outbreaks, potential future government actions, new information that will emerge concerning the severity and impact of that pandemic and the actions to contain the pandemic or address its impact in the short and long term, among others.

The business disruptions associated with a global pandemic could impact the business, product development priorities and operations of our customers and suppliers. For example, disruptions in supply chains and disruptions to the operations of the FDA and other drug regulatory authorities, could result in, among other things, delays of inspections, reviews, and approvals of our customers' products, as well as the volume and timing of orders from these customers. Such disruptions could result in delays in the development programs of our customers or impede the commercial efforts for our customers' approved products, resulting in potential reductions or delays in orders from our customers which could have a material negative effect on our business in the future.

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

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

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

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

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

***Third parties may claim that our services or our customer's products infringe on or misappropriate their intellectual property rights.***

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

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

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

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

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

As of April 30, 2023, we had federal and state NOL carry forwards of approximately \$442.4 million and \$294.7 million, respectively. These NOL carry forwards could potentially be used to offset certain future federal and state income tax liabilities. The federal net operating loss carry forwards generated prior to January 1, 2018 expire in fiscal years 2024 through 2038, unless previously utilized. The federal net operating loss generated after January 1, 2018 of \$77.9 million can be carried forward indefinitely. Utilization of net operating losses generated subsequent to 2020 are limited to 80% of future taxable income. However, utilization of NOL carry forwards may be subject to a substantial annual limitation pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions due to ownership changes that have occurred previously or that could occur in the future. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. A Section 382 analysis has been completed through the fiscal year ended April 30, 2022, which it was determined that no such change in ownership had occurred. However, ownership changes occurring subsequent to April 30, 2022 may impact the utilization of our NOL carry forwards and other tax attributes. Additionally, states may impose other limitations on the use of state NOL carry forwards. Any limitation may result in expiration of a portion of the carry forwards before utilization. If we were not able to utilize our carry forwards, we would be required to use our cash resources to pay taxes that would otherwise have been offset, thereby reducing our liquidity.

***We have recorded significant deferred tax assets, and we might never realize their full value, which would result in a charge against our earnings.***

As of April 30, 2023, we had deferred tax assets of \$113.6 million. Realization of our deferred tax assets is dependent upon our generating sufficient taxable income in future years to realize the tax benefit from those assets. Deferred tax assets are reviewed on a periodic basis for realizability. A charge against our earnings would result if, based on the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized beyond our existing valuation allowance, if any. This could be caused by, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the services provided by our business and a variety of other factors.

If a deferred tax asset net of our valuation allowance, if any, was determined to be not realizable in a future period, the charge to earnings would be recognized as an expense in our results of operations in the period the determination is made. Additionally, if we are unable to utilize our deferred tax assets, our cash flow available to fund operations could be adversely affected. Depending on future circumstances, it is possible that we might never realize the full value of our deferred tax assets. Any future impairment charges related to a significant portion of our deferred tax assets could have an adverse effect on our financial condition and results of operations.

***Our effective tax rate may fluctuate, and we may incur obligations in tax jurisdictions in excess of accrued amounts.***

Our effective tax rate is derived from a combination of applicable tax rates in the various places that we operate. In preparing our financial statements, we estimate the amount of tax that will become payable in each such place. Nevertheless, our effective tax rate may be different than experienced in the past due to numerous factors, including the impact of stock-based compensation, changes in the mix of our profitability between tax jurisdictions, the results of examinations and audits of our tax filings, our inability to secure or sustain acceptable agreements with tax authorities, changes in accounting for income taxes and changes in tax laws. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations and may result in tax obligations in excess of amounts accrued in our financial statements.

In addition, in the fourth quarter of fiscal 2022, we determined, based on our facts and circumstances, that it was more likely than not that our deferred tax assets would be realized and, as a result, we fully released our valuation allowance related to federal and state deferred tax assets. This resulted in a substantial increase in our reported net income and our earnings per share compared to our operating results for fiscal 2022. As such, fiscal 2022 net income is not indicative of the actual or future profitability trend of our business. Starting in fiscal 2023, we commenced recording income tax expense at an estimated tax rate that approximates statutory tax rates, which could result in a significant reduction in our net income and net income per share.

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

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

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

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

***Increasing attention to ESG matters may impact our business, financial results or stock price.***

Companies across all industries are facing increasing scrutiny from stakeholders related to their ESG practices and disclosures, including practices and disclosures related to climate change, diversity and inclusion and governance standards. Investor advocacy groups, certain institutional investors, lenders, investment funds and other influential investors are also increasingly focused on ESG practices and disclosures and in recent years have placed increasing importance on the implications and social cost of their investments. In addition, government organizations are enhancing or advancing legal and regulatory requirements specific to ESG matters. The heightened stakeholder focus on ESG issues related to our business requires the continuous monitoring of various and evolving laws, regulations, standards and expectations and the associated reporting requirements. A failure to adequately meet stakeholder expectations may result in noncompliance, the loss of business, reputational impacts, diluted market valuation, an inability to attract customers and an inability to attract and retain top talent. In addition, our adoption of certain standards or mandated compliance to certain requirements could necessitate additional investments that could have an adverse effect on our results of operations.

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

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

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

## Risks Related to Our Customers

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

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

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

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

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

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

***We depend on spending and demand from our customers for our contract manufacturing and development services and any reduction in spending or demand, whether due to a deterioration in macroeconomic conditions or unfavorable research and development results, could have a material adverse effect on our revenues and profitability.***

The amount that our customers spend on the development and manufacture of their products or product candidates, particularly the amount our customers choose to spend on outsourcing these services to us, substantially impacts our revenue and profitability. During times of greater economic uncertainty, such as the biopharmaceutical industry is currently experiencing, our smaller customers with products in earlier stages of development tend to be much more negatively impacted due to the tightening of the access to capital. As a result, such earlier stage customers may be forced to delay or cancel our services in an effort to conserve cash which could have a material adverse effect on our revenues and profitability. In addition, the outcomes of our customers' research, development and marketing also significantly influence the amount that our customers choose to spend on our services and offerings. Our customers determine the amounts that they will spend on our services based upon, among other things, the clinical and market success of their products, available resources and their need to develop new products which, in turn, depend upon a number of other factors, including their competitors' research, development and product initiatives and the anticipated market for any new products, as well as clinical and reimbursement scenarios for specific products and therapeutic areas. Further, increasing consolidation in the pharmaceutical industry may impact such spending, particularly in the event that any of our customers choose to develop or acquire integrated manufacturing operations. Any reduction in customer spending on biologics development and related services as a result of these and other factors could have a material adverse effect on our business, financial condition, and results of operations.

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

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

### **Risks Related to the Industry in Which We Operate**

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

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

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

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

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

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

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

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

### **Risks Related to the Ownership of Our Common Stock**

***Our issuance of additional capital stock pursuant to our stock incentive plan, or in connection with financings, acquisitions, or otherwise will dilute the interests of other security holders and may depress the price of our common stock.***

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We expect to grant equity awards to employees, directors and consultants under our stock incentive plan. We may also raise capital through equity financings in the future. As part of our growth strategy, we may seek to acquire companies and issue equity securities to pay for any such acquisition. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our common stock to decline. Furthermore, if we issue additional equity or convertible debt securities, the new equity securities could have rights senior to those of our common stock. For example, if we elect to settle our conversion obligation under our 1.25% Convertible Senior Notes due 2026 (“Convertible Notes”) in shares of our common stock or a combination of cash and shares of our common stock, the issuance of such common stock may dilute the ownership interests of our stockholders and sales in the public market could adversely affect prevailing market prices.

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

The market price of our common stock has generally been highly volatile and is likely to continue to be highly volatile. For instance, the market price of our common stock has ranged from \$5.08 to \$34.51 per share over the last three fiscal years ended April 30, 2023.

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

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

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

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

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

Further, in connection with our Convertible Notes issuances, we entered into an indenture dated as of March 12, 2021 as amended by a first supplemental indenture dated April 30, 2021 (as amended or supplemented, the "Indenture") with U.S. Bank National Association, as trustee. Certain provisions in the Indenture could make it more difficult or more expensive for a third party to acquire us. For example, if a takeover would constitute a fundamental change, holders of the Convertible Notes will have the right to require us to repurchase their Convertible Notes in cash. In addition, if a takeover constitutes a make-whole fundamental change, we may be required to increase the conversion rate for holders who convert their Convertible Notes in connection with such takeover. In either case, and in other cases, our obligations under the Convertible Notes and the Indenture could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management.

In addition, Section 203 of the Delaware General Corporation Law prohibits us, except under specified circumstances, from engaging in any mergers, significant sales of stock or assets or business combinations with any stockholder or group of stockholders who owns at least 15% of our common stock.

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

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

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

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

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

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

#### **Risks Related to Our Outstanding Convertible Notes**

***We may not have sufficient cash flow from our business to make payments on our significant debt when due, and we may incur additional indebtedness in the future.***

In March 2021, we issued the Convertible Notes in a private offering to qualified institutional buyers pursuant to Rule 144 under the Securities Act. We may be required to use a substantial portion of our cash flows from operations to pay interest and principal on our indebtedness. Our ability to make scheduled payments of the principal and to pay interest on or to refinance our indebtedness, including the Convertible Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

In addition, we may incur substantial additional debt in the future, subject to the restrictions contained in our future debt agreements, some of which may be secured debt. We are not restricted under the terms of the Indenture governing the Convertible Notes, from incurring additional debt, securing existing or future debt, recapitalizing our debt, repurchasing our stock, pledging our assets, making investments, paying dividends, guaranteeing debt or taking a number of other actions that are not limited by the terms of the Indenture governing the Convertible Notes that could have the effect of diminishing our ability to make payments on the Convertible Notes when due.

***The conditional conversion feature of our Convertible Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the Convertible Notes is triggered, holders of the Convertible Notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes when these conversion triggers are satisfied, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***The capped call transactions may affect the value of our Convertible Notes and our common stock.***

In connection with the pricing of the Convertible Notes, we entered into capped call transactions with the option counterparties. The capped call transactions cover, subject to customary anti-dilution adjustments, the aggregate number of shares of our common stock that initially underlie the Convertible Notes. The capped call transactions are expected generally to reduce the potential dilution to our common stock as a result of conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of the converted Convertible Notes, as the case may be, with such reduction and/or offset subject to a cap. In connection with establishing their initial hedges of the capped call transactions, the option counterparties or their respective affiliates may have purchased shares of common stock and/or entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Convertible Notes, including with certain investors in the Convertible Notes.

In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions following the pricing of the Convertible Notes and prior to the maturity of the Convertible Notes. They are likely to do so on each exercise date for the capped call transactions, which are expected to occur during each 40-trading day period beginning on the 41st scheduled trading day prior to the maturity date of the Convertible Notes, or following any termination of any portion of the capped call transactions in connection with any repurchase, redemption or early conversion of the Convertible Notes. This activity could also cause or prevent an increase or decrease in the price of our common stock or the Convertible Notes. The potential effect, if any, of these transactions on the price of our common stock or the Convertible Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock.

***We are subject to counterparty risk with respect to the capped call transactions.***

The counterparties to the capped call transactions are financial institutions, and we will be subject to the risk that one or more of the option counterparties may default, fail to perform or exercise their termination rights under the capped call transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If a counterparty to the capped call transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transaction. Our exposure will depend on many factors but, generally, our exposure will increase if the market price or the volatility of our common stock increases. In addition, upon a default, failure to perform or a termination of the capped call transactions by a counterparty, we may suffer more dilution than we currently anticipate with respect to our common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our corporate offices and CDMO facilities are all located in Orange County, California. We currently lease an aggregate of approximately 239,000 square feet of office, manufacturing, laboratory and warehouse space in five buildings under four separate operating lease agreements that expire on various dates between August 2023 and May 2032. These leases contain renewal options that could extend our lease terms to between August 2035 and May 2042.

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

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

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

#### **Market Information**

Our common stock is listed on The NASDAQ Capital Market under the trading symbol "CDMO."

#### **Holders of Common Stock**

As of June 9, 2023, we had 605 stockholders of record of our common stock. This number does not include beneficial owners whose shares are held in street name.

#### **Dividend Policy**

We have never declared or paid cash dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors may deem relevant.

#### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

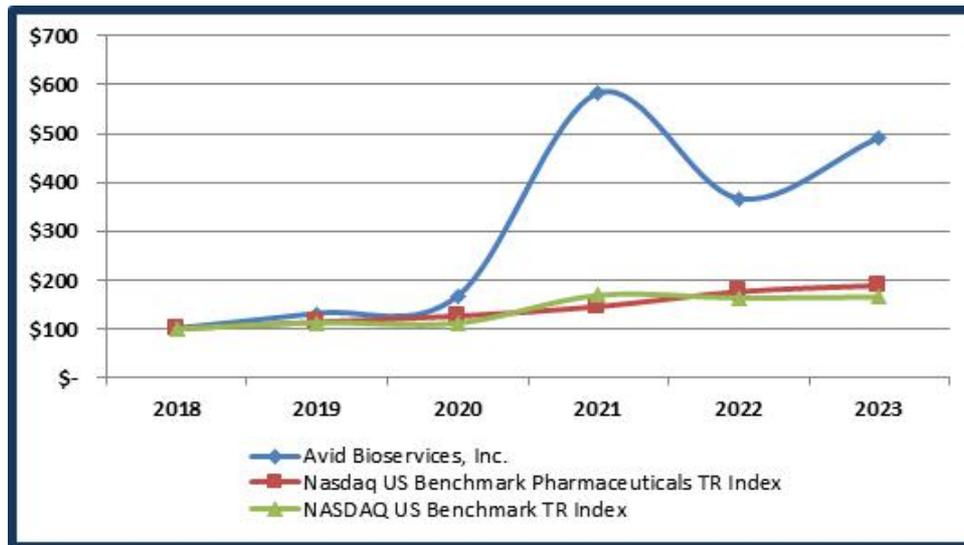
None.

#### **Performance Graph**

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

The following chart shows the performance from April 30, 2018 through April 30, 2023 of Avid Bioservices, Inc. common stock, compared with an investment in the stocks represented in the NASDAQ U.S. Benchmark Pharmaceuticals TR Index and the NASDAQ U.S. Benchmark TR Index assuming the investment of \$100 at the beginning of the period and the reinvestment of dividends, if any. The total return data for the comparative indexes were prepared by NASDAQ OMX Global Indexes.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN  
VALUE OF INVESTMENT OF \$100 ON APRIL 30, 2018**



The underlying data for the preceding graph is as follows:

	April 30, 2018	April 30, 2019	April 30, 2020	April 30, 2021	April 30, 2022	April 30, 2023
Avid Bioservices, Inc.	\$ 100.00	\$ 130.52	\$ 166.21	\$ 583.24	\$ 366.76	\$ 491.83
NASDAQ U.S. Benchmark Pharmaceuticals TR Index	\$ 100.00	\$ 114.15	\$ 126.28	\$ 145.85	\$ 176.87	\$ 189.25
NASDAQ U.S. Benchmark TR Index	\$ 100.00	\$ 112.69	\$ 111.81	\$ 168.96	\$ 163.44	\$ 165.51

ITEM 6. **[RESERVED]**

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with our audited Consolidated Financial Statements and the related notes thereto set forth in “Item 8—Financial Statements and Supplementary Data”. In addition to historical information, this discussion and analysis contains forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those set forth under “Item 1A—Risk Factors” and elsewhere in this Annual Report.*

*For discussion related to changes in financial condition and our results of operations for fiscal year 2022 compared to fiscal year 2021, refer to “Part II, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2022, which was filed with the SEC on June 29, 2022.*

### **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 biologics, 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, cell line development, testing and characterization.

### **Strategic Objectives**

We have 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, capabilities and resources required for us to achieve our long-term growth strategy and meet the growth-demand of our customers’ programs, moving from development through to commercial manufacturing;
- Broaden our market awareness through a diversified yet flexible marketing strategy;
- Continue to expand our customer base and programs with existing customers for both process development and manufacturing service offerings;
- Explore strategic opportunities both within our core business as well as in adjacent and/or synergistic biologic service offerings in order to enhance and/or broaden our capabilities; and
- Increase our operating profit margin to best in class industry standards.

## Fiscal Year 2023 Highlights

The following summarizes select highlights from our fiscal year ended April 30, 2023:

- Reported revenues of \$149.3 million, an increase of 25%, or \$29.7 million, compared to fiscal 2022;
- Reported net income of \$0.6 million, or \$0.01 per basic and diluted share;
- Expanded our customer base and programs with existing customers and ended the year with a backlog of approximately \$191 million compared to \$153 million at the end of fiscal 2022;
- Entered into a credit agreement with Bank of America that provides for a revolving credit facility in an amount equal to the lesser of (i) \$50 million, and (ii) a borrowing base calculated as the sum of (a) 80% of the value of certain of our eligible accounts receivable, plus (b) up to 100% of the value of eligible cash collateral, provided we remain in compliance with the underlying financial covenant in the credit agreement;
- Announced the official opening of our additional CGMP mammalian cell manufacturing suites within our Myford facility. This milestone marked the completion of our two-phased expansion of our Myford facility;
- Announced the completion of our mammalian cell process development laboratory expansion, which has doubled our total process development process capacity;
- Further enhanced our mammalian cell offerings with the addition of in-house cell line development services;
- Announced the official opening of our analytical and process development suites within our cell and gene therapy facility; and
- Continued to advance the build-out of CGMP manufacturing suites in 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 expanded our capacity with the addition of a second manufacturing train, including both upstream and downstream processing suites.

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 was completed in April 2023.

During fiscal year 2022, 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 consists of a two-phased approach to the construction of 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. The second phase of construction is the build out of CGMP manufacturing suites, which is expected to be online by the end of the third calendar quarter of 2023. We estimate that as of April 30, 2023, the remaining cost to complete our CGT Facility construction is approximately \$14 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, interest expense, other income (expense), net, and income tax (expense) benefit.

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 primarily 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.

**Interest Expense**

Interest expense consists of interest costs related to our outstanding convertible senior notes, revolving credit facility and finance lease, including amortization of debt issuance costs.

**Other Income (Expense), Net**

Other income (expense), net primarily consists of interest earned on our cash and cash equivalents, net of gains (losses) from the disposal of long-lived assets.

**Income Tax (Expense) Benefit**

We are subject to taxation in the United States and various states jurisdictions in which we conduct our business. We prepare our income tax provision based on our interpretation of the income tax accounting rules and each jurisdiction's enacted tax laws and regulations. For additional information refer to Note 7, *Income Taxes*, of the notes to consolidated financial statements.

## Results of Operations

The following table compares the operating results of our operations for the fiscal years ended April 30, 2023 and 2022 (in thousands):

	Fiscal Year Ended			\$ Change
	April 30,			
	2023	2022		
Revenues	\$ 149,266	\$ 119,597	\$	29,669
Cost of revenues	117,786	82,949		34,837
Gross profit	31,480	36,648		(5,168)
Operating expenses:				
Selling, general and administrative	27,879	21,226		6,653
Total operating expenses	27,879	21,226		6,653
Operating income	3,601	15,422		(11,821)
Interest expense	(2,600)	(2,680)		80
Other income (expense), net	1,002	(81)		1,083
Net income before income taxes	2,003	12,661		(10,658)
Income tax (expense) benefit	(1,443)	115,011		(116,454)
Net income	\$ 560	\$ 127,672	\$	(127,112)

### Fiscal Year 2023 Compared to Fiscal Year 2022

#### Revenues

Revenues were \$149.3 million in fiscal 2023, compared to \$119.6 million in fiscal 2022, an increase of approximately \$29.7 million or 25%. The year-over-year increase in revenues can primarily be attributed to increases in manufacturing runs and process development services provided to new customers. The increase in revenues was attributed to the following components of our revenue streams:

	\$ in millions
Net increase in manufacturing revenues	\$ 26.1
Net increase in process development revenues	3.6
Total increase in revenues	\$ 29.7

### **Gross Profit**

Gross profit was \$31.5 million (21% gross margin) in fiscal 2023 compared to \$36.6 million (31% gross margin) in fiscal 2022, a decrease of approximately \$5.2 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 fiscal 2023 as compared with fiscal 2022, 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.

We expect our gross profit will continue to be impacted in the near-term due to our increased fixed cost base related to the recent hiring of personnel, additional facility and equipment related costs, and increased depreciation expense from our facility expansion efforts.

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

SG&A expenses were \$27.9 million in fiscal 2023, compared to \$21.2 million in fiscal 2022, an increase of \$6.7 million, or 31%. The net increase in SG&A expenses was attributed to the following components:

	<b>\$ in millions</b>
Increase in compensation and benefit related expenses	\$ 4.7
Increase in legal and accounting fees	0.5
Increase in consulting and other professional fees	0.4
Increase travel and related expenses	0.4
Increase in facility and related expenses	0.3
Increase in trade show expenses	0.2
Net increase in all other SG&A expenses	0.2
Total increase in SG&A expenses	<u>\$ 6.7</u>

As a percentage of revenues, SG&A expenses for the fiscal 2023 and fiscal 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 \$3.6 million for fiscal 2023, compared to \$15.4 million for fiscal 2022. This \$11.8 million decrease in year-over-year operating income can be attributed to the \$5.2 million decrease in gross profit described above combined with the \$6.7 million increase in SG&A expenses described above.

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

Other income (expense), net (“OI&E”) was \$1.0 million for fiscal 2023 compared to expense of \$0.1 million for fiscal 2022. The \$1.1 million increase in year-over-year OI&E can primarily be attributed to an increase in interest income of \$0.8 million combined with a \$0.3 million decrease in loss on disposal of property and equipment.

### ***Income Tax (Expense) Benefit***

Income tax expense was \$1.4 million in fiscal 2023 compared to income tax benefit of \$115.0 million in fiscal 2022. The increase in income tax expense is due to the recording of our first year of income tax expense in the current year whereas in the prior year there was a non-cash income tax benefit due to the release of our valuation allowance during the fourth quarter of fiscal 2022 (as described in Note 7 of the notes to consolidated financial statements). Our effective tax rate for fiscal 2023 was 72% and was computed based on the U.S. federal statutory tax rate of 21% adjusted primarily for the tax impact of state income taxes, stock-based compensation, non-deductible officers’ compensation and transportation fringe benefits.

### **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. While our significant accounting policies are more fully described in Note 2 of the notes to consolidated financial statements, we believe the following accounting policies to be critical to the assumptions and estimates used in the preparation of our consolidated financial statements.

#### ***Revenue Recognition***

We recognize revenue when we transfer promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. To determine revenue recognition for contracts with customers we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation.

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 delivery 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 timing of revenue recognition, billings and cash collections results in billed accounts receivables, contract assets (unbilled receivables), and contract liabilities (customer deposits and deferred revenue). Contract assets are recorded when our right to consideration is conditioned on something other than the passage of time. Contract assets are reclassified to accounts receivable on the 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.

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 judgment in estimating revenue to be recognized. Judgment 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.

### ***Stock-based Compensation***

We maintain equity compensation plans, which provide the ability for us to grant stock options, restricted stock units, performance stock units and other forms of stock-based awards. The estimated fair value of stock options granted to employees in exchange for services is measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is recognized as expense on a straight-line basis over the requisite service periods, which is generally the vesting period. 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 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.

The use of a valuation model requires us to make certain estimates and assumptions with respect to selected model inputs. The expected volatility is based on the daily historical volatility of our common stock covering the estimated expected term. The expected term of options granted reflects actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options. The risk-free interest rate is based on U.S. Treasury notes with terms within the contractual life of the option at the time of grant. The expected dividend yield assumption is based on our expectation of future dividend payouts. We have never declared or paid any cash dividends on our common stock and currently do not anticipate paying such cash dividends.

### ***Valuation Allowance***

We utilize the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Significant judgment is required by management to determine our provision for income taxes, our deferred tax assets and liabilities, and the valuation allowance to record against our net deferred tax assets, which are based on complex and evolving tax regulation. We provide a valuation allowance when it is more likely than not that our deferred tax assets will not be realized. On a periodic basis, we reassess the valuation allowance on our deferred tax assets, weighing positive and negative evidence to assess the recoverability of the deferred tax assets. In the fourth quarter of fiscal 2022, we reassessed the valuation allowance noting the shift of positive evidence outweighing negative evidence, including significant revenue growth, continued profitability, and expectations regarding future profitability. After assessing both the positive evidence and negative evidence, we determined it was more likely than not that our deferred tax assets would be realized and therefore fully released our valuation allowance related to federal and state deferred tax assets on April 30, 2022 (as described in Note 7, *Income Taxes*, of the notes to consolidated financial statements). We maintained the same position that our federal and state deferred tax assets did not require a valuation allowance as of April 30, 2023.

### ***Liquidity and Capital Resources***

Our principal sources of liquidity are our existing cash and cash equivalents on hand. As of April 30, 2023, we had cash and cash equivalents of \$38.5 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 Annual Report.

If our existing cash on hand and our anticipated cash flows from operations are not sufficient to support our operations or capital requirements, including our cell and gene therapy facility expansion, then we may, in the future, draw on our existing revolving credit facility, which is subject to covenant compliance and availability (as described in Note 7 of the notes to consolidated financial statements) and/or obtain additional equity or debt financing to fund our future operations and/or such expansion. 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 our securities. These financings may not be available on acceptable terms, or at all. Our ability to raise additional capital in the equity and debt markets is dependent on a number of factors including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties including, but not limited to, our financial results, economic and market conditions, and global financial crises and economic downturns, 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 fiscal years ended April 30, 2023 and 2022 (in thousands):

	Fiscal Year Ended April 30,		\$ Change
	2023	2022	
Net cash (used in) provided by operating activities	\$ (12,887)	\$ 9,465	\$ (22,352)
Net cash used in investing activities	\$ (77,638)	\$ (56,411)	\$ (21,227)
Net cash provided by financing activities	\$ 2,901	\$ 3,197	\$ (296)

#### *Net Cash Used in Operating Activities*

Net cash used in operating activities during fiscal 2023 was a result of net income of \$0.6 million combined with non-cash adjustments to net income of \$20.8 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 \$34.3 million.

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

Net cash used in investing activities during fiscal 2023 consisted of \$77.6 million used to acquire property and equipment primarily related to the expansion of our Myford facility and the construction of our CGT Facility.

#### *Net Cash Provided by Financing Activities*

Net cash provided by financing activities during fiscal 2023 consisted of \$3.4 million in net proceeds from the issuance of common stock under our equity compensation plans, offset by \$0.5 million in principal payments on a finance lease.

## Cash Requirements

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

### *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 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 governing the Convertible Notes.

As of April 30, 2023, the aggregate principal amount outstanding on our Convertible Notes was \$143.8 million. For additional information regarding our Convertible Notes, see Note 3 of the notes to consolidated financial statements.

### *Leases*

We 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. We also lease certain manufacturing equipment under a 5-year finance lease that expires in December 2026. As of April 30, 2023, we had outstanding lease payment obligations of \$79.3 million, of which \$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, \$4.0 million is payable in fiscal 2028, and \$56.4 million is payable thereafter.

### *Capital Expenditures*

We currently anticipate that cash required for capital expenditures during fiscal 2024 is approximately \$30 million, which includes accrued and unpaid capital expenditures of approximately \$14 million as of April 30, 2023. The remaining costs are primarily related to the completion of our cell and gene therapy facility as further discussed in the “Facility Expansions” section above.

### *Revolving Credit Facility*

In March 2023, we entered into a credit agreement with Bank of America, N.A., as administrative agent and letter of credit issuer (the “Credit Agreement”). The Credit Agreement provides for a revolving credit facility (the “Revolving Credit Facility”) in an amount equal to the lesser of (i) \$50 million, and (ii) a borrowing base calculated as the sum of (a) 80% of the value of certain of our eligible accounts receivable, plus (b) up to 100% of the value of eligible cash collateral. The Revolving Credit Facility will mature on March 13, 2024 and is secured by substantially all of our assets. As of April 30, 2023, there were no outstanding loans under the Revolving Credit Facility.

Loans under the Revolving Credit Facility will bear interest at either (1) a term Secured Overnight Financing Rate (“SOFR”) rate for a specified interest period plus a SOFR adjustment (equal to 0.10%) plus a margin of 1.40% or (2) base rate plus a margin of 0.40% at our option. Interest on any outstanding loans is due and payable monthly and the principal balance is due at maturity. In addition, we pay a quarterly unused revolving line facility fee of 0.20% per annum on the average unused facility.

The Credit Agreement includes certain customary affirmative and negative covenants, including limitations on mergers, consolidations and sales of assets, limitations on liens, limitations on certain restricted payments and investments, limitations on transactions with affiliates and limitations on incurring additional indebtedness. In addition, the Credit Agreement requires maintenance of a minimum consolidated EBITDA, as defined in the Credit Agreement, of \$15 million for the most recently completed four (4) fiscal quarters as measured at the end of each fiscal quarter. As of April 30, 2023, we were in compliance with the Credit Agreement’s financial covenant.

The Credit Agreement also provides for certain customary events of defaults, including, among others, failure to make payments, breach of representations and warranties, and default of covenants.

#### **Recently Issued Accounting Pronouncements**

For a discussion of recent accounting pronouncements applicable to us, see Note 2, *Summary of Significant Accounting Policies*, of the notes to consolidated financial statements.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our cash and cash equivalents are primarily invested in money market funds with one major commercial bank with the primary objective to preserve our principal balance. Our deposits held with this bank exceed the amount of government insurance limits provided on our deposits and, therefore, we are exposed to credit risk in the event of default by the major commercial bank holding our cash balances. However, these deposits may be redeemed upon demand. In addition, while changes in U.S. interest rates would affect the interest earned on our cash balances at April 30, 2023, such changes would not have a material adverse effect on our financial condition or results of operations, based on historical movements in interest rates.

Our Convertible Notes bear interest at a fixed rate of 1.25% per year and therefore would not be affected by changes in U.S. interest rates.

Loans under our Revolving Credit Facility will bear interest at either (1) a term SOFR rate for a specified interest period plus a SOFR adjustment (equal to 0.10%) plus a margin of 1.40% or (2) base rate plus a margin of 0.40% at our option. As of April 30, 2023, we had no loans outstanding under our Revolving Credit Facility.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Avid Bioservices, Inc. (the Company) as of April 30, 2023 and 2022, the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2023, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at April 30, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended April 30, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of April 30, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated June 21, 2023 expressed an unqualified opinion thereon.

### Basis for Opinion

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

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

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

***Estimated costs at completion for projects***

***Description of the Matter***

As discussed in Note 2 to the consolidated financial statements, the Company's revenue was \$149.3 million for the year ended April 30, 2023, including manufacturing and process development revenues which are primarily 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.

Revenue is significant to our audit because the revenue recognition assessment process involves inherent uncertainty, uses subjective assumptions, and the amounts involved are material to the consolidated financial statements taken as a whole. The subjective assumptions relate to the estimated total costs expected to be incurred for each customer.

***How We Addressed the Matter in Our Audit***

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's revenue review process including controls over management's review of the estimated total costs at completion. For example, we tested controls over the Company's development and monitoring of the total estimated costs and of the review of the significant estimates and assumptions by management as revenue is recognized over time.

To test revenue recognized, we performed audit procedures that included, among others, testing the assumptions and underlying data used by the Company in its computations and testing the accuracy of the computations. We inspected evidence supporting the amount of actual costs incurred. We performed corroborative inquiries of individuals outside of the accounting department to assess the reasonableness of management's estimated total costs to understand the progress to date. We performed sensitivity analyses, including assessing the reasonableness of the estimated total costs to be incurred based on similar completed contracts. In addition, we performed hindsight analyses of revenues recognized by comparing prior cost estimates to actual costs incurred to evaluate the historical accuracy of management estimates.

/s/ Ernst & Young LLP

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

Irvine, California  
June 21, 2023

**AVID BIOSERVICES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value)

	April 30, 2023	April 30, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38,542	\$ 126,166
Accounts receivable, net	18,298	20,547
Contract assets	9,609	5,369
Inventory	43,908	26,062
Prepaid expenses and other current assets	2,094	1,879
Total current assets	112,451	180,023
Property and equipment, net	177,369	92,955
Operating lease right-of-use assets	42,772	36,806
Deferred tax assets	113,639	115,082
Other assets	4,473	4,627
Restricted cash	350	350
Total assets	<u>\$ 451,054</u>	<u>\$ 429,843</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 24,593	\$ 9,504
Accrued compensation and benefits	8,780	8,418
Contract liabilities	37,352	53,798
Current portion of operating lease liabilities	1,358	2,969
Other current liabilities	1,626	1,072
Total current liabilities	73,709	75,761
Convertible senior notes, net	140,623	139,577
Operating lease liabilities, less current portion	45,690	37,886
Finance lease liabilities, less current portion	1,562	2,093
Total liabilities	261,584	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; 62,692 and 61,807 shares issued and outstanding at respective dates	63	62
Additional paid-in capital	620,224	605,841
Accumulated deficit	(430,817)	(431,377)
Total stockholders' equity	189,470	174,526
Total liabilities and stockholders' equity	<u>\$ 451,054</u>	<u>\$ 429,843</u>

See accompanying notes to consolidated financial statements.

**AVID BIOSERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(in thousands, except per share information)

	<b>Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Revenues	\$ 149,266	\$ 119,597	\$ 95,868
Cost of revenues	117,786	82,949	66,561
Gross profit	31,480	36,648	29,307
<b>Operating expenses:</b>			
Selling, general and administrative	27,879	21,226	17,064
Total operating expenses	27,879	21,226	17,064
Operating income	3,601	15,422	12,243
Interest expense	(2,600)	(2,680)	(1,164)
Other income (expense), net	1,002	(81)	133
Net income before income taxes	2,003	12,661	11,212
Income tax (expense) benefit	(1,443)	115,011	–
Net income	\$ 560	\$ 127,672	\$ 11,212
Comprehensive income	\$ 560	\$ 127,672	\$ 11,212
Series E preferred stock accumulated dividends	–	–	(4,455)
Impact of Series E preferred stock redemption	–	–	(3,439)
Net income attributable to common stockholders	\$ 560	\$ 127,672	\$ 3,318
<b>Net income per share attributable to common stockholders:</b>			
Basic	\$ 0.01	\$ 2.08	\$ 0.06
Diluted	\$ 0.01	\$ 1.84	\$ 0.06
<b>Weighted average common shares outstanding:</b>			
Basic	62,268	61,484	58,222
Diluted	63,782	70,474	59,426

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balances at April 30, 2020	1,648	\$ 2	56,483	\$ 56	\$ 612,909	\$ (571,071)	\$ 41,896
Series E preferred stock dividends paid (\$2.705 per share)	-	-	-	-	(4,455)	-	(4,455)
Conversion of Series E preferred stock to common stock	(28)	-	34	-	-	-	-
Redemption of Series E preferred stock	(1,620)	(2)	-	-	(40,488)	-	(40,490)
Common stock issued, net of issuance costs of \$2,359	-	-	3,833	4	32,137	-	32,141
Common stock issued under equity compensation plans	-	-	719	1	3,983	-	3,984
Equity component of convertible senior notes	-	-	-	-	42,431	-	42,431
Purchase of capped calls related to convertible senior notes	-	-	-	-	(12,837)	-	(12,837)
Stock-based compensation expense	-	-	-	-	3,854	-	3,854
Net income	-	-	-	-	-	11,212	11,212
Balances 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	-	-	738	1	3,358	-	3,359
Stock-based compensation expense	-	-	-	-	7,380	-	7,380
Net income	-	-	-	-	-	127,672	127,672
Balances at April 30, 2022	-	-	61,807	62	605,841	(431,377)	174,526
Common stock issued under equity compensation plans	-	-	885	1	3,405	-	3,406
Stock-based compensation expense	-	-	-	-	10,978	-	10,978
Net income	-	-	-	-	-	560	560
Balances at April 30, 2023	-	\$ -	62,692	\$ 63	\$ 620,224	\$ (430,817)	\$ 189,470

See accompanying notes to consolidated financial statements.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 560	\$ 127,672	\$ 11,212
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Stock-based compensation	10,978	7,380	3,854
Depreciation and amortization	7,210	4,480	3,453
Amortization of debt discount and issuance costs	1,046	1,030	916
Deferred income taxes	1,443	(115,082)	–
Loss on disposal and/or impairment of property and equipment	139	381	–
Changes in operating assets and liabilities:			
Accounts receivable, net	2,249	(1,705)	(10,236)
Contract assets	(4,240)	743	(2,812)
Inventory	(17,846)	(14,191)	(988)
Prepaid expenses and other assets	(61)	(4,232)	(1,260)
Accounts payable	964	(943)	(608)
Accrued compensation and benefits	362	(376)	5,775
Contract liabilities	(16,446)	3,029	21,649
Other accrued expenses and liabilities	755	1,279	227
Net cash (used in) provided by operating activities	<u>(12,887)</u>	<u>9,465</u>	<u>31,182</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(77,638)	(56,411)	(9,864)
Net cash used in investing activities	<u>(77,638)</u>	<u>(56,411)</u>	<u>(9,864)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock under equity compensation plans	3,406	3,359	3,984
Proceeds from issuance of common stock, net of issuance costs	–	–	32,141
Proceeds from issuance of convertible senior notes, net of issuance costs	–	–	138,464
Purchases of capped calls related to convertible senior notes	–	–	(12,837)
Repayment of note payable	–	–	(4,379)
Dividends paid on preferred stock	–	–	(4,455)
Redemption of preferred stock	–	–	(37,051)
Impact of preferred stock redemption	–	–	(3,439)
Principal payments on finance leases	(505)	(162)	(93)
Net cash provided by financing activities	<u>2,901</u>	<u>3,197</u>	<u>112,335</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(87,624)	(43,749)	133,653
Cash, cash equivalents and restricted cash, beginning of period	126,516	170,265	36,612
Cash, cash equivalents and restricted cash, end of period	<u>\$ 38,892</u>	<u>\$ 126,516</u>	<u>\$ 170,265</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$ 1,118	\$ 1,670	\$ 5
Cash paid for income taxes	\$ 260	\$ 64	\$ –
<b>Supplemental disclosures of non-cash activities:</b>			
Unpaid purchases of property and equipment in accounts payable	\$ 14,125	\$ 1,190	\$ 3,939

See accompanying notes to consolidated financial statements.

**Note 1 – Description of Company and Basis of Presentation**

We are a dedicated contract development and manufacturing organization (“CDMO”) that provides a comprehensive range of services from process development to Current Good Manufacturing Practices (“CGMP”) clinical and commercial manufacturing of biologics for the biotechnology and biopharmaceutical industries.

Except where specifically noted or the context otherwise requires, references to “Avid,” the “Company,” “we,” “us,” and “our,” in this Annual Report refer to Avid Bioservices, Inc. and its subsidiary.

**Basis of Presentation and Preparation**

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and include our accounts and those of our subsidiary. All intercompany accounts and transactions among the consolidated entities have been eliminated in the consolidated financial statements.

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management’s estimates are based on historical information available as of the date of the consolidated financial statements and on various other assumptions that are believed to be reasonable under the circumstances. Accounting estimates and judgments are inherently uncertain and actual results could differ materially from these estimates.

**Segment Reporting**

Our business operates in one operating segment, our contract manufacturing and development services segment. Accordingly, we reported our financial results for one reportable segment. All our identifiable assets are in the United States.

**Note 2 – Summary of Significant Accounting Policies**

**Cash and Cash Equivalents**

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

**Restricted Cash**

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

**AVID BIOSERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statements of cash flows (in thousands):

	<b>As of April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 38,542	\$ 126,166	\$ 169,915
Restricted cash	350	350	350
Total cash, cash equivalents and restricted cash	<u>\$ 38,892</u>	<u>\$ 126,516</u>	<u>\$ 170,265</u>

**Revenue Recognition**

We recognize revenue in accordance with the authoritative guidance of ASC 606, *Revenue from Contracts with Customers*. Under ASC 606, we recognize revenue when we transfer promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods or services. To determine revenue recognition for contracts with customers, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation.

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 delivery 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):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Manufacturing revenues	\$ 125,416	\$ 99,282	\$ 83,678
Process development revenues	23,850	20,315	12,190
Total revenues	<u>\$ 149,266</u>	<u>\$ 119,597</u>	<u>\$ 95,868</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 fiscal years ended April 30, 2023 and 2022, we recognized revenue of \$40.8 million and \$34.0 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 judgment in estimating revenue to be recognized. Judgment 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 fiscal year ended April 30, 2023, we recognized revenue of \$3.0 million for changes in estimates for variable consideration under a contract where uncertainties had been resolved. During the fiscal year ended April 30, 2022, changes in estimates for variable consideration resulted in a decrease in revenues of \$14.7 million. These changes in estimates for variable consideration can primarily be attributed to a dispute with a customer, which was resolved during the fiscal year ended April 30, 2023, over the payment of certain cancellation fees incurred in fiscal 2022 and due to us under the terms of the contract (Note 10).

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 April 30, 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 consolidated statements of income and comprehensive income.

#### **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 judgment in assessing the ultimate realization of our receivables and we estimate an allowance for doubtful accounts based on various factors, such as the aging of our receivables, historical experience, and the financial condition of our customers.

Based on our analysis of our accounts receivable balance as of April 30, 2023, we determined an allowance for doubtful accounts of \$0.5 million was deemed necessary.

Based on our analysis of our accounts receivable balance as of April 30, 2022, we determined an allowance for doubtful accounts of \$18.4 million was deemed necessary, which amount was primarily related to a dispute with a customer over the payment of certain cancellation fees due to us under the terms of the contract. The contract dispute with the customer was resolved during the fiscal year ended April 30, 2023 (Note 10).

#### **Concentrations of Credit Risk and Customer Base**

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, accounts receivable, net and contract assets. As of April 30, 2023 and 2022, we maintain our cash balances primarily with a major commercial bank and our deposits held with the bank exceed the amount of government insurance limits provided on our deposits. We are exposed to credit risk in the event of default by the major commercial bank holding our cash balances to the extent of the cash amounts recorded on the accompanying consolidated balance sheets exceed the amount of government insurance limits provided on our deposits.

**AVID BIOSERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Our accounts receivable from amounts billed for services provided under customer contracts are derived from a limited number of customers. Most customer contracts require up-front payments and installment payments during the service period. We perform periodic evaluations of the financial condition of our customers and generally do not require collateral, but we can terminate any contract if a material default occurs. At April 30, 2023 and 2022, approximately 76% and 84%, respectively, of our accounts receivable, net were due from our top ten customers.

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

The table below identifies each of our customers that accounted for 10% or more of our total revenues during any of the fiscal years ended April 30, 2023, 2022 and 2021:

<b>Customer</b>	<b>Geographic Location</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Halozyne Therapeutics, Inc. <sup>(1)</sup>	U.S.	53%	41%	51%
IGM Biosciences, Inc.	U.S.	*	11	*
Gilead Sciences, Inc.	U.S.	—	*	16

(1) Revenues are derived from the manufacture of multiple therapeutics that our customer uses in various products and product candidates.

\* Represents a percentage less than 10% of our total revenues.

We attribute revenue to the individual countries where the customer is headquartered. Approximately 100% of our revenues for the fiscal years ended April 30, 2023 and 2022 were derived from U.S. based customers.

### **Leases**

We account for our leases in accordance with the authoritative guidance of ASC 842, *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.

### **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 – 15 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 fiscal years ended April 30, 2023 and 2022, was \$0.4 million and \$0.2 million, respectively. All of our property and equipment are located in the United States. Property and equipment consist of the following (in thousands):

	<b>April 30,</b>	
	<b>2023</b>	<b>2022</b>
Leasehold improvements	\$ 97,514	\$ 37,345
Laboratory and manufacturing equipment	35,501	30,089
Computer equipment and software	5,028	5,326
Furniture, fixtures and office equipment	1,681	843
Construction-in-progress	68,013	43,809
Total property and equipment, gross	207,737	117,412
Less: accumulated depreciation and amortization	(30,368)	(24,457)
Total property and equipment, net	<u>\$ 177,369</u>	<u>\$ 92,955</u>

Depreciation and amortization expense for the fiscal years ended April 30, 2023, 2022 and 2021 was \$7.2 million, \$4.5 million and \$3.5 million, respectively.

### **Capitalized Software Implementation Costs**

We capitalize certain implementation costs incurred under cloud computing hosting arrangements. Costs incurred during the application development stage related to the implementation of the hosting arrangement are capitalized and included within other assets on the accompanying consolidated balance sheets. Amortization of capitalized implementation costs is recognized on a straight-line basis over the term of the associated hosting arrangement when it is ready for its intended use. Costs related to preliminary project activities and post-implementation activities are expensed as incurred.

### **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 fiscal year ended April 30, 2023, there were indicators of impairment of the value of certain long-lived assets that resulted in an impairment loss of \$0.1 million, which amount is included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income. For the fiscal year ended April 30, 2022, there were no indicators of impairment of the value of our long-lived assets and no impairment losses were recognized.

### **Fair Value of Financial Instruments**

The carrying amounts in the accompanying consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable, net, accounts payable and accrued liabilities approximate their fair values due to their short-term maturities.

### **Fair Value Measurements**

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

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

As of April 30, 2023 and 2022, we did not have any Level 2 or Level 3 financial assets and our cash equivalents of \$28.7 million and \$116.3 million, respectively, were invested in money market funds with a major commercial bank and carried at fair value based on quoted market prices for identical securities (Level 1 inputs). 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. Refer to Note 3, Debt, of the notes to the consolidated financial statements for further details. We did not have any other Level 2 or Level 3 financial liabilities as of April 30, 2023 and 2022.

### **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 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 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).

Debt issuance costs related to the revolving credit facility are included in prepaid expenses and other current assets in the consolidated balance sheet at April 30, 2023 and are amortized to interest expense over the contractual term of the revolving credit facility (Note 3).

### **Advertising Costs**

Advertising costs are expensed as incurred and included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income. For the fiscal years ended April 30, 2023, 2022 and 2021, advertising costs were \$0.7 million, \$0.6 million, and \$0.3 million, respectively.

### **Income Taxes**

We utilize the liability method of accounting for income taxes in accordance with ASC 740, *Income Taxes* (“ASC 740”). Under the liability method, deferred taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We provide a valuation allowance when it is more likely than not that our deferred tax assets will not be realized. On a periodic basis, we reassess the valuation allowance on our deferred tax assets, weighing positive and negative evidence to assess the recoverability of the deferred tax assets. In the fourth quarter of fiscal 2022, we reassessed the valuation allowance noting the shift of positive evidence outweighing negative evidence, including significant revenue growth, continued profitability, and expectations regarding future profitability. After assessing both the positive evidence and negative evidence, we determined it was more likely than not that our deferred tax assets would be realized and therefore released our valuation allowance related to federal and state deferred tax assets as of April 30, 2022, resulting in a benefit from income taxes of \$115.0 million. We maintained the same position, that our federal and state deferred tax assets did not require a valuation allowance, as of April 30, 2023 (Note 7).

We are required to file federal and state income tax returns in various jurisdictions. The preparation of these returns requires us to interpret the applicable tax laws in effect in such jurisdictions, which could affect the amount paid by us.

### 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.

### 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 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.

Holder 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 ending 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 April 30, 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 consolidated balance sheets at April 30, 2023 and 2022.

In accounting for the issuance of the Convertible Notes, prior to the adoption of ASU 2020-06, Debt with Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): *Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (“ASU 2020-06”), we separated the Convertible Notes into debt and equity components. The carrying amount of the debt component on the date of the issuance was \$99.7 million and was determined based on a binomial lattice model, which yielded an effective discount rate of 8.78% and was derived with the assistance of a third-party valuation. The equity component was allocated a value of \$44.1 million, representing the difference between the par value of the Convertible Notes and the fair value of the debt component. The equity component was not remeasured as long as it continued to meet the conditions for equity classification, and the equity component was recorded as additional paid-in capital within stockholders’ equity. The difference between the principal amount of the Convertible Notes and the debt component, or the debt discount, was amortized to interest expense using the effective interest method over the contractual term of the Convertible Notes.

In accounting for the issuance costs related to the Convertible Notes, prior to the adoption of ASU 2020-06, we allocated the total amount incurred to the debt and equity components of the Convertible Notes based on their relative values. Issuance costs attributable to the debt component were \$3.7 million and were being amortized to interest expense using the effective interest method over the contractual term of the Convertible Notes. Issuance costs attributable to the equity component were \$1.6 million and were netted with the equity component in additional paid-in capital within stockholders’ equity.

On May 1, 2021, we elected to early adopt ASU 2020-06 using the modified retrospective transition method. Under such transition method, prior period financial information and disclosures are not adjusted and continue to be reported under the accounting standards that were in effect prior to our adoption of ASU 2020-06.

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The adoption of ASU 2020-06 resulted in the re-combination of the debt and equity components of the Convertible Notes into a single debt instrument, which resulted in a \$42.4 million decrease in additional paid-in capital from the derecognition of the bifurcated equity component, a \$41.6 million increase in convertible senior notes, net from the derecognition of the discount associated with the bifurcated equity component, or debt discount, and \$0.8 million decrease to the May 1, 2021 opening balance of accumulated deficit, representing the cumulative non-cash interest expense recognized related to the amortization of the debt discount associated with the bifurcated equity component of the Convertible Notes. Additionally, we derecognized the allocation of the issuance costs to the equity component and all issuance costs related to the Convertible Notes are being amortized to interest expense using the effective interest method over the contractual term of the Convertible Notes which is included in the cumulative adjustment to the opening balance of accumulated deficit.

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

	<b>April 30, 2023</b>	<b>April 30, 2022</b>
Principal	\$ 143,750	\$ 143,750
Unamortized issuance costs	(3,127)	(4,173)
Net carrying amount	<u>\$ 140,623</u>	<u>\$ 139,577</u>

As of April 30, 2023 and 2022, the estimated fair value of the Convertible Notes was approximately \$157.3 million and \$167.1 million, respectively. The fair value was determined based on the last actively traded price per \$100 of the Convertible Notes for the periods ended April 30, 2023 and 2022 (Level 2).

The following table summarizes the interest expense recognized related to the Convertible Notes for the fiscal years ended April 30, 2023 and 2022 (in thousands):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Contractual interest expense	\$ 1,395	\$ 1,603	\$ 245
Amortization of issuance costs	1,046	1,030	54
Amortization of debt discount <sup>(1)</sup>	–	–	862
Total interest expense associated with Convertible Notes	<u>\$ 2,441</u>	<u>\$ 2,633</u>	<u>\$ 1,161</u>

(1) As discussed above, the adoption of ASU 2020-06 on May 1, 2021 resulted in the re-combination of the debt and equity components of the Convertible Notes into a single debt instrument. Accordingly, the unamortized debt discount balance and the net carrying amount of the equity component were derecognized.

**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. During fiscal years 2023 and 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 April 30, 2023 and 2022.

#### **Revolving Credit Facility**

On March 14, 2023, we entered into a credit agreement with Bank of America, N.A., as administrative agent and letter of credit issuer (the "Credit Agreement"). The Credit Agreement provides for a revolving credit facility (the "Revolving Credit Facility") in an amount equal to the lesser of (i) \$50 million, and (ii) a borrowing base calculated as the sum of (a) 80% of the value of certain of our eligible accounts receivable, plus (b) up to 100% of the value of eligible cash collateral. The Revolving Credit Facility will mature on March 13, 2024 and is secured by substantially all of our assets. As of April 30, 2023, there were no outstanding loans under the Revolving Credit Facility.

Loans under the Revolving Credit Facility will bear interest at either (1) a term Secured Overnight Financing Rate ("SOFR") rate for a specified interest period plus a SOFR adjustment (equal to 0.10%) plus a margin of 1.40% or (2) base rate plus a margin of 0.40% at our option. Interest on any outstanding loans is due and payable monthly and the principal balance is due at maturity. In addition, we pay a quarterly unused revolving line facility fee of 0.20% per annum on the average unused facility.

The Credit Agreement includes certain customary affirmative and negative covenants, including limitations on mergers, consolidations and sales of assets, limitations on liens, limitations on certain restricted payments and investments, limitations on transactions with affiliates and limitations on incurring additional indebtedness. In addition, the Credit Agreement requires maintenance of a minimum consolidated EBITDA, as defined in the Credit Agreement, of \$15 million for the most recently completed four (4) fiscal quarters as measured at the end of each fiscal quarter. As of April 30, 2023, we were in compliance with the Credit Agreement's financial covenant.

The Credit Agreement also provides for certain customary events of defaults, including, among others, failure to make payments, breach of representations and warranties, and default of covenants.

#### **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. Multi-year renewal options were included in determining the right-of-use asset and lease liability for three of our leases as we considered it reasonably certain that we would exercise such renewal options. 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.

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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.

We also lease certain manufacturing equipment under a 5-year finance lease that commenced in the second quarter of fiscal year 2022.

The components of our lease costs for the fiscal years ended April 30, 2023, 2022 and 2021, were as follows (in thousands):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Operating lease cost	\$ 4,386	\$ 3,872	\$ 3,151
Variable lease cost	1,408	944	676
Short-term lease cost	576	515	388
Finance lease costs:			
Amortization of right-of-use assets	216	43	82
Interest on lease liabilities	125	47	4
Total lease costs	<u>\$ 6,711</u>	<u>\$ 5,421</u>	<u>\$ 4,301</u>

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

<b>Leases</b>	<b>Classification</b>	<b>April 30,</b>	
		<b>2023</b>	<b>2022</b>
<b>Assets</b>			
Operating	Operating lease right-of-use assets	\$ 42,772	\$ 36,806
Finance	Property and equipment, net	2,529	2,728
Total leased assets		<u>\$ 45,301</u>	<u>\$ 39,534</u>
<b>Liabilities</b>			
Current:			
Operating	Current portion of operating lease liabilities	\$ 1,358	\$ 2,969
Finance	Other current liabilities	531	505
Non-current:			
Operating	Operating lease liabilities, less current portion	45,690	37,886
Finance	Finance lease liabilities, less current portion	1,562	2,093
Total lease liabilities		<u>\$ 49,141</u>	<u>\$ 43,453</u>

Weighted average remaining lease term (years):

Operating leases	16.6	12.4
Finance lease	3.7	4.7

Weighted average discount rate

Operating leases	6.0%	3.3%
Finance lease	5.3%	5.3%

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Supplemental cash flow information related to our leases were as follows (in thousands):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>			
Operating cash flows from operating leases	\$ 4,069	\$ 2,376	\$ 2,972
Operating cash flows from finance leases	125	47	5
Financing cash flows from finance leases	505	162	93
<b>Non-cash transactions:</b>			
Right-of-use assets obtained upon operating lease modifications and reassessments, net	\$ 9,267	\$ 4,554	\$ –
Right-of-use assets obtained in exchange for operating lease obligations	\$ –	\$ 16,093	\$ –
Decapitalization of right-of-use assets upon impairment	\$ 89	\$ –	\$ –
Property and equipment obtained in exchange for finance lease obligation	\$ –	\$ 2,760	\$ –

As of April 30, 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>
2024	\$ 4,140	\$ 629	\$ 4,769
2025	4,060	629	4,689
2026	4,167	629	4,796
2027	4,199	419	4,618
2028	4,036	–	4,036
Thereafter	56,418	–	56,418
Total lease payments	\$ 77,020	\$ 2,306	\$ 79,326
Less: imputed interest	(29,972)	(213)	(30,185)
Total lease liabilities	\$ 47,048	\$ 2,093	\$ 49,141

**Note 5 – Stockholders’ Equity**

**Series E Preferred Stock Redemption and Dividends**

During the fourth quarter of fiscal 2021 and prior to the redemption discussed below, holders of our 10.50% Series E Convertible Preferred Stock (the “Series E Preferred Stock”) converted an aggregate of 28,168 shares of Series E Preferred Stock into 33,514 shares of our common stock determined by dividing the liquidation amount of \$25.00 per share by the conversion price of \$21.00 per share, rounded down to the nearest whole number.

On April 12, 2021 (the “Redemption Date”), we redeemed all then current remaining outstanding shares of our Series E Preferred Stock at a per share price equal to the \$25.00 liquidation amount plus accrued and unpaid dividends up to, but excluding, the Redemption Date. In connection with the completed redemption, we incurred a charge of \$3.4 million related to the excess of the redemption value paid upon redemption over the carrying value of our Series E Preferred Stock which is included in impact of preferred stock redemption in the consolidated statements of income and comprehensive income for the fiscal year ended April 30, 2021. As a result of the completed redemption, our Series E Preferred Stock is no longer issued and outstanding.

Holders of our Series E Preferred Stock were entitled to receive cumulative dividends at the rate of 10.50% per annum based on the liquidation preference of \$25.00 per share, or \$2.625 per annum per share, and were payable quarterly in cash, on or about the first day of each January, April, July, and October. In addition, in April 2021, accrued and unpaid dividends of \$0.08021 per share was paid to holders of Series E Preferred Stock in connection with the redemption of our Series E Preferred Stock discussed above. For the fiscal year ended April 30, 2021, we paid aggregate cash dividends of \$4.5 million for then issued and outstanding shares of our Series E Preferred Stock. No cash dividend amounts were paid for the fiscal years ended April 30, 2023 and 2022.

#### Sale of Common Stock

During the third quarter of fiscal 2021, we completed an underwritten public offering pursuant to which we sold 3,833,335 shares of our common stock at the public offering price of \$9.00 per share, including 500,000 shares sold pursuant to the underwriters’ full exercise of their option to purchase additional shares. The aggregate gross proceeds we received from the public offering were \$34.5 million, before deducting underwriting discounts and commissions and other offering related expenses of \$2.4 million.

During the fiscal years ended April 30, 2023 and 2022, we had no offerings of our common stock.

#### Shares of Common Stock Authorized and Reserved for Future Issuance

As of April 30, 2023, 62,691,885 shares of our common stock were issued and outstanding.

Our common stock outstanding as of April 30, 2023 excluded the following shares of common stock reserved for future issuance (in thousands):

	<b>Shares</b>
Stock Incentive Plans	8,338
Employee Stock Purchase Plan	963
Conversion of Convertible Notes	6,776
Total common stock reserved for future issuance	<u>16,077</u>

**Note 6 – Equity Compensation Plans**

**Stock Incentive Plans**

The Avid Bioservices, Inc. 2018 Omnibus Incentive Plan (the “2018 Plan”) is a stockholder-approved plan, which provides, among other things, the ability for us to grant stock options, restricted stock units, performance stock units and other forms of stock-based awards. The 2018 Plan replaced our 2009, 2010 and 2011 Stock Incentive Plans (the “Prior Plans”). However, any awards outstanding under the Prior Plans as of the 2018 Plan’s effective date continue to remain subject to and be paid under the applicable Prior Plan, and any shares subject to outstanding awards under the Prior Plans that subsequently expire, terminate, or are surrendered or forfeited for any reason without issuance of shares automatically become available for issuance under the 2018 Plan. In October 2021, our stockholders approved an amendment to the 2018 Plan to increase the number of authorized shares reserved for issuance under the 2018 plan by 3.4 million shares.

The 2018 Plan and the Prior Plans are collectively referred to as the “Stock Plans”. As of April 30, 2023, we had an aggregate of 8,337,807 shares of our common stock reserved for issuance under the Stock Plans, of which 3,926,550 shares were subject to outstanding stock options, restricted stock units and performance stock units and 4,411,257 shares were available for future grants of stock-based awards.

**Stock Options**

We ceased granting stock options during fiscal 2022. Stock options previously granted under our Stock Plans were granted at an exercise price not less than the fair market value of our common stock on the date of grant. Stock options granted to employees generally vest over a four-year period from the date of grant and stock options granted to non-employee directors generally vest over a period of one to three years from the date of grant. Stock options granted under the 2018 Plan have a contractual term of seven years; however, the maximum contractual term of any stock option granted under the Stock Plans is ten years.

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

There were no stock options granted during the fiscal year ended April 30, 2023. The grant date fair value for stock options granted during the fiscal years ended April 30, 2022 and 2021 were based on the following weighted-average assumptions used within the Black-Scholes option valuation model:

	<b>Fiscal Year Ended April 30,</b>	
	<b>2022</b>	<b>2021</b>
Risk-free interest rate	0.86%	0.32%
Expected life (in years)	4.37	4.69
Expected volatility	68.64%	81.42%
Expected dividend yield	–	–

The following summarizes our stock option transaction activity for the fiscal year ended April 30, 2023:

	<b>Stock Options (in thousands)</b>	<b>Grant Date Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value<sup>(1)</sup> (in thousands)</b>
Outstanding at May 1, 2022	2,505	\$ 6.88		
Granted	–	–		
Exercised	(366)	\$ 7.06		
Canceled or expired	(60)	\$ 9.89		
Outstanding at April 30, 2023	<u>2,079</u>	\$ 6.76	3.69	\$ 23,654
Vested and expected to vest	<u>2,079</u>	\$ 6.76	3.69	\$ 23,654
Exercisable at April 30, 2023	<u>1,595</u>	\$ 6.52	3.59	\$ 18,447

(1) Aggregate intrinsic value represents the difference between the exercise price of an option and the closing market price of our common stock on April 28, 2023 (the last trading day of fiscal year 2023), which was \$18.05 per share.

The weighted-average grant date fair value of stock options granted during the fiscal years ended April 30, 2022 and 2021 was \$13.09 and \$4.74 per share, respectively. There were no stock options granted during the fiscal year ended April 30, 2023.

The aggregate intrinsic value of stock options exercised during the fiscal years ended April 30, 2023, 2022 and 2021 was \$3.5 million, \$8.1 million and \$3.9 million, respectively. Cash received from stock options exercised during fiscal years ended April 30, 2023, 2022 and 2021 totaled \$2.6 million, \$2.7 million and \$3.6 million, respectively.

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

As of April 30, 2023, the total estimated unrecognized compensation cost related to non-vested stock options was \$1.3 million. This cost is expected to be recognized over a weighted average vesting period of 0.99 years based on current assumptions.

**Restricted Stock**

A restricted stock unit (“RSU”) represents the right to receive one share of our common stock upon the vesting of such unit. RSUs granted to employees generally vest over a four-year period from the date of grant and RSUs granted to non-employee directors generally vest over a period of one to three years from the date of grant. The estimated fair value of RSUs is based on the closing market value of our common stock on the date of grant and is amortized as stock-based compensation expense on a straight-line basis over the period of vesting.

The following summarizes our RSUs transaction activity for the fiscal year ended April 30, 2023:

	<b>Shares (in thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at May 1, 2022	642	\$ 14.89
Granted	780	\$ 17.63
Vested	(366)	\$ 15.09
Forfeited	(50)	\$ 17.32
Outstanding at April 30, 2023	<u>1,006</u>	<u>\$ 16.83</u>

The weighted-average grant date fair value of RSUs granted during the fiscal years ended April 30, 2023, 2022 and 2021 was \$17.63, \$25.20 and \$7.29 per share, respectively.

The total fair value of RSUs vested during the fiscal years ended April 30, 2023, 2022 and 2021 was \$6.3 million, \$5.5 million and \$0.7 million, respectively.

As of April 30, 2023, the total estimated unrecognized compensation cost related to non-vested RSUs was \$15.4 million. This cost is expected to be recognized over a weighted average vesting period of 2.53 years.

**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 fiscal year ended April 30, 2023:

	<b>Shares (in thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at May 1, 2022	233	\$ 25.31
Granted	608	\$ 18.09
Vested	(161)	\$ 20.75
Forfeited	(158)	\$ 20.69
Outstanding at April 30, 2023	522	\$ 19.70

The weighted-average grant date fair value of PSUs granted during the fiscal years ended April 30, 2023 and 2022, was \$18.09 and \$25.36 per share, respectively. There were no PSUs granted during the fiscal year ended April 30, 2021.

The total fair value of PSUs vested during the fiscal years ended April 30, 2023 and 2022 was \$3.3 million and \$2.1 million, respectively. No PSUs vested during the fiscal year ended April 30, 2021.

As of April 30, 2023, there was \$10.3 million of total estimated unrecognized compensation cost related to non-vested PSUs associated with the Performance Periods ending April 30, 2024 and 2025 based on the Maximum Performance Target achievement of each financial metric during such Performance Periods. This cost is expected to be recognized over a weighted average vesting period of 1.39 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.

#### **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. Offering Periods commence on or about the first day of January and July of each year.

During the fiscal years ended April 30, 2023, 2022 and 2021, a total of 68,646, 44,364 and 72,409 shares of our common stock were purchased, respectively, under the ESPP at a weighted average purchase price per share of \$12.22, \$14.50 and \$5.84, respectively. As of April 30, 2023, we had 963,316 shares of our common stock reserved for issuance under the ESPP.

The fair value of the shares purchased under the ESPP was determined using a Black-Scholes option valuation model (see explanation of valuation model inputs above under “Stock Options”) and is recognized as expense on a straight-line basis over the requisite service period (or six-month offering period).

The weighted average grant date fair value of purchase rights under the ESPP during fiscal years ended April 30, 2023, 2022 and 2021 was \$4.93, \$8.62 and \$3.17, respectively, based on the following weighted-average Black-Scholes option valuation model inputs:

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Risk-free interest rate	3.76%	0.15%	0.14%
Expected life (in years)	0.50	0.50	0.50
Expected volatility	68.60%	59.91%	75.50%
Expected dividend yield	–	–	–

**Stock-based Compensation Expense**

Stock-based compensation expense included in our consolidated statements of income and comprehensive income was comprised of the following (in thousands):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Cost of revenues	\$ 3,876	\$ 2,540	\$ 1,404
Selling, general and administrative expense	7,102	4,840	2,450
Total	<u>\$ 10,978</u>	<u>\$ 7,380</u>	<u>\$ 3,854</u>

**Note 7 – Income Taxes**

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

At April 30, 2023, management assessed the realizability of deferred tax assets and evaluated the need for a valuation allowance for deferred tax assets on a jurisdictional basis. This evaluation utilizes the framework contained in ASC 740 wherein management analyzes all positive and negative evidence available at the balance sheet date to determine whether all or some portion of our deferred tax assets will not be realized. Under this guidance, a valuation allowance must be established for deferred tax assets when it is more-likely-than-not that the asset will not be realized. In assessing the realization of our deferred tax assets, management considers all available evidence, both positive and negative.

Management’s evaluation placed significant emphasis on guidance in ASC 740, which states that “a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome.” In fiscal 2022, we transitioned from a cumulative loss in recent years to cumulative income. This transition coupled with additional positive evidence enabled us to fully release our valuation allowance as of April 30, 2022. We maintained the same position that our deferred tax assets did not require a valuation allowance as of April 30, 2023.

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The valuation allowance did not change for the fiscal year ended April 30, 2023. For the fiscal year ended April 30, 2022, \$122.7 million was released through our consolidated statements of income and comprehensive income and \$(11.3) million was recognized related to the valuation adjustments for the adoption of ASU 2020-06, which was reflected as an adjustment to our opening consolidated balance sheet on May 1, 2021.

We are subject to taxation in the United States and various states jurisdictions. We have not been notified that we are under audit by the IRS or any state taxing authorities and our federal and state returns from April 30, 2020 and April 30, 2019, respectively, remain open for examination. Due to the presence of net operating loss (“NOL”) carryforwards the tax authorities can also examine years prior to the standard statute of limitations.

At April 30, 2023, we had federal NOL carry forwards of approximately \$442.4 million. The federal NOL carry forwards generated prior to January 1, 2018 expire in fiscal years 2024 through 2038, unless previously utilized. The federal NOL generated after January 1, 2018 of \$77.9 million can be carried forward indefinitely. Utilization of NOLs generated subsequent to 2020 are limited to 80% of future taxable income. We also have California state NOL carry forwards of approximately \$294.7 million at April 30, 2023, which begin to expire in fiscal year 2024. We also have other state NOL carry forwards of approximately \$0.9 million at April 30, 2023, which begin to expire in fiscal year 2037.

Additionally, the future utilization of our NOL carry forwards to offset future taxable income may be subject to an annual limitation, pursuant to Internal Revenue Code Section 382, as a result of ownership changes. A Section 382 analysis has been completed through April 30, 2022, and it was determined that no significant change in ownership had occurred. However, ownership changes occurring subsequent to April 30, 2022 may impact the utilization of NOL carry forwards and other tax attributes in future periods.

At April 30, 2023, we had \$5.8 million and \$1.5 million of federal and California research and development credit carry forwards. The California research credits do not expire and the federal credits begin to expire in fiscal year 2026.

The provision for income taxes on our net income before income taxes for the fiscal years ended April 30, 2023, 2022 and 2021 is comprised of the following (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Federal income taxes at statutory rate	\$ 421	\$ 2,659	\$ 2,355
State income taxes, net of valuation allowance	301	605	–
Expiration and adjustments of deferred tax assets	–	–	451
Change in federal valuation allowance	–	(122,703)	2,450
Stock-based compensation including 162M limitations	615	(1,153)	(240)
Research and development credits	–	–	(4,958)
Adjustment for federal benefit of state	–	5,326	–
Permanent differences	66	425	4
Other, net	40	(170)	(62)
Income tax expense (benefit)	<u>\$ 1,443</u>	<u>\$ (115,011)</u>	<u>\$ –</u>

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Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and deferred tax liabilities at April 30, 2023 and 2022 are as follows (in thousands):

	<b>2023</b>	<b>2022</b>
Net operating losses	\$ 112,194	\$ 99,710
Research and development credits	5,569	5,550
Stock-based compensation	2,589	2,710
Deferred revenue	2,420	5,494
Lease liabilities	12,742	11,107
Accrued liabilities	2,248	785
Accrued compensation	1,781	1,705
Total deferred tax assets	<u>139,543</u>	<u>127,061</u>
Less valuation allowance	–	–
Total deferred tax assets, net of valuation allowance	139,543	127,061
Deferred tax liabilities:		
Fixed assets	(14,320)	(1,972)
ROU assets	(11,584)	(10,007)
Total deferred tax liabilities	<u>(25,904)</u>	<u>(11,979)</u>
Net deferred tax assets	<u>\$ 113,639</u>	<u>\$ 115,082</u>

In accordance with ASC 740, we are required to recognize the impact of an uncertain tax position in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained upon examination by the tax authorities. Unrecognized tax positions at April 30, 2023 and 2022 are as follows (in thousands):

	<b>2023</b>	<b>2022</b>
Unrecognized tax positions, beginning of year	\$ 5,133	\$ 1,600
Gross (decrease) increase – prior period tax positions	(1,693)	3,533
Unrecognized tax positions, end of year	<u>\$ 3,440</u>	<u>\$ 5,133</u>

If recognized, the unrecognized tax positions will impact our income tax benefit or effective tax rate. We do not expect any significant increases or decreases to our unrecognized tax positions within the next 12 months.

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 consolidated statements of income and comprehensive income. For the fiscal years ended April 30, 2023 and 2021, we did not incur any interest or penalties. For the fiscal year ended April 30, 2022, we recognized an immaterial amount of interest and penalties.

**Note 8 – Net Income Per Common Share**

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

Net income attributable to common stockholders represents our net income less Series E Preferred Stock accumulated dividends and the impact of Series E Preferred Stock redemption.

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 and Series E Preferred Stock outstanding during the period are calculated using the if-converted method assuming the conversion of our Convertible Notes and Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. A reconciliation of the numerators and the denominators of the basic and dilutive net income per common share computations are as follows (in thousands, except per share amounts):

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Numerator</b>			
Net income	\$ 560	\$ 127,672	\$ 11,212
Series E preferred stock accumulated dividends	–	–	(4,455)
Impact of Series E preferred stock redemption	–	–	(3,439)
Net income attributable to common stockholders, basic	\$ 560	\$ 127,672	\$ 3,318
Add interest expense on Convertible Notes, net of tax	–	1,954	–
Net income attributable to common stockholders, diluted	<u>\$ 560</u>	<u>\$ 129,626</u>	<u>\$ 3,318</u>
<b>Denominator</b>			
Weighted average basic common shares outstanding	62,268	61,484	58,222
Effect of dilutive securities:			
Stock options	1,248	1,830	909
RSUs, PSUs and ESPP	266	384	295
Convertible Notes	–	6,776	–
Weighted average dilutive common shares outstanding	<u>63,782</u>	<u>70,474</u>	<u>59,426</u>
Net income per share attributable to common stockholders:			
Basic	\$ 0.01	\$ 2.08	\$ 0.06
Diluted	\$ 0.01	\$ 1.84	\$ 0.06

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

	<b>Fiscal Year Ended April 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Stock options	46	43	829
RSUs, PSUs and ESPP	253	9	–
Convertible Notes	6,776	–	928
Series E Preferred Stock	–	–	1,864
Total	<u>7,075</u>	<u>52</u>	<u>3,621</u>

**Note 9 – Employee Benefit Plan**

We maintain a 401(k) Plan pursuant to section 401(k) of the Internal Revenue Code that allows participating employees to defer a portion of their compensation on a tax deferred basis up to the maximum amount permitted by the Internal Revenue Code. We are not required to make matching contributions under the 401(k) Plan. However, we match 50% of employee contributions of up to 6% of their annual eligible compensation. Total expense recognized by us for matching contributions to the 401(k) Plan for the fiscal years ended April 30, 2023, 2022 and 2021 was \$0.9 million, \$0.6 million and \$0.5 million, respectively.

**Note 10 – 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 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 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The term “disclosure controls and procedures” defined in Rule 13a-15(e) under the Exchange Act refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the required time periods. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2023. Based on this evaluation, our president and chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of April 30, 2023 to ensure the timely disclosure of required information in our SEC filings.

**Management’s Report on Internal Control Over Financial Reporting**

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

The Company’s internal control over financial reporting is supported by written policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company’s management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Based on this assessment, management has concluded that the Company’s internal control over financial reporting was effective as of April 30, 2023.

Our internal control over financial reporting as of April 30, 2023 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein.

**Changes in Internal Control over Financial Reporting**

Management has determined that, as of April 30, 2023, there were no significant changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended April 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

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

### Opinion on Internal Control over Financial Reporting

We have audited Avid Bioservices, Inc.'s internal control over financial reporting as of April 30, 2023, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Avid Bioservices, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of April 30, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of April 30, 2023 and 2022, the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended April 30, 2023, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated June 21, 2023 expressed an unqualified opinion thereon.

### Basis for Opinion

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

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

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

### Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Irvine, California  
June 21, 2023

**ITEM 9B. OTHER INFORMATION**

None.

**ITEM 9C. DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

### PART III

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item regarding our directors, executive officers and committees of our board of directors is incorporated by reference to the information set forth under the captions, “Election of Directors,” “Executive Compensation” and “Corporate Governance” in our 2023 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2023 (the “2023 Definitive Proxy Statement”).

Information required by this Item regarding our code of ethics is incorporated by reference to the information set forth under the caption, “Corporate Governance” in our 2023 Definitive Proxy Statement.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the information set forth under the captions, “Director Compensation,” “Compensation Discussion and Analysis” and “Executive Compensation” in our 2023 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2023.

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

Other than as set forth below, the information required by this Item is incorporated by reference to the information set forth under the caption, “Security Ownership of Certain Beneficial Owners, Directors and Management” in our 2023 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2023.

##### **Equity Compensation Plan Information**

The following table summarizes our compensation plans under which our equity securities are authorized for issuance as of April 30, 2023:

<b>Plan Category</b>	<b>(a) Number of Securities to be Issued Upon the Exercise of Outstanding Options, Warrants and Rights</b>	<b>(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (\$/share)</b>	<b>(c) Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b>
Equity compensation plans approved by stockholders <sup>(1)</sup>	3,926,550	6.76	4,411,257
Employee Stock Purchase Plan approved by stockholders	–	–	963,316
<b>Total</b>	<b>3,926,550</b>	<b>6.76 <sup>(2)</sup></b>	<b>5,374,573</b>

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

(2) Represents the weighted-average exercise price of outstanding stock options as there are no exercise prices for restricted stock units and performance stock units.

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

The information required by this Item is incorporated by reference to the information set forth under the captions, “Certain Relationships and Related Transactions,” “Director Independence” and “Compensation Committee Interlocks and Insider Participation” in our 2023 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2023.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item is incorporated by reference to the information set forth under the caption, “Independent Registered Public Accounting Firm Fees” in our 2023 Definitive Proxy Statement to be filed within 120 days after the end of our fiscal year ended April 30, 2023.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

(1) Consolidated Financial Statements

Index to Consolidated Financial Statements	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID: 42)	39
Consolidated Balance Sheets as of April 30, 2023 and 2022	41
Consolidated Statements of Income and Comprehensive Income for each of the three years in the period ended April 30, 2023	42
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended April 30, 2023	43
Consolidated Statements of Cash Flows for each of the three years in the period ended April 30, 2023	44
Notes to Consolidated Financial Statements	45

(2) Financial Statement Schedules

The following schedule is filed as part of this Annual Report on Form 10-K:

<a href="#">Schedule II – Valuation and Qualifying Accounts for each of the three years in the period ended April 30, 2023</a>	75
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All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

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

**ITEM 16. FORM 10-K SUMMARY**

None.

**Schedule II – Valuation and Qualifying Accounts (in thousands)**

	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
<b>Allowance for doubtful accounts</b>				
Year ended April 30, 2023	\$ 18,392	\$ 474	\$ (18,392)	\$ 474
Year ended April 30, 2022	\$ –	\$ 21,464	\$ (3,072)	\$ 18,392
Year ended April 30, 2021	\$ –	\$ –	\$ –	\$ –

**EXHIBIT INDEX**

Exhibit Number	Description	Incorporated by Reference			Filed Herewith
		Form	Date Filed	Exhibit Number	
2.1	<a href="#">Agreement and Plan of Merger, dated as of April 30, 2021, by and between Avid SPV, LLC and Avid Bioservices, Inc.</a>	8-K	5/5/2021	2.1	
3.1	<a href="#">Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on July 2, 2021</a>	8-K	7/7/2021	3.1	
3.2	<a href="#">Certificate of Amendment to Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on October 19, 2022</a>	8-K	10/21/2022	3.1	
3.2	<a href="#">Amended and Restated Bylaws</a>	8-K	9/15/2020	3.2	
4.1	<a href="#">Indenture, dated as of March 12, 2021, by and among Avid SPV, LLC, Avid Bioservices, Inc. and U.S. Bank National Association, as trustee</a>	8-K	3/12/2021	4.1	
4.2	<a href="#">First Supplemental Indenture, dated as of April 30, 2021, by and among Avid SPV, LLC, Avid Bioservices, Inc. and U.S. Bank National Association, as trustee</a>	8-K	5/5/2021	4.1	
4.3	<a href="#">Form of Note, between U.S. Bank National Association, as trustee and Avid SPV, LLC (included as Exhibit A to 4.1)</a>	8-K	3/12/2021	4.2	
4.4	<a href="#">Description of Registrant's Securities</a>				X
10.1*	<a href="#">2010 Stock Incentive Plan</a>	DEF-14A	8/27/2010	A	
10.2*	<a href="#">Form of Stock Option Award Agreement under 2010 Stock Incentive Plan</a>	S-8	12/9/2010	4.17	
10.3*	<a href="#">2010 Employee Stock Purchase Plan</a>	DEF-14A	8/27/2010	B	
10.4*	<a href="#">Amendment to the 2010 Employee Stock Purchase Plan</a>	DEF-14A	8/26/2016	B	
10.5*	<a href="#">2011 Stock Incentive Plan</a>	DEF-14A	8/26/2011	A	
10.6*	<a href="#">Form of Stock Option Award Agreement under 2011 Stock Incentive Plan</a>	S-8	12/12/2011	4.20	
10.7*	<a href="#">First Amendment to 2011 Stock Incentive Plan</a>	DEF-14A	8/27/2012	A	
10.8*	<a href="#">Second Amendment to 2011 Stock Incentive Plan</a>	DEF-14A	8/26/2013	A	
10.9*	<a href="#">Third Amendment to 2011 Stock Incentive Plan</a>	10-K	7/14/2015	4.24	
10.10*	<a href="#">Form of Amendment to Stock Option Award Agreement Under 2011 Stock Incentive Plan related to Non-Employee Director stock option awards</a>	10-K	7/14/2015	4.27	
10.11*	<a href="#">Fourth Amendment to 2011 Stock Incentive Plan</a>	DEF-14A	8/28/2015	B	
10.12*	<a href="#">Avid Bioservices, Inc. 2018 Omnibus Incentive Plan</a>	DEF-14A	8/17/2018	A	
10.13*	<a href="#">Form of Stock Option Award Agreement under 2018 Omnibus Incentive Plan</a>	S-8	12/10/2018	4.2	
10.14*	<a href="#">Form of Restricted Stock Unit Award Agreement under 2018 Omnibus Incentive Plan</a>	S-8	12/10/2018	4.3	
10.15	<a href="#">Lease and Agreement of Lease between TNCA, LLC, as Landlord, and Avid Bioservices, Inc., as Tenant, dated as of December 24, 1998</a>	10-Q	3/12/1999	10.48	
10.16	<a href="#">First Amendment to Lease and Agreement of Lease between TNCA, LLC, as Landlord, and Avid Bioservices, Inc., as Tenant, dated December 22, 2005</a>	8-K	12/23/2005	99.1 99.2	
10.17*	<a href="#">Amended and Restated Employment Agreement by and between Avid Bioservices, Inc. and Mark R. Ziebell, effective December 27, 2012</a>	10-Q	12/27/2012	10.27	
10.18**	<a href="#">Asset Assignment and Purchase Agreement by and between Avid Bioservices, Inc. and OncXerna (formerly known as Oncologie, Inc., dated February 12, 2018</a>	10-K	7/16/2018	10.11	

Exhibit Number	Description	Incorporated by Reference			
		Form	Date Filed	Exhibit Number	Filed Herewith
10.19*	<a href="#">Employment Agreement by and between Avid Bioservices, Inc. and Daniel R. Hart, effective June 26, 2019</a>	10-K	6/27/2019	10.7	
10.20*	<a href="#">Amendment to 2010 Employee Stock Purchase Plan</a>	DEF-14A	8/21/2019	A	
10.21*	<a href="#">Employment Agreement by and between Avid Bioservices, Inc. and Nicholas S. Green, effective July 30, 2020</a>	10-Q	9/1/2020	10.8	
10.22	<a href="#">Form of Capped Call Transactions Confirmation</a>	8-K	3/12/2021	10.1	
10.23*	<a href="#">Form of Notice of Performance Stock Unit Award under 2018 Omnibus Incentive Plan</a>	8-K	7/14/2021	10.1	
10.24 *	<a href="#">First amendment to the Avid Bioservices, Inc. 2018 Omnibus Incentive Plan</a>	DEF-14A	8/27/2021	A	
10.25 *	<a href="#">Form of Notice of Performance Stock Unit Award under 2018 Omnibus Incentive Plan</a>	8-K	7/14/2022	10.1	
10.26 *	<a href="#">Executive Severance Plan adopted December 5, 2022</a>	8-K	12/9/2022	10.1	
10.27	<a href="#">Credit Agreement, dated as of March 14, 2023, among Avid Bioservices, Inc., as the Borrower, the Guarantors Party Hereto, the Lenders Party Hereto, and Bank of Americal, N.A., as Administrative Agent and L/C Issuer</a>	8-K	3/15/2023	10.1	
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm</a>				X
24	<a href="#">Power of Attorney</a> (included on signature page of Annual Report)				X
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended</a>				X
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended</a>				X
32	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350</a>				X
101.INS	XBRL Taxonomy Extension Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Presentation Extension Linkbase Document				X

\* This Exhibit is a management contract or a compensation plan or arrangement.

\*\* Portions omitted pursuant to a request of confidentiality filed separately with the SEC.

**SIGNATURES**

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

AVID BIOSERVICES, INC.

Date: June 21, 2023

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

**POWER OF ATTORNEY**

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

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Nicholas S. Green</u> Nicholas S. Green	President and Chief Executive Officer and Director (Principal Executive Officer)	June 21, 2023
<u>/s/ Daniel R. Hart</u> Daniel R. Hart	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 21, 2023
<u>/s/ Joseph Carleone, Ph.D.</u> Joseph Carleone, Ph.D.	Chairman of the Board of Directors	June 21, 2023
<u>/s/ Esther M. Alegria, Ph.D.</u> Esther M. Alegria, Ph.D.	Director	June 21, 2023
<u>/s/ Richard B. Hancock</u> Richard B. Hancock	Director	June 21, 2023
<u>/s/ Catherine J. Mackey, Ph.D.</u> Catherine J. Mackey, Ph.D.	Director	June 21, 2023
<u>/s/ Gregory P. Sargen</u> Gregory P. Sargen	Director	June 21, 2023
<u>/s/ Jeanne Thoma</u> Jeanne Thoma	Director	June 21, 2023

**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT  
TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

The following summary of the rights of our common stock, \$0.001 par value per share ("Common Stock"), and preferred stock, \$0.001 par value per share ("Preferred Stock"), does not purport to be complete. This summary is subject to and qualified by the provisions of our restated certificate of incorporation, as amended ("Certificate of Incorporation"), and our amended and restated bylaws ("Bylaws"), copies of which are filed as exhibits to our Annual Report on Form 10-K for the fiscal year ended April 30, 2023, and incorporated herein by reference. In addition, the Delaware General Corporation Law, as amended ("DGCL") also affects the terms of our capital stock.

**Authorized Capital Stock**

Our authorized capital stock consists of 155,000,000 shares, of which:

- 150,000,000 shares have been designated as Common Stock; and
- 5,000,000 shares have been designated as Preferred Stock.

We are authorized to designate and issue up to 5,000,000 shares of Preferred Stock in one or more classes or series and, subject to the limitations prescribed by our Certificate of Incorporation and the DGCL, with such rights, preferences, privileges, and restrictions of each class or series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any class or series as our board of directors may determine, without any vote or action by our stockholders.

As of April 30, 2023, there were 62,691,885 shares of Common Stock issued and outstanding and no shares of Preferred Stock issued or outstanding.

All outstanding shares of our capital stock are fully paid and nonassessable.

**Common Stock**

***Voting Rights***

Holders of Common Stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders, including the election of directors.

The DGCL could require holders of any of the shares of Common Stock or Preferred Stock to vote separately, as a single class, in the following circumstances:

- if we amended our Certificate of Incorporation to increase or decrease the par value of the shares of a class of stock, then the holders of the shares of that class would be required to vote separately to approve the proposed amendment; and
- if we amended our Certificate of Incorporation in a manner that altered or changed the powers, preferences, or special rights of the shares of a class of stock so as to affect them adversely, then the holders of the shares of that class would be required to vote separately to approve the proposed amendment.

### ***Dividends***

Subject to preferences that may be granted to the holders of Preferred Stock, each holder of Common Stock is entitled to share ratably in distributions to stockholders and to receive ratably such dividends as may be declared by our board of directors out of funds legally available therefor.

### ***Liquidation Rights***

In the event of our liquidation, dissolution or winding up, the holders of Common Stock will be entitled to receive, after payment of all of our debts and liabilities and of all sums to which holders of any Preferred Stock may be entitled, the distribution of any of our remaining assets.

### ***Conversion***

Shares of Common Stock are not convertible into any other shares of our capital stock.

### **Undesignated Preferred Stock**

Our board of directors is authorized to designate and authorize the issuance of up to 5,000,000 shares of our authorized Preferred Stock in one or more series of Preferred Stock, and, in connection with the creation of such series, fix by the resolution or resolutions providing for the issuance of shares the voting powers and designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of such series, including dividend rates, conversion rights, voting rights, terms of redemption and liquidation preferences and the number of shares constituting such series.

The particular terms of any additional series of Preferred Stock offered by may include:

- the maximum number of shares in the series and the designation of the series;
- the terms of which dividends, if any, will be paid;
- the terms of which the shares may be redeemed, if at all;
- the liquidation preference, if any;
- the terms of any retirement or sinking fund for the purchase or redemption of the shares of the series;
- the terms and conditions, if any, on which the shares of the series will be convertible into, or exchangeable for, shares of any other class or classes of securities;
- the voting rights, if any, of the shares of the series; and
- any or all other preferences and relative, participating, operational or other special rights or qualifications, limitations or restrictions of the shares.

Our board of directors may authorize the issuance of series of Preferred Stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of Common Stock. In addition, the issuance of Preferred Stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and might harm the market price of our Common Stock.

## **Anti-Takeover Effects of Delaware Law and our Certificate of Incorporation and Bylaws**

### ***Delaware Anti-Takeover Statute***

We are subject to the provisions of Section 203 of the DGCL. Subject to certain exceptions, Section 203 prohibits persons deemed “interested stockholders” from engaging, under certain circumstances, in a “business combination” with a publicly held Delaware corporation for three years following the date these persons become interested stockholders, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, calculated in accordance with the provisions of Section 203 of the DGCL; or
- on or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66⅔% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation’s voting stock. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors. We also anticipate that Section 203 of the DGCL may also discourage attempts that might result in a premium over the market price for the shares of capital stock held by stockholders.

### ***Filling of Vacancies on our Board of Directors***

Our Bylaws provide that any vacancy or vacancies in our board of directors resulting from the death, resignation or removal of any director, or an increase in the authorized number of directors, may be filled by a majority of the remaining directors, though less than a quorum.

### ***Issuance of Authorized but Unissued Shares***

Our authorized but unissued shares of Common Stock and Preferred Stock are available for future issuance without stockholder approval. We may use additional shares for a variety of purposes, including future public offerings to raise additional capital, to fund acquisitions and as employee compensation. The existence of authorized but unissued shares of Common Stock and Preferred Stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

In addition, the authority possessed by our board of directors to designate and authorize the issuance of shares of our undesignated Preferred Stock could potentially be used to discourage attempts by third parties to obtain control of our company through a merger, tender offer, proxy contest, or otherwise by making such attempts more difficult or more costly. Our board of directors may issue our undesignated Preferred Stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of our Common Stock.

***Stockholder Meeting Requirements***

Our Bylaws provide that special meetings of our stockholders may only be called at the request of a majority of our board of directors.

***Elimination of Stockholder Action by Written Consent***

Our Certificate of Incorporation and Bylaws expressly eliminate the right of our stockholders to act by written consent. Stockholder action must take place at the annual or a special meeting of our stockholders.

***Advance Notice Requirements for Stockholder Proposals and Director Nominations***

Our Bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at any meeting of stockholders. Our Bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our meetings of stockholders.

**Listing**

Our Common Stock is listed on The NASDAQ Capital Market and trade under the symbol "CDMO."

The transfer agent and registrar for our Common Stock is Broadridge Corporate Issuer Solutions, Inc.

**Consent of Independent Registered Public Accounting Firm**

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

- (1) Registration Statements (Form S-8 Nos. 333-228735, No. 333-265905) pertaining to the 2018 Omnibus Incentive Plan of Avid Bioservices, Inc.,
- (2) Registration Statements (Form S-8 Nos. 333-208466, No. 333-192794, No. 333-185423, No. 333-178452) pertaining to the 2011 Stock Incentive Plan of Avid Bioservices, Inc.,
- (3) Registration Statement (Form S-8 No. 333-171067) pertaining to the 2010 Stock Incentive Plan and 2010 Employee Stock Purchase Plan of Avid Bioservices, Inc.,
- (4) Registration Statement (Form S-8 No. 333-215053) pertaining to the 2010 Employee Stock Purchase Plan of Avid Bioservices, Inc., and
- (5) Registration Statement (Form S-3 No. 333-257526) of Avid Bioservices, Inc.;

of our reports dated June 21, 2023, with respect to the consolidated financial statements of Avid Bioservices, Inc. and the effectiveness of internal control over financial reporting of Avid Bioservices, Inc. included in this Annual Report (Form 10-K) of Avid Bioservices, Inc. for the year ended April 30, 2023.

/s/ Ernst & Young LLP

Irvine, California  
June 21, 2023

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

Date: June 21, 2023

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

Date: June 21, 2023

/s/ Daniel R. Hart

Daniel R. Hart

Chief 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 Annual Report on Form 10-K of Avid Bioservices, Inc. for the fiscal year ended April 30, 2023: (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (ii) that the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Avid Bioservices, Inc.

Dated: June 21, 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 Annual Report on Form 10-K of Avid Bioservices, Inc. for the fiscal year ended April 30, 2023: (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (ii) that the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Avid Bioservices, Inc.

Dated: June 21, 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.*