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

FORM 10-Q

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

For the quarterly period ended January 31, 2019

OR

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

For the transition period from _____ to _____

Commission file number: 001-32839

AVID BIOSERVICES, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**95-3698422**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2642 Michelle Drive, Suite 200, Tustin, California	**92780**
(Address of principal executive offices)	*(Zip Code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ý No o

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

As of March 4, 2019, there were 56,074,509 shares of common stock, $0.001 par value, outstanding.

AVID BIOSERVICES, INC.

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

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

AVID BIOSERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share information)

	January 31, 2019	April 30, 2018
	Unaudited	*(Note 1)*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,758	$ 42,265
Trade and other receivables	7,885	3,754
Contract assets	3,912	–
Inventories	8,660	16,129
Prepaid expenses	567	679
Assets of discontinued operations	–	5,000
Total current assets	48,782	67,827
Property and equipment, net	25,876	26,479
Restricted cash	1,150	1,150
Other assets	302	304
Total assets	$ 76,110	$ 95,760
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,916	$ 1,909
Accrued payroll and related costs	2,549	2,564
Contract liabilities	14,620	27,935
Other current liabilities	638	905
Liabilities of discontinued operations	125	4,550
Total current liabilities	20,848	37,863
Deferred rent, less current portion	2,105	2,159
Capital lease, less current portion	93	–
Commitments and contingencies		
Stockholders' equity:		
Preferred stock—$0.001 par value; 5,000,000 shares authorized; 1,647,760 shares issued and outstanding at January 31, 2019 and April 30, 2018, respectively	2	2
Common stock—$0.001 par value; 150,000,000 shares authorized; 56,072,291 and 55,689,222 shares issued and outstanding at January 31, 2019 and April 30, 2018, respectively	56	55
Additional paid-in capital	613,947	614,810
Accumulated deficit	(560,941)	(559,129)
Total stockholders' equity	53,064	55,738
Total liabilities and stockholders' equity	$ 76,110	$ 95,760

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	**2018**	**2019**	**2018**
Contract manufacturing revenue	$ 13,781	$ 6,819	$ 36,548	$ 46,678
Cost of contract manufacturing	11,731	10,951	32,972	47,641
Gross profit (loss)	2,050	(4,132)	3,576	(963)
Operating expenses:				
Selling, general and administrative	3,242	4,824	9,273	12,273
Restructuring charges	–	–	–	1,258
Total operating expenses	3,242	4,824	9,273	13,531
Operating loss	(1,192)	(8,956)	(5,697)	(14,494)
Interest and other income, net	9	28	190	65
Loss from continuing operations before income taxes	$ (1,183)	$ (8,928)	$ (5,507)	$ (14,429)
Income tax benefit	44	–	217	–
Loss from continuing operations	$ (1,139)	$ (8,928)	$ (5,290)	$ (14,429)
Income (loss) from discontinued operations, net of tax	–	(2,076)	739	(10,404)
Net loss	$ (1,139)	$ (11,004)	$ (4,551)	$ (24,833)
Comprehensive loss	$ (1,139)	$ (11,004)	$ (4,551)	$ (24,833)
Series E preferred stock accumulated dividends	(1,442)	(1,442)	(3,604)	(3,604)
Net loss attributable to common stockholders	$ (2,581)	$ (12,446)	$ (8,155)	$ (28,437)
Basic and diluted weighted average common shares outstanding	56,068,844	45,225,804	55,949,164	45,032,335
Basic and diluted net (loss) income per common share attributable to common stockholders:				
Continuing operations	$ (0.05)	$ (0.23)	$ (0.16)	$ (0.40)
Discontinued operations	–	(0.05)	0.01	(0.23)
Net loss per share attributable to common stockholders	$ (0.05)	(0.28)	$ (0.15)	$ (0.63)

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended January 31,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,551)	$ (24,833)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,006	1,945
Stock-based compensation	1,080	1,206
Gain on sale of research and development assets	(1,000)	–
Loss on disposal of property and equipment	104	401
Changes in operating assets and liabilities:		
Trade and other receivables	(4,131)	(225)
Contract assets	(1,024)	–
Inventories	(402)	18,881
Prepaid expenses	112	12
Other non-current assets	2	9
Accounts payable	993	(1,175)
Accrued payroll and related expenses	(15)	(2,271)
Contract liabilities	(5,402)	(21,282)
Other accrued expenses and current liabilities	(536)	287
Assets and liabilities of discontinued operations	(4,425)	(1,521)
Deferred rent, less current portion	(54)	465
Net cash used in operating activities	(17,243)	(28,101)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,248)	(2,144)
Proceeds from sale of research and development assets	6,000	–
Net cash provided by (used in) investing activities	4,752	(2,144)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid on Series E preferred stock	(3,244)	(3,244)
Net proceeds from issuance of common stock	–	4,193
Proceeds from issuance of common stock under Employee Stock Purchase Plan	114	217
Proceeds from exercise of stock options	1,188	398
Principal payments on capital lease obligation	(74)	(180)
Net cash (used in) provided by financing activities	(2,016)	1,384
Net decrease in cash, cash equivalents and restricted cash	(14,507)	(28,861)
Cash, cash equivalents and restricted cash at beginning of period	43,415	47,949
Cash, cash equivalents and restricted cash at end of period	$ 28,908	$ 19,088
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired under capital lease	$ 245	$ –

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

	January 31, 2019	**April 30, 2018**	**January 31, 2018**	**April 30, 2017**
Cash and cash equivalents	$ 27,758	$ 42,265	$ 17,938	$ 46,799
Restricted cash	1,150	1,150	1,150	1,150
Total cash, cash equivalents and restricted cash	$ 28,908	$ 43,415	$ 19,088	$ 47,949

See accompanying notes to condensed consolidated financial statements.

1. DESCRIPTION OF COMPANY AND BASIS OF PRESENTATION

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to quarterly reports on Form 10-Q, and accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018. The condensed consolidated balance sheet at April 30, 2018 has been derived from audited financial statements at that date. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this Quarterly Report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year or any other interim period.

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

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

Discontinued Operations

For all periods presented, the operating results of our former research and development segment have been excluded from continuing operations and reported as income (loss) from discontinued operations, net of tax in the accompanying unaudited condensed consolidated financial statements for all periods presented. In addition, the assets and liabilities related to our discontinued research and development segment are reported as assets and liabilities of discontinued operations in the accompanying unaudited condensed consolidated balance sheets at January 31, 2019 and April 30, 2018. For additional information on the discontinuation of our research and development segment, refer to Note 10, "Sale of Research and Development Assets".

Segment Reporting

Historically, our business had been organized into two reportable operating segments: (i) our research and development segment, and (ii) our contract manufacturing services segment. However, as a result of the aforementioned discontinued operation of our research and development segment (Note 10), management has determined that the Company now operates in only one operating segment. Accordingly, we reported our financial results for one reportable segment to reflect this new organizational structure.

Restructuring

Restructuring charges consist of one-time termination benefits, including severance and other employee related costs related to a workforce reduction pursuant to a restructuring plan we implemented in August 2017 (fiscal year 2018). Under this restructuring plan, which we completed in October 2017 (fiscal year 2018), we incurred an aggregate of $1,588 in restructuring charges, of which $330 related to our discontinued research and development segment (Note 10) and $1,258 related to our contract manufacturing services segment.

Going Concern

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of liabilities that may be necessary should it be determined that we are unable to continue as a going concern.

At January 31, 2019, we had $27,758 in cash and cash equivalents. Our ability to fund our operations depends on the amount of cash on hand and our ability to generate sufficient revenue to cover our operations. We have expended substantial funds on our legacy research and development of pharmaceutical product candidates (discontinued operations) and our contract manufacturing business (continuing operations). As a result, we have experienced losses and negative cash flows from operations since our inception, and although we have discontinued our research and development segment, we expect negative cash flows from operations to continue until we can generate sufficient revenue to generate positive cash flow from operations.

In the event we are unable to obtain sufficient business to support our operations beyond the next twelve months, we may need to raise additional capital. Our ability to raise additional capital in the equity markets to fund our obligations in future periods depends 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, negative economic conditions, adverse market conditions, and adverse financial results. If we are unable to either raise sufficient capital in the equity markets or generate additional revenue, we may need to further restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

As a result of the above factors, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date that our accompanying unaudited condensed consolidated financial statements are issued.

Reclassifications

Certain prior year amounts related to deferred revenue and customer deposits have been reclassified to contract liabilities in our accompanying consolidated balance sheet for the fiscal year ended April 30, 2018 and in our accompanying consolidated statement of cash flows for the nine months ended January 31, 2018 to conform to the current period presentation (Note 2). This reclassification had no effect on previously reported net loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606): *Revenue from Contracts with Customers* (“ASC 606”), which, along with subsequent amendments issued after May 2014, replaced substantially all then relevant U.S. GAAP revenue recognition guidance. ASC 606, as amended, is based on the principle that revenue is recognized to depict the contractual transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services utilizing a new five-step revenue recognition model, which steps include (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

(in thousands, except share and per share information)

On May 1, 2018, we adopted ASC 606, as amended, to all contracts not completed as of May 1, 2018 using the modified retrospective method. Results for the reporting period beginning after May 1, 2018 are presented in accordance with ASC 606, while prior period amounts continue to be reported under the accounting standards that were in effect for the prior period. The accounting policy for revenue recognition for periods prior to May 1, 2018 is described in Note 2 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018.

The cumulative effect of adopting ASC 606 resulted in a one-time adjustment of $2,739 to the opening balance of accumulated deficit. The cumulative effect adjustment relates to the recognition of revenue and related costs for customer contracts that transfer goods or services over time. Under ASC 606, the timing of the recognition of contract manufacturing revenue and the related cost of contract manufacturing associated with goods or services provided to customers with no alternative use are recognized over time utilizing an input method that compares the cost of cumulative work-in-process to date to the most current estimates for the entire cost of the performance obligation. By contrast, in the prior period, contract manufacturing revenue and the related costs were recognized upon completion of the performance obligation in accordance with accounting standards that were in effect in the prior period. Under these customer contracts the customer retains control of the product as it is being created or enhanced by our services and/or we are entitled to compensation for progress to date that includes an element of profit margin.

The following table summarizes the cumulative effect of the adoption of ASC 606 on amounts previously reported in our consolidated balance sheet at April 30, 2018:

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

The following tables summarize the effect of the adoption of ASC 606 on our unaudited condensed consolidated balance sheet at January 31, 2019 and our unaudited condensed consolidated statements of operations and comprehensive loss for the three and nine months ended January 31, 2019:

	As Reported	Effect of Change Higher/(Lower)	Balance Without Adoption of ASC 606
Contract assets	$ 3,912	$ 3,912	$ –
Inventories	8,660	(15,635)	24,295
Contract liabilities	14,620	(17,617)	32,237

(in thousands, except share and per share information)

	Three Months Ended January 31, 2019		
	As Reported	Effect of Change Higher/(Lower)	Balance Without Adoption of ASC 606
Contract manufacturing revenue	$ 13,781	$ (1,153)	$ 14,934
Cost of contract manufacturing	11,731	(621)	12,352
Gross profit	2,050	(532)	2,582
Operating loss	(1,192)	(532)	(660)
Loss from continuing operations	(1,139)	(532)	(607)

	Nine Months Ended January 31, 2019		
	As Reported	Effect of Change Higher/(Lower)	Balance Without Adoption of ASC 606
Contract manufacturing revenue	$ 36,548	$ 10,678	$ 25,870
Cost of contract manufacturing	32,972	7,284	25,688
Gross profit	3,576	3,394	182
Operating loss	(5,697)	3,394	(9,091)
Loss from continuing operations	(5,290)	3,394	(8,684)

Revenue Recognition

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

Manufacturing revenue

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

(in thousands, except share and per share information)

Process development revenue

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

The following table disaggregates our contract manufacturing revenue for the three and nine months ended January 31, 2019 and 2018 by revenue stream. Contract manufacturing revenue for the three and nine months ended January 31, 2018 has not been adjusted in accordance with our modified retrospective adoption of ASC 606 and continues to be reported under the accounting standards that were in effect prior to our adoption of ASC 606 on May 1, 2018:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	**2018**	**2019**	**2018**
Manufacturing revenue	$ 10,770	$ 6,045	$ 28,313	$ 42,281
Process development revenue	3,011	774	8,235	4,397
Total contract manufacturing revenue	$ 13,781	$ 6,819	$ 36,548	$ 46,678

Contract balances

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

We recognized contract manufacturing revenue of $2,208 and $12,233, respectively, during the three and nine months ended January 31, 2019 for which the contract liability was recorded in the prior year.

Practical expedients and contract costs

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

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

Cash and Cash Equivalents

We consider all short-term investments readily convertible to cash with an initial maturity of three months or less to be cash equivalents.

Restricted Cash

Under the terms of three separate operating leases related to our facilities, we are required to maintain, as collateral, letters of credit during the terms of such leases. At January 31, 2019 and April 30, 2018, restricted cash of $1,150 was pledged as collateral under these letters of credit.

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, which indicate that their carrying value may not be recoverable. Long-lived assets are reported at the lower of carrying amount or fair value less cost to sell. For the nine months ended January 31, 2019 and 2018, there were no indicators of impairment of the value of our long-lived assets.

Fair Value Measurements

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

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

As of January 31, 2019 and April 30, 2018, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash equivalents, which are primarily invested in money market funds with one major commercial bank, are carried at fair value based on quoted market prices for identical securities (Level 1 input). In addition, there were no transfers between any Levels of the fair value hierarchy during the three and nine months ended January 31, 2019 and 2018.

Stock-based Compensation

We account for stock options, restricted stock units and restricted stock rights (collectively referred to as "RSUs") and other stock-based awards granted under our equity compensation plans in accordance with the authoritative guidance for stock-based compensation. The estimated fair value of stock options granted to employees in exchange for services is measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is recognized as expense on a straight-line basis over the requisite service periods. In addition, the fair value of RSUs is measured at the grant date based on the closing market price of our common stock on the date of grant, and is recognized as expense on a straight-line basis over the period of vesting. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur. As of January 31, 2019, there were no outstanding stock-based awards with market or performance conditions.

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. As a result of our cumulative losses, management has concluded that a full valuation allowance against our net deferred tax assets is appropriate.

The income tax benefit recognized in the accompanying unaudited condensed consolidated statements of operations and comprehensive loss during the three and nine months ended January 31, 2019 resulted from the "Intraperiod Tax Allocation" rules under ASC 740: *Income Taxes* ("ASC 740"), which requires the allocation of an entity's total annual income tax provision among continuing operations and, in our case, discontinued operations. Accordingly, a tax benefit was recorded in continuing operations with an offsetting tax expense recorded in discontinued operations (Note 10).

In December 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act includes a number of changes to existing U.S. tax laws that impact us, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years, effective January 1, 2018. We performed a review of the Tax Act for the fiscal year ended April 30, 2018, and based on the information available at that time, recorded certain provisional amounts related to the revaluation of our deferred tax assets and liabilities, which were fully offset by a valuation allowance.

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

Adoption of Other Recent Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash*, which clarifies the presentation requirements of restricted cash within the statement of cash flows. ASU 2016-18 will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. We adopted ASU 2016-18 on May 1, 2018 and the cash and cash equivalents at the beginning-of-period and end-of-period total amounts in our condensed consolidated statements of cash flows have been adjusted to include $1,150 of restricted cash for each of the periods presented.

(in thousands, except share and per share information)

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): *Scope of Modification Accounting*, which provides guidance about which changes to the terms or conditions of a stock-based payment award require an entity to apply modification accounting in Topic 718. This pronouncement is effective for annual reporting periods beginning after December 15, 2017. We adopted ASU 2017-09 on May 1, 2018. The adoption of this ASU did not have a material impact on our condensed consolidated financial statements and related disclosures.

New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard requires lessees to recognize right-of-use assets and lease liabilities on its balance sheet for all leases with lease terms greater than 12 months and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, which will be our fiscal year 2020 beginning May 1, 2019. Early adoption is permitted. While we continue to assess the impact of the new guidance, we believe the primary effect of adopting ASU 2016-02 will be to record right-of-use assets and corresponding obligations for our operating leases, which we believe will have a material impact our condensed consolidated financial statements and related disclosures.

3. TRADE AND OTHER RECEIVABLES

Trade receivables represent amounts billed for contract manufacturing services and are recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. Other receivables are reported at amounts expected to be collected net of an allowance for doubtful accounts, if necessary. Trade and other receivables consist of the following:

	January 31, 2019	April 30, 2018
Trade receivables	$ 7,884	$ 3,539
Other receivables	1	215
Total trade and other receivables	$ 7,885	$ 3,754

We continually monitor our allowance for doubtful accounts for all receivables. We apply judgment in assessing the ultimate realization of our receivables and we estimate an allowance for doubtful accounts based on various factors, such as, the aging of accounts receivable balances, historical experience, and the financial condition of our customers. Based on our analysis of our receivables as of January 31, 2019 and April 30, 2018, we determined no allowance for doubtful accounts was necessary.

(in thousands, except share and per share information)

4. INVENTORIES

Inventories are recorded at the lower of cost or market (net realizable value) and include raw materials and work-in-process (comprised of raw materials, direct labor and overhead costs associated with in-process manufacturing services) associated with contract manufacturing services. Overhead costs allocated to work-in-process inventory are based on the normal capacity of our production facilities and do not include costs from under absorption of overhead costs or idle capacity, which are expensed directly to cost of contract manufacturing in the period incurred. During the three and nine months ended January 31, 2019 and 2018, we expensed $1,740 and $6,392, respectively, and $5,344 and $11,182, respectively, in idle capacity costs directly to cost of contract manufacturing in the accompanying condensed consolidated financial statements. Subsequent to the adoption of ASC 606 (Note 2), manufacturing costs associated with work-in-process are recorded to cost of contract manufacturing in the accompanying condensed consolidated financial statements as incurred. Cost is determined by the first-in, first-out method. Inventories consist of the following:

	January 31, 2019	April 30, 2018
Raw materials	$ 8,660	$ 8,165
Work-in-process	–	7,964
Total inventories	$ 8,660	$ 16,129

5. PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related asset, generally ranging from three to ten years. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term. Construction-in-progress, which represents direct costs related to the construction of various equipment and leasehold improvements associated with our manufacturing facilities, are not depreciated until the asset is completed and placed into service. No interest was incurred or capitalized as construction-in-progress as of January 31, 2019 and April 30, 2018. All of our property and equipment are located in the U.S.

Property and equipment, net, consists of the following:

	January 31, 2019	April 30, 2018
Leasehold improvements	$ 20,648	$ 20,686
Laboratory and manufacturing equipment	12,427	10,258
Furniture, fixtures, office equipment and software	5,210	4,597
Construction-in-progress	1,656	3,310
Total property and equipment	39,941	38,851
Less accumulated depreciation and amortization	(14,065)	(12,372)
Total property and equipment, net	$ 25,876	$ 26,479

(in thousands, except share and per share information)

Depreciation and amortization expense for the three and nine months ended January 31, 2019 was $681 and $2,006, respectively. Depreciation and amortization expense for the three and nine months ended January 31, 2018 was $645 and $1,945, respectively.

6. STOCKHOLDERS' EQUITY

Series E Preferred Stock Dividend

The following table summarizes the 10.50% Series E Convertible Preferred Stock (the "Series E Preferred Stock") quarterly dividend activity during the nine months ended January 31, 2019:

Declaration Date	Record Date	Payment Date	Dividends Paid	Dividend Per Share
6/6/2018	6/18/2018	7/2/2018	$ 1,081	$ 0.65625
9/5/2018	9/17/2018	10/1/2018	$ 1,081	$ 0.65625
12/5/18	12/17/2018	1/2/2019	$ 1,081	$ 0.65625

Shares of Common Stock Authorized and Reserved for Future Issuance

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

As of January 31, 2019, 56,072,291 shares of our common stock were issued and outstanding. In addition, our common stock outstanding as of January 31, 2019 excluded the following shares of our common stock reserved for future issuance:

- 7,294,508 shares of common stock reserved for issuance under outstanding option grants and RSUs, and available for issuance under our stock incentive plans;
- 1,231,699 shares of common stock reserved for and available for issuance under our Employee Stock Purchase Plan; and
- 6,826,435 shares of common stock issuable upon conversion of our outstanding Series E Preferred Stock [(1)].

(1) The Series E Preferred Stock is convertible into a number of shares of our common stock determined by dividing the liquidation preference of $25.00 per share by the conversion price, currently $21.00 per share. If all of our outstanding shares of Series E Preferred Stock were converted at the $21.00 per share conversion price, the holders of our Series E Preferred Stock would receive an aggregate of 1,961,619 shares of our common stock. However, we have reserved the maximum number of shares of our common stock that could be issued upon a change of control event assuming our shares of common stock are acquired for consideration of $5.985 per share or less. In this scenario, each outstanding share of our Series E Preferred Stock could be converted into 4.18 shares of our common stock.

(in thousands, except share and per share information)

7. EQUITY COMPENSATION PLANS

Stock Incentive Plans

On October 4, 2018, our stockholders approved the Avid Bioservices, Inc. 2018 Omnibus Incentive Plan (the "2018 Plan") which provides, among other things, the ability for us to grant stock options, RSUs, stock appreciation rights and other forms of share-based awards.

The number of shares of our common stock authorized for issuance under the 2018 Plan is the sum of (A) 2,350,000 and (B) the aggregate number of shares of common stock available for the grant of awards under our 2009, 2010, and 2011 Stock Incentive Plans (the "Prior Plans") as of October 4, 2018 (the "Effective Date" of the 2018 Plan). The 2018 Plan replaced the Prior Plans, and no new awards will be granted under the Prior Plans as of the Effective Date. However, any awards outstanding under the Prior Plans on the Effective Date will remain subject to and be paid under the applicable Prior Plan, and any shares subject to outstanding awards under the Prior Plans that subsequently expire, terminate, or are surrendered or forfeited for any reason without issuance of shares will automatically become available for issuance under the 2018 Plan.

As of January 31, 2019, we had an aggregate of 7,294,508 shares of our common stock reserved for issuance under our stock incentive plans, of which, 3,507,748 shares were subject to outstanding options and RSUs and 3,786,760 shares were available for future grants of stock-based awards.

Stock Options

The following summarizes our stock option transaction activity for the nine months ended January 31, 2019:

Stock Options	Shares	Weighted Average Exercisable Price
Outstanding, May 1, 2018	3,597,738	$ 8.74
Granted	925,939	$ 5.04
Exercised	(343,359)	$ 3.47
Canceled or expired	(878,820)	$ 11.53
Outstanding, January 31, 2019	3,301,498	$ 7.51

Restricted Stock Units ("RSUs")

During the nine months ended January 31, 2019, the Compensation Committee of the Board of Directors granted an aggregate of 217,200 RSUs to substantially all of our employees, excluding executive officers, which entitles the employee the right to be issued a share of our common stock upon the vesting of each RSU. The RSUs have an aggregate grant date fair value of $929, based on the closing market price of our common stock on the date of grant, and vest at the rate of one-fourth of the shares underlying the RSUs granted on each anniversary of the date of grant.

(in thousands, except share and per share information)

The following summarizes our RSU transaction activity for the nine months ended January 31, 2019:

RSUs	Shares	Weighted Average Grant Date Fair Value
Outstanding, May 1, 2018	–	$ –
Granted	217,200	4.28
Vested	–	–
Forfeited	(10,950)	3.62
Outstanding, January 31, 2019	206,250	$ 4.31

Employee Stock Purchase Plan

We have reserved a total of 2,142,857 shares of our common stock to be purchased under our Employee Stock Purchase Plan ("ESPP"), of which 1,231,699 shares remained available to purchase at January 31, 2019, and are subject to adjustment as provided in the ESPP for stock splits, stock dividends, recapitalizations and other similar events. Under the ESPP, we sell shares to participants at a price equal to the lesser of 85% of the fair market value of our common stock at the (i) beginning of a six-month offering period, or (ii) end of the six-month offering period. The ESPP provides for two six-month offering periods each year; the first offering period begins on the first trading day on or after each May 1; the second offering period begins on the first trading day on or after each November 1. During the nine months ended January 31, 2019, 39,710 shares of our common stock were purchased under the ESPP at a purchase price of $2.87 per share.

Stock-Based Compensation

Total stock-based compensation expense related to stock-based awards issued under our equity compensation plans is included in the accompanying unaudited condensed consolidated statements of operations and comprehensive loss as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	2018	2019	2018
Cost of contract manufacturing	$ 147	$ 139	$ 317	$ 277
Selling, general and administrative	311	259	763	589
Discontinued operations	–	14	–	340
Total	$ 458	$ 412	$ 1,080	$ 1,206
Share-based compensation from:				
Stock options	$ 385	$ 374	$ 914	$ 1,070
RSUs	40	–	82	–
ESPP	33	38	84	136
Total	$ 458	$ 412	$ 1,080	$ 1,206

(in thousands, except share and per share information)

As of January 31, 2019, the total estimated unrecognized compensation cost related to non-vested employee stock options and non-vested RSUs was $4,287 and $807, respectively. These costs are expected to be recognized over a weighted average vesting periods of 2.87 years and 3.59 years, respectively.

8. NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing our net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period, excluding the dilutive effects of stock options, unvested RSUs, shares of common stock expected to be issued under our ESPP, warrants, and Series E Preferred Stock outstanding during the period. Diluted net loss per common share is computed by dividing our net loss attributable to common stockholders by the sum of the weighted average number of shares of common stock outstanding during the period plus the potential dilutive effects of stock options, unvested RSUs, shares of common stock expected to be issued under our ESPP, warrants, and Series E Preferred Stock outstanding during the period. Net loss attributable to common stockholders represents our net loss plus Series E Preferred Stock accumulated dividends. Series E Preferred Stock accumulated dividends include dividends declared for the period (regardless of whether or not the dividends have been paid) and dividends accumulated for the period (regardless of whether or not the dividends have been declared).

The potential dilutive effect of stock options, unvested RSUs, shares of common stock expected to be issued under our ESPP, and warrants outstanding during the period are calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. The potential dilutive effect of our Series E Preferred Stock outstanding during the period was calculated using the if-converted method assuming the conversion of Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. However, because the impact of stock options, unvested RSUs, shares of common stock expected to be issued under our ESPP, warrants, and Series E Preferred Stock are anti-dilutive during periods of net loss, there was no difference between basic and diluted loss per common share amounts for the three and nine months ended January 31, 2019 and 2018.

The calculation of weighted average diluted shares outstanding for the three and nine months ended January 31, 2019 and 2018 excludes the dilutive effect of the following weighted average outstanding stock options, unvested RSUs and shares of common stock expected to be issued under our ESPP as their impact is anti-dilutive during periods of net loss:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	**2018**	**2019**	**2018**
Stock Options	116,962	115,425	160,937	78,427
RSUs	38,466	–	33,606	–
ESPP	86	1,202	9,773	466
Total	155,514	116,627	204,316	78,893

(in thousands, except share and per share information)

The calculation of weighted average diluted shares outstanding for the three and nine months ended January 31, 2019 and 2018 also excludes the following weighted average outstanding stock options, unvested RSUs, warrants, and Series E Preferred Stock (assuming the if-converted method), as their exercise prices or conversion price were greater than the average market price of our common stock during the respective periods, resulting in an anti-dilutive effect:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	**2018**	**2019**	**2018**
Stock Options	2,779,142	3,214,694	2,659,632	3,663,102
RSUs	47,482	–	15,827	–
Warrants	–	39,040	17,115	39,040
Series E Preferred Stock	1,978,783	1,978,783	1,978,783	1,978,783
Total	4,805,407	5,232,517	4,671,357	5,680,925

9. WARRANTS

On August 30, 2018, warrants to purchase 39,040 shares of our common stock expired unexercised. As of January 31, 2019, we had no warrants issued and outstanding.

10. SALE OF RESEARCH AND DEVELOPMENT ASSETS

February 2018 Asset Assignment and Purchase Agreement

On February 12, 2018, we entered into an Asset Assignment and Purchase Agreement (the "February 2018 Purchase Agreement") with Oncologie, Inc. ("Oncologie") pursuant to which we sold to Oncologie the majority of our research and development assets, which included the assignment of certain exclusive licenses related to our former phosphatidylserine (PS)-targeting program, as well as certain other licenses and assets useful and/or necessary for the potential commercialization of bavituximab.

Pursuant to the February 2018 Purchase Agreement, we received an aggregate of $8,000 from Oncologie, paid over three installments, of which $3,000 was received in March 2018 (first installment), $3,000 was received in June 2018 (second installment) and $2,000 was received in September 2018 (third installment). We are also eligible to receive up to an additional $95,000 in the event that Oncologie achieves certain development, regulatory and commercialization milestones with respect to bavituximab. In addition, we are eligible to receive royalties on net sales that are upward tiering into the mid-teens in the event that Oncologie commercializes and sells products utilizing bavituximab or the other transferred assets. As of January 31, 2019, no development, regulatory and commercialization milestones as defined in the February 2018 Purchase Agreement have been achieved by Oncologie. Oncologie is responsible for all future research, development and commercialization of bavituximab, including all related intellectual property costs and all other future liabilities and obligations arising out of the ownership of the transferred assets (i.e., we remain obligated for all liabilities associated with the research and development assets associated with the February 2018 Purchase Agreement incurred or arising prior to February 13, 2018). In addition, during May 2018, we entered into a separate services agreement with Oncologie to provide contract development and manufacturing services, at our commercial rates, in support of the research and development assets sold under the February 2018 Purchase Agreement.

(in thousands, except share and per share information)

September 2018 Asset Assignment and Purchase Agreement

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

Pursuant to the September 2018 Purchase Agreement, we received $1,000 from Oncologie, which amount was paid to us in October 2018. We are also eligible to receive up to an additional $21,000 in the event that Oncologie achieves certain development, regulatory and commercialization milestones with respect to r84. In addition, we are eligible to receive royalties on net sales ranging from the low to mid-single digits in the event that Oncologie commercializes and sells products utilizing the r84 technology. As of January 31, 2019, no development, regulatory and commercialization milestones as defined in the September 2018 Purchase Agreement have been achieved by Oncologie. Oncologie is responsible for all future research, development and commercialization of r84, including all related intellectual property costs and all other future liabilities and obligations arising out of the ownership of the transferred assets (i.e., we remain obligated for all liabilities associated with the research and development assets associated with the September 2018 Purchase Agreement incurred or arising prior to September 13, 2018).

Discontinued Operations

As a result of the sale of our PS-targeting program and our r84 technology, the abandonment of our remaining research and development assets, and the strategic shift in our corporate direction to focus solely on our CDMO business, the operating results from our former research and development segment and the related assets and liabilities have been presented as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented (Note 1). The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the former research and development segment. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the former research and development segment do not necessarily reflect what the results of operations would have been had the former research and development segment operated as a stand-alone segment.

The following table summarizes the results of discontinued operations for the three and nine months ended January 31, 2019 and 2018:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	**2018**	**2019**	**2018**
Operating expenses:				
Research and development	$ –	$ 374	$ –	$ 7,590
Selling, general and administrative	–	1,315	–	2,097
Restructuring charges	–	–	–	330
Total operating expenses	$ –	$ 1,689	$ –	$ 10,017
Other expense	–	387	–	387
Gain on sale of research and development assets before income taxes	$ –	–	$ 1,000	–
Income tax expense	–	–	(261)	–
Income (loss) from discontinued operations, net of tax	$ –	$ (2,076)	$ 739	$ (10,404)

(in thousands, except share and per share information)

The following table summarizes the assets and liabilities of discontinued operations as of January 31, 2019 and April 30, 2018:

	January 31, 2019	April 30, 2018
Assets:		
Other receivables	$ –	$ 5,000
Total assets of discontinued operations	$ –	$ 5,000
Liabilities:		
Accounts payable	$ –	$ 32
Accrued clinical trial and related fees	–	3,613
Accrued payroll and related costs	–	614
Other liabilities	125	291
Total liabilities of discontinued operations	$ 125	$ 4,550

The carrying value of the assets and liabilities deemed a component of discontinued operations were not classified as “held for sale” in the accompanying unaudited condensed consolidated balance sheet at January 31, 2019 and the accompanying condensed consolidated balance sheet at April 30, 2018, as Oncologie did not purchase or assume any of the reported assets or liabilities under the aforementioned February 2018 Purchase Agreement and September 2018 Purchase Agreement.

11. SUBSEQUENT EVENTS

On March 6, 2019, our Board of Directors declared a quarterly cash dividend of $0.65625 per share on our outstanding Series E Preferred Stock. The dividend payment is equivalent to an annualized 10.50% per share, based on the $25.00 per share stated liquidation preference, accruing from January 1, 2019 through March 31, 2019. The cash dividend is payable on April 1, 2019 to holders of the Series E Preferred Stock of record on March 18, 2019.

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

The following discussion and analysis of the financial condition and results of our operations should be read together with the financial statements and related notes of Avid Bioservices, Inc. included in Part I Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results of operations to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate", "believe", "can", "continue", "could", "estimate", "expect", "intend", "may", "plan", "project", "seek", "should", "target", "will", "would" and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. These forward-looking statements are subject to numerous risks and uncertainties, including the risks and uncertainties described under the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018, those identified in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q, and in other filings we may make with the Securities and Exchange Commission from time to time. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements and, except as required by law, assume no obligation and do not intend to update these forward-looking statements.

Overview

We are a dedicated contract development and manufacturing organization ("CDMO") that provides a comprehensive range of services from process development to Current Good Manufacturing Practices ("CGMP") commercial manufacturing focused on biopharmaceutical products derived from mammalian cell culture. With 25 years of experience producing monoclonal antibodies and recombinant proteins in batch, fed-batch and perfusion modes, our services include CGMP clinical and commercial product manufacturing, purification, bulk packaging, stability testing and regulatory submissions and support. We also provide a variety of process development services, including cell line development and optimization, cell culture and feed optimization, analytical methods development and product characterization.

We have experience in performing process development and manufacturing of biologics since 1993 in our Franklin biomanufacturing facility ("Franklin Facility"), located at our headquarters in Tustin, California. In March 2016, we expanded our manufacturing capacity through the commissioning of our Myford biomanufacturing facility ("Myford Facility"), which more than doubled our manufacturing capacity. The 42,000 square foot facility, which is our second biomanufacturing facility, includes multiple single-use bioreactors up to the 2,000-liter manufacturing scale. The Myford Facility was designed to accommodate a fully disposable biomanufacturing process for products in clinical development to commercial. The Myford Facility is located adjacent to our Franklin Facility.

In the fall of 2017, we announced our intent to cease our research and development activities and to transition our business to a dedicated CDMO, which we completed at the beginning of calendar 2018. During our transition, we established and began executing on the following near-term strategic objectives:

- Expand and diversify our customer base by securing additional customers to support our future potential revenue growth; and

- Continue to invest in manufacturing facilities and infrastructure to maximize our facility utilization and support our customers' clinical and commercial development and manufacturing requirements.

We are currently in the process of expanding and optimizing our process development capabilities and laboratory space, which includes expanding our total available process development laboratory space, upgrading the infrastructure and equipment within our existing process development laboratories, and implementing new state-of-the-art technologies and equipment designed to facilitate efficient, high-throughput development of innovative upstream and downstream manufacturing processes. We are strategically conducting this work in phases to avoid disruption to current customer programs.

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

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

Contract Manufacturing Revenue

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

Gross Profit

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

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

Selling, General and Administrative Expenses

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

Results of Operations *(in thousands)*

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

The following table compares the unaudited condensed consolidated statements of operations from our continuing operations for the three and nine months ended January 31, 2019 and 2018, which are further discussed below.

	Three Months Ended January 31,			Nine Months Ended January 31,		
	2019	**2018**	**$ Change**	**2019**	**2018**	**$ Change**
Contract manufacturing revenue	$ 13,781	$ 6,819	$ 6,962	$ 36,548	$ 46,678	$ (10,130)
Cost of contract manufacturing	11,731	10,951	780	32,972	47,641	(14,669)
Gross profit (loss)	2,050	(4,132)	6,182	3,576	(963)	4,539
Operating expenses:						
Selling, general and administrative	3,242	4,824	(1,582)	9,273	12,273	(3,000)
Restructuring charges	–	–	–	–	1,258	(1,258)
Total operating expenses	3,242	4,824	(1,582)	9,273	13,531	(4,258)
Operating loss	(1,192)	(8,956)	7,764	(5,697)	(14,494)	8,797
Interest and other income, net	9	28	(19)	190	65	125
Loss from continuing operations before income taxes	$ (1,183)	$ (8,928)	$ 7,745	$ (5,507)	$ (14,429)	$ 8,922
Income tax benefit	44	–	44	217	–	217
Loss from continuing operations	$ (1,139)	$ (8,928)	$ 7,789	$ (5,290)	$ (14,429)	$ 9,139

Three Months Ended January 31, 2019 Compared to the Three Months Ended January 31, 2018

Contract Manufacturing Revenue

Contract manufacturing revenue for the three months ended January 31, 2019 was $13,781 compared to $6,819 for the same period in the prior year, an increase of $6,962 or 102%. The increase in revenue can primarily be attributed to an increase in the number of manufacturing runs in-process and/or completed in the current period compared to the prior period as a result of increased demand from a more diversified client base. The quarterly revenue increase was offset by a $1,153 unfavorable impact from the adoption of ASC 606. Refer to Note 2 "Summary of Significant Accounting Policies" in the accompanying notes to the unaudited condensed consolidated financial statements for details regarding the adoption of ASC 606.

Gross Profit

Gross profit for the three months ended January 31, 2019 was $2,050 compared to a loss of $4,132 for the same period in the prior year, an increase of $6,182, where gross margins were 15% and a negative 61%, respectively. The $6,182 increase in gross profit was primarily due to an improvement from manufacturing and process development project profit of $2,578 combined with a $3,604 decrease in idle capacity costs.

Selling, General and Administrative Expenses

SG&A decreased $1,582, or 33%, during the three months ended January 31, 2019 compared to the same prior year period. The decrease in SG&A was primarily due to decreases in payroll and related costs of $634, legal and other professional fees of $500, facility-related expenses of $234 and other general corporate expenses of $215. As a percentage of revenue, SG&A expenses for the three months ended January 31, 2019 and 2018 were 24% and 71%, respectively.

Operating Loss

Operating loss was $1,192, or a negative 9% of revenue, for the three months ended January 31, 2019 compared to an operating loss of $8,956, or a negative 131% of revenue, for the same period in the prior year. Of this $7,764, or 87%, improvement in year-over-year operating loss, approximately $6,182 was attributable to gross profit margin improvement and an SG&A decrease of $1,582.

Nine Months Ended January 31, 2019 Compared to the Nine Months Ended January 31, 2018

Contract Manufacturing Revenue

Contract manufacturing revenue for the nine months ended January 31, 2019 was $36,548 compared to $46,678 for the same period in the prior year, a decrease of $10,130 or 22%. The decline in revenue can primarily be attributed to fewer manufacturing runs completed in the current period compared to the prior period as a result of a decrease in manufacturing demand from our largest customer, which occurred primarily during the first six months of the fiscal year as compared to the prior year. As previously disclosed, revenue for the current nine-month period was also impacted by our planned sequential shutdown of our Franklin and Myford manufacturing facilities during our second quarter ended October 31, 2018, which halted manufacturing at each facility for several weeks in order to conduct both routine and non-routine maintenance and upgrades. Finally, the current year decline in revenue as compared to the prior year period was offset by a $10,678 favorable impact from the adoption of ASC 606. Refer to Note 2 “Summary of Significant Accounting Policies” in the accompanying notes to the unaudited condensed consolidated financial statements for details regarding the adoption of ASC 606.

Gross Profit

Gross profit for the nine months ended January 31, 2019 was $3,576 compared to a loss of $963 for the same period in the prior year, an increase of $4,539, where gross margins were 10% and a negative 2%, respectively. The $4,539 increase in gross profit was comprised of a $250 decrease in manufacturing and process development project profit, offset by a favorable reduction to idle capacity costs of $4,790.

Selling, General and Administrative Expenses

SG&A expense decreased $3,000, or 24%, during the nine months ended January 31, 2019 compared to the same prior year period. The decrease in SG&A was attributed to the current year period decreases in legal, non-employee director fees and other professional fees of $1,674, facility-related expenses of $1,308, payroll and related costs of $1,278, and other general corporate expenses of $240. These current year period decrease in SG&A expenses were offset by the July 2017 settlement of a derivative and class action lawsuit, pursuant to which our former non-employee directors agreed to pay or cause to be paid $1,500 to us (as described in Note 3 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018), which non-recurring amount was applied against non-employee director fees during the fiscal quarter ended July 31, 2017. As a percentage of revenue, SG&A expenses for the nine months ended January 31, 2019 and 2018 were 25% and 26%, respectively.

Restructuring Charges

During the nine months ended January 31, 2018, we incurred restructuring charges of $1,588 related to a restructuring plan we implemented in August 2017, pursuant to which we reduced our overall workforce by 57 employees in order to reduce operating costs and improve cost efficiencies while we pursued the license or sale of our research and development assets and focus our efforts on growing our CDMO business (as described in Note 8 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018). The costs incurred under this restructuring plan, which was completed in October 2017, consisted of one-time termination benefits, including severance, and other employee related costs. Of the total restructuring charges incurred, $1,258 was related to our contract manufacturing services segment and $330 was related to our discontinued research and development segment. The restructuring charges associated with our discontinued research and development segment are included in income (loss) from discontinued operations in the accompanying unaudited condensed consolidated statements of operations and comprehensive loss for the nine months ended January 31, 2018. We did not incur any restructuring charges during the nine months ended January 31, 2019.

Operating Loss

Operating loss was $5,697, or a negative 16% of revenue, for the nine months ended January 31, 2019 compared to an operating loss of $14,494, or a negative 31% of revenue, for the same period in the prior year. Of this $8,797, or 61%, improvement in year-over-year operating loss, approximately $4,539 was attributable to a gross profit improvement, an SG&A decrease of $3,000 and the absence of restructuring charges in 2018 that resulted in a decrease of $1,258.

Income Tax Benefit

In September 2018, we recognized a $1,000 gain in discontinued operations, before taxes, for the sale of our r84 technology (as described in Note 10 to the accompanying unaudited condensed consolidated financial statements). In accordance with the “Intraperiod Tax Allocation” rules under ASC 740: *Income Taxes*, which requires the allocation of an entity’s total annual income tax provision among continuing operations and, in our case, discontinued operations for the nine months ended January 31, 2019, we recorded a tax benefit in continuing operations of $217 with an offsetting tax expense of $261 recorded in discontinued operations. The remaining deferred tax benefit of $44 will be allocated proportionally to continuing operations in the fourth quarter of the current fiscal year.

Discontinued Operations

As a result of the sale of our PS-targeting and r84 technologies in February 2018 and September 2018, respectively (as described in Note 10 to the accompanying unaudited condensed consolidated financial statements), the abandonment of our remaining research and development assets, and the strategic shift in our corporate direction to focus solely on our CDMO business, the operating results of our former research and development segment have been excluded from continuing operations and reported as income (loss) from discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented. The gain of $1,000 that was recorded in connection with the sale of our r84 technology in September 2018 is included in income from discontinued operations, net of tax, in the accompanying unaudited condensed consolidated statements and operations and comprehensive loss for the nine months ended January 31, 2019.

Critical Accounting Policies and Estimates

Our discussion and analysis of our consolidated financial position and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We review our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. During the three and nine months ended January 31, 2019, there were no significant changes in our critical accounting policies as previously disclosed by us in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2018, except for our critical accounting policies and estimates on revenue recognition as a result of our adoption of ASC 606, as described in Note 2, "Summary of Significant Accounting Policies" in the accompanying notes to the unaudited condensed consolidated financial statements.

Liquidity and Capital Resources

We have expended substantial funds on our legacy research and development of pharmaceutical product candidates (discontinued operations) and our contract manufacturing business (continuing operations). As a result, we have historically experienced losses and negative cash flows from operations since our inception.

During fiscal year 2018, we refocused our corporate strategy, whereby we transitioned our business to operate solely as a dedicated CDMO and discontinued our research and development segment (as described in Note 1 to the accompanying unaudited condensed consolidated financial statements). Now that we have commenced our first full fiscal year as a dedicated CDMO, our ability to continue as a going concern depends on the amount of cash on hand and our ability to generate positive cash flows from operations, primarily through securing new customers and diversifying our customer base, and thereby reducing our reliance on a small customer base, increasing revenues, improving gross margins and managing our operating expenses.

At January 31, 2019 we had $27,758 in cash and cash equivalents. In addition, as of January 31, 2019, our backlog was approximately $43 million (as further discussed in the "Backlog" section below). While we anticipate the majority of our backlog will be recognized as revenue during fiscal year 2020, our backlog is subject to a number of risks and uncertainties, including the risk that a customer may experience delays in its program(s) or otherwise, which could result in the postponement of anticipated manufacturing services; the risk that a customer timely cancels its commitments prior to our initiation of manufacturing services, in which case we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments; and the risk that we may not successfully execute on all customer projects, any of which could have a negative impact on our liquidity, reported backlog and future revenue. As a result of these risks and uncertainties, our cash on hand as of January 31, 2019, together with our projected cash receipts under our current backlog, may not be sufficient to fund our operations beyond one year after the date our financial statements are issued.

In the event we are unable to secure sufficient business to support our operations, we may need to raise additional capital in the future. Additional funding may include the financing or leasing of capital equipment or raising capital in the equity markets. Our ability to raise additional capital in the equity markets to fund our obligations in future periods depends 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, negative economic conditions, adverse market conditions, and adverse financial results. If we are unable to either raise sufficient capital in the equity markets or generate additional revenue, we may need to further restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us.

As a result of the above factors, we have concluded that there is substantial doubt about our ability to continue as a going concern within one year after the date that our accompanying unaudited condensed consolidated financial statements are issued.

Significant components of the changes in cash flows from operating, investing, and financing activities for the nine months ended January 31, 2019 compared to the same prior year period are as follows (in thousands):

Cash Used In Operating Activities. Net cash used in operating activities represents our net loss, as reported, adjustments to reconcile net loss to net cash used in operating activities and net changes in the timing of cash flows as reflected by the changes in operating assets and liabilities, as described in the below table:

	Nine Months Ended January 31,	
	2019	**2018**
Net loss, as reported	$ (4,551)	$ (24,833)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,006	1,945
Stock-based compensation	1,080	1,206
Gain on sale of research and development assets	(1,000)	–
Loss on disposal of property and equipment	104	401
Net cash used in operating activities before changes in operating assets and liabilities	$ (2,361)	$ (21,281)
Net change in operating assets and liabilities from:		
Continuing operations	$ (10,457)	$ (5,299)
Discontinued operations	(4,425)	(1,521)
Net cash used in operating activities	$ (17,243)	$ (28,101)

Net cash used in operating activities decreased $10,858 to $17,243 for the nine months ended January 31, 2019 compared to net cash used in operating activities of $28,101 for the nine months ended January 31, 2018. This decrease in net cash used in operating activities was due to a decrease of $18,920 in net loss reported for the current nine-month period after adjustments for non-cash expenses, gain on sale of research and development assets and loss of disposal of property and equipment, as described in the above table, offset by a net change in operating assets and liabilities of $5,158 and $2,904 from continuing and discontinued operations, respectively. The net change in operating assets and liabilities from continuing operations was primarily due to an increase in contract assets (unbilled receivables) combined with decreases in inventories and contract liabilities (customer deposits and deferred revenue) associated with the application of ASC 606, which we adopted on May 1, 2018. The net change in operating assets and liabilities from discontinued operations was primarily due to decreases in accrued payroll and related costs and accrued clinical trial and related fees.

Net Cash Provided By (Used In) Investing Activities. Net cash provided by (used in) investing activities for the nine months ended January 31, 2019 and 2018 was $4,752 and ($2,144), respectively.

Net cash provided by investing activities for the nine months ended January 31, 2019 consisted of proceeds of $6,000 related to the sale of certain research and development assets associated with our discontinued research and development segment (as described in Note 10 to the accompanying unaudited condensed consolidated financial statements), offset by the purchase of property and equipment of $1,248.

Net cash used in investing activities for the nine months ended January 31, 2018 was directly related to the purchase of property and equipment.

Net Cash (Used In) Provided By Financing Activities. Net cash (used in) provided by financing activities for the nine months ended January 31, 2019 and 2018 was ($2,016) and $1,384, respectively.

Net cash used in financing activities during the nine months ended January 31, 2019 consisted of $3,244 in dividends paid on our issued and outstanding Series E Preferred Stock and $74 in principal payments on a capital lease obligation, which amounts were offset by $1,188 in net proceeds from stock option exercises and $114 in net proceeds from the purchase of shares of our common stock under our Employee Stock Purchase Plan.

Net cash provided by financing activities during the nine months ended January 31, 2018 consisted of $4,193 in net proceeds from the sale of shares of our common stock under an At Market Issuance Sales Agreement (as of July 31, 2017 we had raised the full amount of gross proceeds available to us under this At Market Issuance Sales Agreement), $217 in net proceeds from the purchase of shares of our common stock under our Employee Stock Purchase Plan, and $398 in net proceeds from stock option exercises, which amounts were offset by dividends paid on our issued and outstanding Series E Preferred Stock of $3,244 and principal payments on a capital lease obligation of $180.

Backlog

Our backlog represents, as of a point in time, future contract manufacturing revenue from work not yet completed under signed commitments. As of January 31, 2019, our backlog was approximately $43 million (ASC 606) as compared to approximately $39 million (ASC 605) as of January 31, 2018. While we anticipate the majority of our backlog will be recognized as revenue during fiscal year 2020, our backlog is subject to a number of risks and uncertainties, including the risk that a customer may experience delays in its program(s) or otherwise, which could result in the postponement of anticipated manufacturing services; the risk that a customer timely cancels its commitments prior to our initiation of manufacturing services, in which case we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments; and the risk that we may not successfully execute on all customer projects, any of which could have a negative impact on our liquidity, reported backlog and future revenue.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our cash and cash equivalents are primarily invested in money market funds with one major commercial bank with the primary objective to preserve our principal balance. Our deposits held with this bank exceed the amount of government insurance limits provided on our deposits and, therefore, we are exposed to credit risk in the event of default by the major commercial bank holding our cash balances. However, these deposits may be redeemed upon demand and, therefore, bear minimal risk. In addition, while changes in U.S. interest rates would affect the interest earned on our cash balances at January 31, 2019, such changes would not have a material adverse effect on our financial position or results of operations based on historical movements in interest rates.

ITEM 4. CONTROLS AND PROCEDURES.

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

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of January 31, 2019, the end of the period covered by this Quarterly Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of January 31, 2019.

There were no significant changes in our internal control over financial reporting, during the quarter ended January 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors included in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended April 30, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits:

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

* Filed herewith.

SIGNATURES

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

AVID BIOSERVICES, INC.

Date: March 11, 2019

By: /s/ Roger J. Lias, Ph.D.
Roger J. Lias, Ph.D.
President and Chief Executive Officer

Date: March 11, 2019

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

Exhibit 31.1

Certification of Chief Executive Officer

I, Roger J. Lias, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 11, 2019

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

Roger J. Lias, Ph.D.
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

I, Daniel R. Hart, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 11, 2019

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

Exhibit 32

CERTIFICATION

I, Roger J. Lias, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended January 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc.

By: /s/ Roger J. Lias, Ph.D.
Name: Roger J. Lias, Ph.D.
Title: President and Chief Executive Officer
Date: March 11, 2019

I, Daniel R. Hart, certify, pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended January 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc.

By: /s/ Daniel R. Hart
Name: Daniel R. Hart
Title: Chief Financial Officer
Date: March 11, 2019

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.

This Certification is being furnished pursuant to Rule 15(d) and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. This Certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent it is specifically incorporated by reference.