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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2024
or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number: **001-32839**

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

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

14191 Myford Road, Tustin, California, 92780
(Address of principal executive offices, Zip Code)

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

63,963,302 shares of registrant's common stock were outstanding as of December 3, 2024.

AVID BIOSERVICES, INC.

Form 10-Q

For the Fiscal Quarter Ended October 31, 2024

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

PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	October 31, 2024	April 30, 2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,415	$ 38,106
Accounts receivable, net	18,411	16,644
Contract assets	11,803	12,364
Inventory	28,073	30,375
Prepaid expenses and other current assets	4,803	6,513
Total current assets	96,505	104,002
Property and equipment, net	182,244	186,514
Operating lease right-of-use assets	40,321	41,157
Other assets	4,412	4,884
Total assets	$ 323,482	$ 336,557
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,251	$ 20,667
Accrued compensation and benefits	8,222	5,437
Contract liabilities	51,671	39,887
Current portion of operating lease liabilities	1,445	1,354
Other current liabilities	3,567	3,221
Total current liabilities	74,156	70,566
Convertible senior notes, net	154,147	153,593
Operating lease liabilities, less current portion	43,591	44,336
Finance lease liabilities, less current portion	6,343	7,101
Other liabilities	437	72
Total liabilities	278,674	275,668
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000 shares authorized; no shares issued and outstanding at respective dates	–	–
Common stock, $0.001 par value; 150,000 shares authorized; 63,956 and 63,568 shares issued and outstanding at respective dates	64	64
Additional paid-in capital	639,555	632,696
Accumulated deficit	(594,811)	(571,871)
Total stockholders' equity	44,808	60,889
Total liabilities and stockholders' equity	$ 323,482	$ 336,557

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended October 31, 2024	Three Months Ended October 31, 2023	Six Months Ended October 31, 2024	Six Months Ended October 31, 2023
Revenues	$ 33,482	$ 25,395	$ 73,655	$ 63,121
Cost of revenues	35,527	30,060	69,987	63,686
Gross profit (loss)	(2,045)	(4,665)	3,668	(565)
Operating expenses:				
Selling, general and administrative	10,586	6,557	18,755	12,820
Total operating expenses	10,586	6,557	18,755	12,820
Operating loss	(12,631)	(11,222)	(15,087)	(13,385)
Interest expense	(3,276)	(827)	(5,730)	(1,652)
Other income (expense), net	(1,499)	140	(2,123)	398
Net loss before income taxes	(17,406)	(11,909)	(22,940)	(14,639)
Income tax benefit	–	(2,388)	–	(2,996)
Net loss	$ (17,406)	$ (9,521)	$ (22,940)	$ (11,643)
Comprehensive loss	$ (17,406)	$ (9,521)	$ (22,940)	$ (11,643)
Net loss per share:				
Basic and diluted	$ (0.27)	$ (0.15)	$ (0.36)	$ (0.18)
Weighted average common shares outstanding:				
Basic and diluted	63,838	63,149	63,739	62,994

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended October 31, 2024				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at July 31, 2024	63,790	$ 64	$ 635,977	$ (577,405)	$ 58,636
Common stock issued under equity compensation plans	166	–	109	–	109
Stock-based compensation expense	–	–	3,469	–	3,469
Net loss	–	–	–	(17,406)	(17,406)
Balance at October 31, 2024	63,956	$ 64	$ 639,555	$ (594,811)	$ 44,808

	Three Months Ended October 31, 2023				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at July 31, 2023	63,111	$ 63	$ 623,445	$ (433,240)	$ 190,268
Common stock issued under equity compensation plans	123	–	120	–	120
Stock-based compensation expense	–	–	2,466	–	2,466
Net loss	–	–	–	(9,521)	(9,521)
Balance at October 31, 2023	63,234	$ 63	$ 626,031	$ (442,761)	$ 183,333

	Six Months Ended October 31, 2024				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at April 30, 2024	63,568	$ 64	$ 632,696	$ (571,871)	$ 60,889
Common stock issued under equity compensation plans	388	–	725	–	725
Stock-based compensation expense	–	–	6,134	–	6,134
Net loss	–	–	–	(22,940)	(22,940)
Balance at October 31, 2024	63,956	$ 64	$ 639,555	$ (594,811)	$ 44,808

	Six Months Ended October 31, 2023				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at April 30, 2023	62,692	$ 63	$ 620,224	$ (431,118)	$ 189,169
Common stock issued under equity compensation plans	542	–	998	–	998
Stock-based compensation expense	–	–	4,809	–	4,809
Net loss	–	–	–	(11,643)	(11,643)
Balance at October 31, 2023	63,234	$ 63	$ 626,031	$ (442,761)	$ 183,333

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended October 31, 2024	Six Months Ended October 31, 2023
Cash flows from operating activities:		
Net loss	$ (22,940)	$ (11,643)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,796	5,433
Stock-based compensation	6,134	4,809
Amortization of debt issuance costs	585	639
Deferred income taxes	–	(3,009)
Loss on disposal of property and equipment	–	46
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,767)	4,919
Contract assets	561	(1,238)
Inventory	2,302	5,325
Prepaid expenses and other assets	2,151	(7,909)
Accounts payable	(9,370)	4,344
Accrued compensation and benefits	2,785	(4,536)
Contract liabilities	11,784	8,808
Other accrued expenses and liabilities	1,293	20
Net cash provided by operating activities	314	6,008
Cash flows from investing activities:		
Purchase of property and equipment	(4,758)	(21,624)
Net cash used in investing activities	(4,758)	(21,624)
Cash flows from financing activities:		
Proceeds from issuance of common stock under equity compensation plans	725	998
Proceeds from finance lease	–	7,412
Principal payments on finance leases	(972)	(262)
Net cash (used in) provided by financing activities	(247)	8,148
Net decrease in cash and cash equivalents	(4,691)	(7,468)
Cash and cash equivalents, beginning of period	38,106	38,892
Cash and cash equivalents, end of period	$ 33,415	$ 31,424
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 4,449	$ 593
Cash paid for income taxes	$ 33	$ 14
Supplemental disclosures of non-cash activities:		
Unpaid purchases of property and equipment	$ 240	$ 7,972
Unpaid interest capitalized as construction-in-progress	$ –	$ 112

See accompanying notes to condensed consolidated financial statements.

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

Note 1 – Description of Company and Basis of Presentation

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

On November 6, 2024, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Space Finco, Inc., a Delaware corporation ("Parent"), and Space Mergerco, Inc., a Delaware corporation and direct wholly owned subsidiary of Parent ("Merger Sub"). Refer to Note 10, "Subsequent Events," for more information.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to quarterly reports on Form 10-Q, and accordingly, they do not include all the information and disclosures required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2024, as filed with the SEC on July 2, 2024. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this Quarterly Report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year or any other interim period.

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

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

Note 2 – Summary of Significant Accounting Policies

Information regarding our significant accounting policies is contained in Note 2, "Summary of Significant Accounting Policies," of the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2024.

Revenue Recognition

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

Manufacturing revenue

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

Process development revenue

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

The following table summarizes our revenue streams (in thousands):

	Three Months Ended October 31,		Six Months Ended October 31,	
	2024	**2023**	**2024**	**2023**
Manufacturing revenues	$ 27,275	$ 20,128	$ 61,246	$ 53,548
Process development revenues	6,207	5,267	12,409	9,573
Total revenues	$ 33,482	$ 25,395	$ 73,655	$ 63,121

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

During the three and six months ended October 31, 2024, we recognized revenues of $7.0 million and $27.5 million, respectively, for which the contract liability was recorded in a prior period.

During the three and six months ended October 31, 2023, we recognized revenues of $4.0 million and $20.8 million, respectively, for which the contract liability was recorded in a prior period.

The transaction price for services provided under our customer contracts reflects our best estimates of the amount of consideration to which we are entitled in exchange for providing goods and services to our customers. For contracts with multiple performance obligations, we allocate transaction price to each performance obligation identified in a contract on a relative standalone selling price basis. For contracts in which we receive noncash consideration, such as in the form of a customer's equity securities, we utilize the quoted market price for such noncash consideration to determine the transaction price. We generally determine relative standalone selling prices based on the price observed in the customer contract for each distinct performance obligation. If observable standalone selling prices are not available, we may estimate the applicable standalone selling price based on the pricing of other comparable services or on a price that we believe the market is willing to pay for the applicable service.

In determining the transaction price, we also considered the different sources of variable consideration including, but not limited to, discounts, credits, refunds, price concessions or other similar items. We have included in the transaction price some or all of an amount of variable consideration, utilizing the most likely method, only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The actual amount of consideration ultimately received may differ.

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

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

There were no material adjustments in estimates for variable consideration for the three and six months ended October 31, 2024. During the three and six months ended October 31, 2023, changes in estimates for variable consideration resulted in a decrease in revenues of $1.8 million and $3.2 million, respectively, which was attributed to an insolvent customer combined with consideration under a contract where uncertainties had been resolved.

We apply the practical expedient available under ASC 606 that permits us not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. As of October 31, 2024, we do not have any unsatisfied performance obligations for contracts greater than one year.

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

Accounts Receivable, Net

Accounts receivable is primarily comprised of amounts owed to us for services provided under our customer contracts and are recorded at the invoiced amount net of an allowance for doubtful accounts, if necessary. We apply judgement in assessing the ultimate realization of our receivables, that includes an assessment of expected credit losses, and we estimate our allowance for doubtful accounts based on various factors, including our historical collection experience, aging of our customer receivable balances, current and future economic market conditions, and the financial condition of our customers.

Based on our analysis of our accounts receivable balance as of October 31, 2024 and April 30, 2024, we determined an allowance for doubtful accounts of $1.8 million and $2.3 million, respectively, was deemed necessary.

Inventory

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

Property and Equipment

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

Description	**Estimated Useful Life**
Leasehold improvements	Shorter of estimated useful life or lease term
Laboratory and manufacturing equipment	5 – 15 years
Computer equipment and software	3 – 5 years
Furniture, fixtures and office equipment	5 – 10 years

Costs for property and equipment not yet placed into service have been capitalized as construction-in-progress. These costs are primarily related to equipment and leasehold improvements associated with our manufacturing facilities and will be depreciated in accordance with the above guidelines once placed into service. Interest costs incurred during construction of major capital projects are capitalized as construction-in-progress until the underlying asset is ready for its intended use, at which point the interest costs are amortized as depreciation expense over the life of the underlying asset. Interest capitalized as construction-in-progress for the three and six months ended October 31, 2024 was nil and $0.8 million, respectively. Interest capitalized as construction-in-progress for the three and six months ended October 31, 2023 was $0.2 million and $0.3 million, respectively. All of our property and equipment are located in the United States. Property and equipment consist of the following (in thousands):

	October 31, 2024	April 30, 2024
Leasehold improvements	$ 153,358	$ 103,178
Laboratory and manufacturing equipment	43,856	41,497
Computer equipment and software	4,458	4,236
Furniture, fixtures and office equipment	2,308	1,730
Construction-in-progress	21,625	72,502
Total property and equipment, gross	225,605	223,143
Less: accumulated depreciation and amortization	(43,361)	(36,629)
Total property and equipment, net	$ 182,244	$ 186,514

Depreciation and amortization expense for the three and six months ended October 31, 2024 was $4.0 million and $6.8 million, respectively.

Depreciation and amortization expense for the three and six months ended October 31, 2023 was $2.8 million and $5.4 million, respectively.

Leases

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

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

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

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

Impairment

Long-lived assets are reviewed for impairment in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. If such events or changes in circumstances arise, we compare the carrying amount of the long-lived assets to the estimated future undiscounted cash flows expected to be generated by the long-lived assets. If the long-lived assets are determined to be impaired, any excess of the carrying value of the long-lived assets over its estimated fair value is recognized as an impairment loss. For the six months ended October 31, 2024 and 2023, there were no indicators of impairment of the value of our long-lived assets and no cumulative impairment losses were recognized.

Stock-Based Compensation

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

Debt Issuance Costs

Debt issuance costs related to convertible senior notes are recorded as a deduction that is netted against the principal value of the debt and are amortized to interest expense using the effective interest method over the contractual term of the debt other than when new convertible senior notes are considered a modification of convertible senior notes for the same creditor, then the debt issuance costs are expensed as incurred (Note 3, *"Debt"*).

Debt issuance costs related to the revolving credit facility are included in prepaid expenses and other current assets in the unaudited condensed consolidated balance sheets and are amortized to interest expense over the contractual term of the revolving credit facility (Note 3, *"Debt"*).

Comprehensive Loss

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

Fair Value Measurements

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

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

As of October 31, 2024 and April 30, 2024, our Level 1 financial assets consisted of our cash equivalents invested in money market funds of $27.9 million and $27.6 million, respectively, and our other current assets related to investments in equity securities of $1.7 million and $4.4 million, respectively. Our Level 1 financial assets are carried at fair value based on quoted market prices for identical securities (Level 1 inputs). We did not have any Level 2 or Level 3 financial assets as of October 31, 2024 and April 30, 2024.

We consider the fair value of our convertible senior notes to be a Level 2 financial liability due to limited trading activity of the convertible senior notes (Note 3, *"Debt"*). We did not have any other Level 2 or Level 3 financial liabilities as of October 31, 2024 and April 30, 2024.

Accounting Standards Not Yet Adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): *Improvements to Reportable Segment Disclosures* ("ASU 2023-07"). The standard is intended to improve annual and interim reportable segment disclosure requirements regardless of the number of reporting units, primarily through enhanced disclosure of significant expenses. The amendment requires public entities to disclose significant segment expenses that are regularly provided to the chief operating decision maker and included with each reported measure of segment profit and loss. ASU 2023-07 is effective for annual reporting periods beginning after December 15, 2023, which will be our fiscal year ending April 30, 2025, and interim reporting periods within fiscal years beginning after December 15, 2024, which will be our fiscal year 2026 beginning May 1, 2025. Early adoption is permitted and the amendments in this update should be applied retrospectively to all periods presented. We are currently evaluating the impact the adoption of ASU 2023-07 will have on our consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): *Improvements to Income Tax Disclosures* ("ASU 2023-09"). The standard requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as additional information on income taxes paid, among other enhancements to improve the effectiveness of income tax disclosures. ASU 2023-09 is effective for annual periods beginning after December 15, 2024, which will be our fiscal year 2026 beginning May 1, 2025; however, early adoption is permitted. ASU 2023-09 should be applied on a prospective basis, but retrospective application is permitted. We are currently evaluating the impact the adoption of ASU 2023-09 will have on our consolidated financial statements and related disclosures.

In November 2024, the FASB issued ASU No. 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): *Disaggregation of Income Statement Expenses* ("ASU 2024-03"). The standard requires new financial statement disclosures in tabular format, in the notes to financial statements, of specified information about certain costs and expenses. The amendments in this update do not change or remove current expense disclosure requirements. The amendments in this update are effective for annual reporting periods beginning after December 15, 2026, which will be our fiscal year ending April 30, 2028, and interim reporting periods within fiscal years beginning after December 15, 2027, which will be our fiscal year 2029 beginning May 1, 2028. Early adoption is permitted and the amendments in this update should be applied either prospectively to financial statements issued for reporting periods after the effective date or retrospectively to any or all prior periods presented in the financial statements. We are currently evaluating the impact the adoption of ASU 2024-03 will have on our consolidated financial statements and related disclosures.

Note 3 – Debt

Convertible Senior Notes Due 2029

In March 2024, we completed a private offering (the "Offering") of $160.0 million aggregate principal amount of 7.00% convertible senior notes due 2029 (the "2029 Notes") to qualified institutional buyers pursuant to Section 4(a)(2) of the Securities Act. We received net proceeds from the Offering of approximately $153.5 million, after deducting placement agent's commissions and other debt issuance related expenses of approximately $6.5 million.

Subsequent to the closing of the Offering, during March 2024, we used approximately $146.1 million of the net proceeds to (i) repurchase for cash, $141.0 million aggregate principal amount of the 2026 Notes (as defined below) in privately negotiated transactions with certain holders of the 2026 Notes plus accrued and unpaid interest of $2.3 million, and (ii) repay in full, the remaining outstanding 2026 Notes balance by depositing the required payoff amount of $2.8 million, representing principal and accrued and unpaid interest, with the trustee under the 2026 Notes Indenture (as defined below), following which no 2026 Notes remained outstanding.

The 2029 Notes are senior unsecured obligations and accrue interest at a rate of 7.00% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2024. The 2029 Notes mature on March 1, 2029, unless earlier repurchased by us or converted at the option of the holders. The 2029 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election in the manner and subject to the terms and conditions provided in the indenture (the "2029 Notes Indenture") governing the 2029 Notes.

The initial conversion rate for the 2029 Notes is approximately 101.1250 shares of our common stock per $1,000 principal amount, which represents an initial conversion price of approximately $9.89 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain events in accordance with the terms of the 2029 Notes Indenture. In addition, following certain corporate events that occur prior to the maturity date, we will, in certain circumstances, increase the conversion rate for a holder who elects to convert their 2029 Notes in connection with such a fundamental change, as defined in the 2029 Notes Indenture.

Holders of the 2029 Notes may convert their 2029 Notes at their option at any time prior to the close of business on the business day immediately preceding September 1, 2028, only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending July 31, 2024 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price for the 2029 Notes on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the 2029 Notes Indenture) per $1,000 principal amount of the 2029 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events as described in the 2029 Notes Indenture.

On or after September 1, 2028 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders at their option may convert all or any portion of their 2029 Notes at any time, regardless of the foregoing circumstances. We may not redeem the 2029 Notes prior to the March 1, 2029 maturity date.

If we undergo a fundamental change (as defined in the 2029 Notes Indenture), holders may require us to repurchase for cash all or any portion of their 2029 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2029 Notes to be repurchased, plus accrued and unpaid interest to, but excluding the fundamental change repurchase date.

The 2029 Notes Indenture includes customary terms and covenants, including that upon certain events of default occurring and continuing, if we fail to comply with any of our other agreements contained in the 2029 Notes or the 2029 Notes Indenture for 60 days after receipt of written notice of such failure from the trustee or the holders of at least 25% in aggregate principal amount of the outstanding 2029 Notes, then the trustee or the holders of at least 25% in aggregate principal amount of the outstanding 2029 Notes may declare the entire principal of all the 2029 Notes plus accrued and unpaid interest to be immediately due and payable.

As of October 31, 2024, the conditions allowing holders of the 2029 Notes to convert had not been met and, therefore, the 2029 Notes are classified as a long-term liability on the unaudited condensed consolidated balance sheets at October 31, 2024 and April 30, 2024.

Convertible Senior Notes Due 2026

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

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

Subsequent to the closing of the Offering described above, during March 2024, we repurchased and paid off the remaining balance of the 2026 Notes.

Net Carrying Amount of 2029 Notes

The net carrying amount of the 2029 Notes is as follows (in thousands):

	October 31, 2024	April 30, 2024
Principal	$ 160,000	$ 160,000
Unamortized issuance costs	(5,853)	(6,407)
Net carrying amount	$ 154,147	$ 153,593

As of October 31, 2024, the estimated fair value of the 2029 Notes was approximately $220.0 million. The fair value was determined based on the last actively traded price per $100 of the 2029 Notes for the period ended October 31, 2024 (Level 2).

The following table summarizes the components of interest expense related to the 2029 Notes for the three and six months ended October 31, 2024, and the 2026 Notes for the three and six months ended October 31, 2023 (in thousands):

	Three Months Ended October 31,		Six Months Ended October 31,	
	2024	2023	2024	2023
	(2029 Notes)	*(2026 Notes)*	*(2029 Notes)*	*(2026 Notes)*
Contractual interest expense	$ 2,800	$ 453	$ 4,764	$ 911
Amortization of issuance costs	280	266	554	531
Total interest expense	$ 3,080	$ 719	$ 5,318	$ 1,442

The effective interest rate of the 2029 Notes for the three and six months ended October 31, 2024 was 8.00%. The effective interest rate of the 2026 Notes for the three and six months ended October 31, 2023 was 2.31%.

Revolving Credit Facility

In March 2023, we entered into a credit agreement with Bank of America, N.A., as administrative agent and letter of credit issuer, which was subsequently amended on October 27, 2023 and March 12, 2024 (as amended, the “Credit Agreement”). The Credit Agreement provided for a revolving credit facility (the “Revolving Credit Facility”) in an amount equal to the lesser of (i) $50 million and (ii) a borrowing base calculated as the sum of (a) 80% of the value of certain of our eligible accounts receivable, plus (b) up to 100% of the value of eligible cash collateral. In addition, we paid a quarterly unused revolving line facility fee of 0.25% per annum on the average unused facility.

The Revolving Credit Facility matured on October 25, 2024, without us drawing upon the facility throughout its term.

Note 4 – Leases

We lease certain office, manufacturing, laboratory and warehouse space located in Orange County, California under operating lease agreements. Our leased facilities have original lease terms ranging from 7 to 12 years, contain multi-year renewal options, and scheduled rent increases of 3% on either an annual or biennial basis. Multi-year renewal options were included in determining the right-of-use asset and lease liability for each of our leases as we considered it reasonably certain that we would exercise such renewal options. In addition, certain of our leases provide for periods of free rent, lessor improvements and tenant improvement allowances, of which certain of these improvements have been classified as leasehold improvements and/or are being amortized over the shorter of the estimated useful life of the improvements or the remaining life of the lease.

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

We also lease certain manufacturing equipment under finance lease agreements that have terms of up to 5 years.

The components of our lease costs are summarized as follows (in thousands):

	Three Months Ended October 31,		Six Months Ended October 31,	
	2024	2023	2024	2023
Operating lease cost	$ 1,138	$ 1,150	$ 2,271	$ 2,290
Variable lease cost	494	424	957	775
Short-term lease cost	33	31	64	67
Finance lease costs:				
Amortization of right-of-use assets	126	54	253	108
Interest on lease liabilities	131	25	268	52
Total lease cost	$ 1,922	$ 1,684	$ 3,813	$ 3,292

Supplemental consolidated balance sheet and other information related to our leases were as follows (in thousands, expect weighted average data):

Leases	**Classification**	**October 31, 2024**	**April 30, 2024**
Assets			
Operating	Operating lease right-of-use assets	$ 40,321	$ 41,157
Finance	Property and equipment, net	8,695	9,270
Total leased assets		$ 49,016	$ 50,427
Liabilities			
Current:			
Operating	Current portion of operating lease liabilities	$ 1,445	$ 1,354
Finance	Other current liabilities	1,494	1,450
Non-current:			
Operating	Operating lease liabilities, less current portion	43,591	44,336
Finance	Finance lease liabilities, less current portion	6,343	7,101
Total lease liabilities		$ 52,873	$ 54,241
Weighted average remaining lease term (years):			
Operating leases		15.2	15.7
Finance leases		1.3	5.8
Weighted average discount rate:			
Operating leases		6.0%	6.0%
Finance leases		6.5%	6.5%

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

	Six Months Ended October 31,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,955	$ 2,149
Operating cash flows from finance leases	395	52
Financing cash flows from finance leases	972	262

As of October 31, 2024, the maturities of our lease liabilities, which includes those derived from lease renewal options that we considered it reasonably certain that we would exercise, were as follows (in thousands):

Fiscal Year Ending April 30,	Operating Leases	Finance Leases	Total
2025 (remaining period)	$ 2,043	$ 982	$ 3,025
2026	4,167	6,991	11,158
2027	4,199	419	4,618
2028	4,036	–	4,036
2029	4,147	–	4,147
Thereafter	52,272	–	52,272
Total lease payments	$ 70,864	$ 8,392	$ 79,256
Less: imputed interest	(25,828)	(555)	(26,383)
Total lease liabilities	$ 45,036	$ 7,837	$ 52,873

Note 5 – Equity Compensation Plans

Stock Incentive Plans

As of October 31, 2024, we had an aggregate of 11,063,435 shares of our common stock reserved for issuance under our stock incentive plans, of which 6,318,586 shares were subject to outstanding stock options, restricted stock units ("RSUs") and performance stock units ("PSUs") and 4,744,849 shares were available for future grants of stock-based awards.

Stock Options

The following summarizes our stock option transaction activity for the six months ended October 31, 2024:

	Stock Options	Grant Date Weighted Average Exercise Price
	(in thousands)	
Outstanding at May 1, 2024	1,986	$ 6.68
Granted	–	$ –
Exercised	(32)	$ 6.09
Canceled or expired	(78)	$ 12.33
Outstanding at October 31, 2024	1,876	$ 6.45

Restricted Stock Units

The following summarizes our RSUs transaction activity for the six months ended October 31, 2024:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at May 1, 2024	1,311	$ 14.08
Granted	1,476	$ 7.66
Vested and issued	(251)	$ 13.97
Forfeited	(59)	$ 12.33
Outstanding at October 31, 2024	2,477	$ 10.31

Performance Stock Units

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

The following summarizes our PSUs transaction activity for the six months ended October 31, 2024:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at May 1, 2024	611	$ 15.30
Granted	1,239	$ 7.58
Vested and issued	–	$ –
Forfeited	(40)	$ 11.32
Outstanding at October 31, 2024	1,810	$ 10.11

Employee Stock Purchase Plan

The Avid Bioservices, Inc. 2010 Employee Stock Purchase Plan (the "ESPP") is a stockholder-approved plan under which employees can purchase shares of our common stock, based on a percentage of their compensation, subject to certain limits. The purchase price per share is equal to the lower of 85% of the fair market value of our common stock on the first trading day of the six-month offering period or on the last trading day of the six-month offering period. During the six months ended October 31, 2024, a total of 98,948 shares of our common stock were purchased under the ESPP at a purchase price of $5.41 per share. As of October 31, 2024, we had 750,270 shares of our common stock reserved for issuance under the ESPP.

Stock-Based Compensation

Stock-based compensation expense included in our unaudited condensed consolidated statements of loss and comprehensive loss for the three and six months ended October 31, 2024 and 2023 was comprised of the following (in thousands):

	Three Months Ended October 31,		Six Months Ended October 31,	
	2024	2023	2024	2023
Cost of revenues	$ 1,457	$ 1,107	$ 2,588	$ 2,061
Selling, general and administrative	2,012	1,359	3,546	2,748
Total stock-based compensation expense	$ 3,469	$ 2,466	$ 6,134	$ 4,809

As of October 31, 2024, the total estimated unrecognized compensation cost related to non-vested stock options and RSUs was less than $0.1 million and $22.8 million, respectively. These costs are expected to be recognized over weighted average vesting periods of 0.48 and 2.96 years, respectively. As of October 31, 2024, there was $10.1 million of total estimated unrecognized compensation cost related to non-vested PSUs associated with the Performance Periods ending April 30, 2025, 2026 and 2027. This cost is expected to be recognized over the weighted average vesting period of 1.28 years, however, we will assess the likelihood of achieving the predetermined financial metrics associated with each Performance Period on a quarterly basis and the expense recognized, if any, will be adjusted accordingly.

Note 6 – Deferred Compensation Plan

In July 2023, our Board of Directors approved and adopted the Avid Bioservices, Inc. Deferred Compensation Plan (the “DC Plan”). The DC Plan allows non-employee directors and certain highly compensated employees to defer a portion of their base compensation, cash bonuses, and certain RSU and PSU awards. As of October 31, 2024 and April 30, 2024, contributions to the DC Plan were $0.4 million and $0.2 million, respectively, and are included in other non-current liabilities and accrued compensation and benefits, respectively, on the unaudited condensed consolidated balance sheets at October 31, 2024 and April 30, 2024.

The RSU and PSU awards deferred under the DC Plan are required to be settled through the issuance of the Company’s common stock. The deferred compensation obligation for these awards is accounted for in accordance with the authoritative guidance of ASC 718, *Compensation – Stock Compensation*. As of October 31, 2024 and April 30, 2024, there were 127,556 and nil shares, respectively, of vested and deferred stock awards under the DC Plan. To date, no stock awards vested and deferred under the DC Plan have been settled through the issuance of the Company’s common stock.

Note 7 – Income Taxes

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

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

The provision/(benefit) for income taxes recorded for the three and six months ended October 31, 2024 and 2023 differs from the U.S. federal statutory tax rate of 21% due primarily to the tax impact of stock-based compensation, non-deductible officers’ compensation, transportation fringe benefits, and valuation allowance (current year periods only).

For the three and six months ended October 31, 2024, we recorded no income tax expense/(benefit) resulting in an effective tax rate of approximately 0%.

For the three and six months ended October 31, 2023, we recorded an income tax (benefit) of $(2.4) million and $(3.0) million, respectively, resulting in an effective tax rate of approximately 20% and 21%, respectively.

We have no material uncertain tax position liabilities as of October 31, 2024 and April 30, 2024. It is our policy to recognize interest and penalties related to income tax matters in interest expense and other income (expense), net, respectively, in our unaudited condensed consolidated statements of loss and comprehensive loss. There was no accrued interest or penalties associated with uncertain tax positions as of October 31, 2024 and April 30, 2024.

Note 8 – Net Loss Per Common Share

Basic net loss per common share is computed by dividing our net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per common share is computed by dividing our net loss 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, unvested PSUs, shares of common stock expected to be issued under our ESPP, and the 2026 Notes and 2029 Notes.

The potential dilutive effect of stock options, unvested RSUs, unvested PSUs, and shares of common stock expected to be issued under our ESPP during the period are calculated in accordance with the treasury stock method but are excluded if their effect is anti-dilutive. The potential dilutive effect of our 2026 Notes and 2029 Notes are calculated using the if-converted method assuming the conversion of our 2026 Notes and 2029 Notes as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive.

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2024	**2023**	**2024**	**2023**
Stock options	862	877	748	962
RSUs, PSUs and ESPP	1,572	1,400	1,408	1,241
2026 Notes	–	6,776	–	6,776
2029 Notes	16,180	–	16,180	–
Total	18,614	9,053	18,336	8,979

Note 9 – Commitments and Contingencies

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

Note 10 – Subsequent Events

On November 6, 2024, we entered the Merger Agreement with Parent and Merger Sub, providing for the merger of Merger Sub with and into us (the "Merger", and together with the other transactions contemplated by the Merger Agreement, the "Transactions"), with us surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of GHO Capital Partners LLP and Ampersand Capital Partners.

Under the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each (i) share of our common stock (the "Shares") issued and outstanding as of immediately prior to the Effective Time (subject to certain exceptions set forth in the Merger Agreement) will be cancelled and cease to exist and automatically converted into the right to receive $12.50 in cash, without interest (the "Merger Consideration"), subject to applicable tax withholding; (ii) option to purchase Shares ("Company Option") that is outstanding as of immediately prior to the Effective Time will accelerate and become fully vested and exercisable and will be cancelled and converted into the right to receive an amount in cash, without interest, equal to the product of (A) the total number of Shares subject to such Company Option immediately prior to the Effective Time, *multiplied by* (B) the excess of the Merger Consideration over the exercise price payable per Share under such Company Option, less applicable tax withholdings; (iii) RSU that is outstanding immediately prior to the Effective Time will be cancelled and converted into the right to receive an amount in cash, without interest, equal to the product of (A) the total number of Shares issuable in settlement of such RSU immediately prior to the Effective Time without regard to vesting, *multiplied by* (B) the Merger Consideration, less applicable tax withholdings; and (iv) PSU that is outstanding as of immediately prior to the Effective Time, will, to the extent unvested, vest in accordance with their terms at the greater of target performance (100%) and actual performance determined as of the end of the fiscal quarter immediately preceding the Effective Time, and each PSU will be cancelled and converted into solely the right to receive an amount in cash, without interest, equal to the product of (A) the total number of Shares (determined as set forth above) issuable in settlement of such PSU immediately prior to the Effective Time without regard to vesting, *multiplied by* (B) the Merger Consideration, less applicable tax withholdings.

Consummation of the Merger is subject to the satisfaction or waiver of certain conditions, including, but not limited to, (i) our receipt of the approval of our stockholders representing a majority of the outstanding Shares; (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"); (iii) absence of any law, order or injunction issued by any governmental body of competent jurisdiction preventing or making illegal the consummation of the Merger; (iv) the accuracy of the representations and warranties contained in the Merger Agreement (subject to specified materiality qualifiers); (v) compliance with the covenants and obligations under the Merger Agreement in all material respects; and (vi) absence of a material adverse effect with respect to us that is continuing as of the Effective Time.

The Merger Agreement contains customary termination rights for each of us and Parent. Upon termination of the Merger Agreement in accordance with its terms, under specified circumstances, we will be required to pay Parent a termination fee, including if the Merger Agreement is terminated due to (i) us accepting a Superior Proposal (as defined in the Merger Agreement) that was not the result of a material breach of our no-shop obligations; or (ii) our Board changing its recommendation that our stockholders vote in favor of the Merger, in which case the termination fee payable by us to Parent will be $32.0 million. The Merger Agreement further provides that Parent will be required to pay us a termination fee of $64.0 million in the event that the Merger Agreement is terminated under certain specified circumstances, including if the Merger Agreement is terminated by us following (i) Parent's failure to consummate the Merger as required pursuant to, and in the circumstances specified in, the Merger Agreement; or (ii) Parent or Merger Sub's breach of their representations, warranties or covenants (including its financing obligations) in a manner that would cause the related closing conditions to not be satisfied. The Merger Agreement further provides that Parent will be required to pay us a termination fee of $32.0 million in the event that the Merger Agreement is validly terminated after January 31, 2025 following Parent's, or any of its Affiliates', acquisition or agreement to acquire, or public announcement of the intent to acquire, any assets, business, division or any person that is a material, direct competitor of ours, and such acquisition is a proximate cause of the failure of the parties to receive any consents or approvals necessary in connection with the Merger under applicable antitrust laws.

In addition to the foregoing termination rights, and subject to certain limitations, we or Parent may terminate the Merger Agreement if the Merger is not consummated by May 6, 2025, subject to an automatic extension to November 6, 2025 if the Transactions have not been consummated, but the only closing condition that has not been satisfied or waived (other than those that are to be satisfied at the closing of the Transactions, each of which is capable of being satisfied) is the expiration or earlier termination of the waiting period under the HSR Act.

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 unaudited condensed consolidated 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, 2024, as filed with the U.S. Securities and Exchange Commission (the “SEC”) on July 2, 2024 (the “Annual Report on Form 10-K”) .

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, those identified in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q, and in other filings we may make with the Securities and Exchange Commission from time to time. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time, and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements and, except as required by law, assume no obligation and do not intend to update these forward-looking statements.

Overview

We are a dedicated contract development and manufacturing organization (“CDMO”) that provides a comprehensive range of services from process development to Current Good Manufacturing Practices (“CGMP”) clinical and commercial manufacturing of biologics for the biotechnology and biopharmaceutical industries. With over 30 years of experience producing biologics, our services include clinical and commercial drug substance manufacturing, bulk packaging, release and stability testing and regulatory submissions support. We also provide a variety of process development services, including cell line development, upstream and downstream development and optimization, analytical methods development, testing and characterization.

Strategic Objectives

We have a growth strategy that seeks to align with the growth of the biopharmaceutical drug substance contract services market. That strategy encompasses the following objectives:

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

Second Fiscal Quarter Highlights

The following summarizes select highlights from our second fiscal quarter ended October 31, 2024:

- Reported revenues of $33.5 million, an increase of 32%, or $8.1 million, compared to the same prior year period; and
- Expanded our customer base and programs with existing customers and ended the quarter with a backlog of approximately $220 million compared to approximately $199 million at the end of the same quarter in fiscal 2024.

Pending Merger

On November 6, 2024, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Space Finco, Inc., a Delaware corporation ("Parent"), and Space Mergerco, Inc., a Delaware corporation and a direct wholly owned subsidiary of Parent ("Merger Sub"), providing for the merger of Merger Sub with and into us (the "Merger", and together with the other transactions contemplated by the Merger Agreement, the "Transactions"), with us surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of GHO Capital Partners LLP and Ampersand Capital Partners.

For an additional detail regarding the pending Merger transaction, see Note 10, "*Subsequent Events*," of the notes to unaudited condensed consolidated financial statements.

Performance and Financial Measures

In assessing the performance of our business, we consider a variety of performance and financial measures. The key indicators of the financial condition and operating performance of our business are revenues, gross profit, selling, general and administrative expenses, operating income (loss), interest expense, other income (expense), net, and income tax (benefit) expense.

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

Revenues

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

Gross Profit

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

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are composed of corporate-level expenses, including compensation, benefits, recruiting fees and stock-based compensation of corporate functions such as executive management, finance and accounting, business development, legal, human resources, information technology, and other centralized services. SG&A expenses also include corporate legal fees, audit and accounting fees, investor relations expenses, non-employee director fees, corporate facility related expenses, and other expenses relating to our general management, administration, and business development activities.

Interest Expense

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

Other Income (Expense), Net

Other income (expense), net primarily consists of interest earned on our cash and cash equivalents, net of gains (losses) from the disposal of long-lived assets, and unrealized loss from an investment in equity securities.

Income Tax Provision (Benefit) Expense

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

Results of Operations

The following table compares the results of our operations for the three months ended October 31, 2024 and 2023 (in thousands):

	Three Months Ended October 31,		
	2024	**2023**	**$ Change**
Revenues	$ 33,482	$ 25,395	$ 8,087
Cost of revenues	35,527	30,060	5,467
Gross loss	(2,045)	(4,665)	2,620
Operating expenses:			
Selling, general and administrative	10,586	6,557	4,029
Total operating expenses	10,586	6,557	4,029
Operating loss	(12,631)	(11,222)	(1,409)
Interest expense	(3,276)	(827)	(2,449)
Other income (expense), net	(1,499)	140	(1,639)
Net loss before income taxes	(17,406)	(11,909)	(5,497)
Income tax benefit	–	(2,388)	2,388
Net loss	$ (17,406)	$ (9,521)	$ (7,885)

Three Months Ended October 31, 2024 Compared to Three Months Ended October 31, 2023

Revenues

Revenues for the three months ended October 31, 2024 were $33.5 million compared to $25.4 million for the same period in the prior year, an increase of approximately $8.1 million, or 32%. The net increase in revenues can be attributed to the following revenue streams (in thousands):

	Three Months Ended October 31,		
	2024	**2023**	**Change**
Manufacturing revenues	$ 27,275	$ 20,128	$ 7,147
Process development revenues	6,207	5,267	940
Total revenues	$ 33,482	$ 25,395	$ 8,087

Gross Loss

Gross loss for the three months ended October 31, 2024 was $2.0 million (negative 6% gross margin) compared to a gross loss of $4.7 million (negative 18% gross margin) for the same period in the prior year. The decrease in gross loss during the three months ended October 31, 2024, as compared to the same prior year period was primarily driven by increased revenues, partially offset by increases in compensation and benefit related expenses, facility, manufacturing and other related expenses, and depreciation expense.

Selling, General and Administrative Expenses

SG&A expenses were $10.6 million for the three months ended October 31, 2024 compared to $6.6 million for the same period in the prior year, an increase of $4.0 million, or 61%. The net increase in SG&A expenses can be attributed to the following components:

	$ millions
Increase in compensation and benefit related expenses	$ 2.1
Increase in legal fees	1.9
Total increase in SG&A expenses	$ 4.0

Operating Loss

Operating loss was $12.6 million for the three months ended October 31, 2024 compared to $11.2 million for the same period in the prior year. This $1.4 million increase in year-over-year operating loss can be attributed to the $4.0 million increase in SG&A expenses, offset by the $2.6 million decrease in gross loss.

Interest Expense

Interest expense was $3.3 million for the three months ended October 31, 2024 compared to $0.8 million for the same period in the prior year. This increase of approximately $2.4 million can primarily be attributed to $3.1 million of increased interest expense associated with our 2029 Notes (as defined below), partially offset by a $0.7 million decrease in interest expense associated with our 2026 Notes, which were paid off during the fourth quarter of fiscal 2024.

Other Income (Expense), net

Other income (expense), net ("OI&E") was expense of $1.5 million for the three months ended October 31, 2024 compared to income of $0.1 million for the same period in the prior year. This $1.6 million decrease in year-over-year OI&E can primarily be attributed to a $1.8 million unrealized loss from an investment in an equity security, partially offset by a $0.1 million increase in interest income.

Income Tax (Benefit)

We recorded no income tax (benefit) expense for the three months ended October 31, 2024 compared to income tax (benefit) of $2.4 million for the same prior year period. This decrease in our income tax provision can primarily be attributed to the recording of a valuation allowance during the fourth quarter of fiscal 2024 to offset our deferred tax assets. Our effective tax rate for the current year period was approximately 0% and was computed based on the U.S. federal statutory rate of 21% adjusted primarily for the tax impact of stock-based compensation, non-deductible officers' compensation, transportation fringe benefits, and valuation allowance. Our effective tax rate for the same prior year period was approximately 20% and was computed based on the U.S. federal statutory rate of 21% adjusted primarily for the tax impact of stock-based compensation, non-deductible officers' compensation, and transportation fringe benefits.

Results of Operations

The following table compares the results of our operations for the six months ended October 31, 2024 and 2023 (in thousands):

	Six Months Ended October 31,		
	2024	2023	$ Change
Revenues	$ 73,655	$ 63,121	$ 10,534
Cost of revenues	69,987	63,686	6,301
Gross profit (loss)	3,668	(565)	4,233
Operating expenses:			
Selling, general and administrative	18,755	12,820	5,935
Total operating expenses	18,755	12,820	5,935
Operating loss	(15,087)	(13,385)	(1,702)
Interest expense	(5,730)	(1,652)	(4,078)
Other income (expense), net	(2,123)	398	(2,521)
Net loss before income taxes	(22,940)	(14,639)	(8,301)
Income tax benefit	–	(2,996)	2,966
Net loss	$ (22,940)	$ (11,643)	$ (11,297)

Six Months Ended October 31, 2024 Compared to Six Months Ended October 31, 2023

Revenues

Revenues for the six months ended October 31, 2024 were $73.7 million compared to $63.1 million for the same period in the prior year, an increase of approximately $10.5 million, or 17%. The net increase in revenues can be attributed to the following revenue streams (in thousands):

	Six Months Ended October 31,		
	2024	2023	Change
Manufacturing revenues	$ 61,246	$ 53,548	$ 7,698
Process development revenues	12,409	9,573	2,836
Total revenues	$ 73,655	$ 63,121	$ 10,534

Gross Profit (Loss)

Gross profit for the six months ended October 31, 2024 was $3.7 million (5% gross margin) compared to a gross loss of $0.6 million (negative 1% gross margin) for the same period in the prior year. The increase in gross profit during the six months ended October 31, 2024, as compared to the same prior year period was primarily driven by increased revenues, partially offset by increases in compensation and benefit related expenses, facility, manufacturing and other related expenses, and depreciation expense.

Selling, General and Administrative Expenses

SG&A expenses were $18.8 million for the six months ended October 31, 2024 compared to $12.8 million for the same period in the prior year, an increase of $5.9 million, or 46%. The net increase in SG&A expenses can be attributed to the following components:

	$ millions
Increase in compensation and benefit related expenses	$ 3.1
Increase in audit, legal and consulting fees	2.6
Net increase in all other SG&A expenses	0.2
Total increase in SG&A expenses	$ 5.9

Operating Loss

Operating loss was $15.1 million for the six months ended October 31, 2024 compared to $13.4 million for the same period in the prior year. This $1.7 million increase in year-over-year operating loss can be attributed to the $5.9 million increase in SG&A expenses, partially offset by the $4.2 million increase in gross profit.

Interest Expense

Interest expense was $5.7 million for the six months ended October 31, 2024 compared to $1.7 million for the same period in the prior year. This increase of approximately $4.1 million can primarily be attributed to $5.3 million of increased interest expense associated with our 2029 Notes (as defined below), partially offset by a $1.4 million decrease in interest expense associated with our 2026 Notes, which were paid off during the fourth quarter of fiscal 2024.

Other Income (Expense), net

Other income (expense), net ("OI&E") was expense of $2.1 million for the six months ended October 31, 2024 compared to income of $0.4 million for the same period in the prior year. This $2.5 million decrease in year-over-year OI&E can primarily be attributed to a $2.7 million unrealized loss from an investment in an equity security, partially offset by a $0.1 million increase in interest income.

Income Tax (Benefit)

We recorded no income tax (benefit) expense for the six months ended October 31, 2024 compared to income tax (benefit) of $3.0 million for the same prior year period. This decrease in our income tax provision can primarily be attributed to the recording of a valuation allowance during the fourth quarter of fiscal 2024 to offset our deferred tax assets. Our effective tax rate for the current year period was approximately 0% and was computed based on the U.S. federal statutory rate of 21% adjusted primarily for the tax impact of stock-based compensation, non-deductible officers' compensation, transportation fringe benefits, and valuation allowance. Our effective tax rate for the same prior year period was approximately 21% and was computed based on the U.S. federal statutory rate of 21% adjusted primarily for the tax impact of stock-based compensation, non-deductible officers' compensation, and transportation fringe benefits.

Liquidity and Capital Resources

The following discussion assumes that the Merger is not consummated, and we continue to operate as an independent company. During the pendency of the Merger, we are prohibited from raising capital through equity or debt financing and are subject to other restrictions that generally prohibit transactions and operations outside the ordinary course.

Our principal sources of liquidity are our existing cash and cash equivalents on hand. As of October 31, 2024, we had cash and cash equivalents of $33.4 million. We believe that our existing cash and cash equivalents on hand and our anticipated cash flows from operating activities will be sufficient to fund our operations for at least the next 12 months from the date of this Quarterly Report.

We expect our short-term (the next 12 months) operations and capital requirements will be supported by our existing cash and cash equivalents and anticipated cash flows from operations. If our existing cash and cash equivalents on hand and our actual or anticipated cash flows from operations are not sufficient to support our operations or capital requirements, either in the near-term (the next 12 months) or the long-term (beyond the next 12 months), then we may seek to access capital through borrowing arrangements and/or through the public or private offering of our equity or debt securities. We may raise these funds at the appropriate time, accessing the form of capital that we determine is most appropriate considering the markets available to us and their respective costs of capital. These financings may not be available on acceptable terms, or at all. Our ability to raise additional capital in the equity and debt markets is dependent on several factors including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties including, but not limited to, our financial results, economic and market conditions, and global financial crises and economic downturns, which may cause extreme volatility and disruptions in capital and credit markets. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us, or it may contain restrictions on the operations of our business.

Cash Flows

The following table compares our cash flow activities for the six months ended October 31, 2024 and 2023 (in thousands):

	Six Months Ended October 31,		
	2024	**2023**	**$ Change**
Net cash provided by operating activities	$ 314	$ 6,008	$ (5,694)
Net cash used in investing activities	$ (4,758)	$ (21,624)	$ 16,866
Net cash (used in) provided by financing activities	$ (247)	$ 8,148	$ (8,395)

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the six months ended October 31, 2024 was a result of a $22.9 million net loss, offset by non-cash adjustments to net loss of $13.5 million related to depreciation and amortization, stock-based compensation, and amortization of debt issuance costs, and an increase in working capital as a result of a net change in operating assets and liabilities of $9.7 million.

Net cash provided by operating activities for the six months ended October 31, 2023 was a result of an $11.6 million net loss, offset by non-cash adjustments to net loss of $7.9 million primarily related to depreciation and amortization, stock-based compensation, amortization of debt issuance costs, and deferred income taxes, and an increase in working capital as a result of a net change in operating assets and liabilities of $9.7 million.

Net Cash Used in Investing Activities

Net cash used in investing activities for the six months ended October 31, 2024 and 2023 consisted of $4.8 million and $21.6 million, respectively, used to acquire property and equipment primarily related to our facilities.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the six months ended October 31, 2024 consisted of $1.0 million in principal payments on finance leases, offset by $0.7 million in net proceeds from the issuance of common stock under our equity compensation plans.

Net cash provided by financing activities for the six months ended October 31, 2023 consisted of $7.4 million in proceeds from an equipment finance lease and $1.0 million in net proceeds from the issuance of common stock under our equity compensation plans, offset by $0.3 million in principal payments on a finance lease.

Cash Requirements

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

Convertible Senior Notes Due 2029

In March 2024, we completed the Offering of $160.0 million aggregate principal amount of 7.00% convertible senior notes due 2029 (the “2029 Notes”). We received net proceeds from the Offering of approximately $153.5 million, after deducting placement agent’s commissions and other debt issuance related expenses of approximately $6.5 million.

The 2029 Notes are senior unsecured obligations and accrue interest at a rate of 7.00% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2024. The 2029 Notes mature on March 1, 2029, unless earlier repurchased by us or converted at the option of the holders. The 2029 Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election in the manner and subject to the terms and conditions provided in the indenture governing the 2029 Notes.

We may not redeem the 2029 Notes prior to the March 1, 2029 maturity date. For additional information regarding the 2029 Notes, see Note 3, “*Debt*,” of the notes to unaudited condensed consolidated financial statements.

Leases

We lease certain office, manufacturing, laboratory, and warehouse space located in Orange County, California under operating lease agreements. Our leased facilities have original lease terms ranging from 7 to 12 years, contain multi-year renewal options, and scheduled rent increases of 3% on either an annual or biennial basis. We also lease certain manufacturing equipment under finance lease agreements that have lease terms of up to 5 years. As of October 31, 2024, we had outstanding lease payment obligations of approximately $79.3 million, of which $3.0 million is payable in the remainder of fiscal 2025, $11.2 million is payable in fiscal 2026, $4.6 million is payable in fiscal 2027, $4.0 million is payable in fiscal 2028, $4.1 million is payable in fiscal 2029, and $52.3 million is payable thereafter.

Capital Expenditures

Assuming that the Merger is not consummated, and we continue to operate as an independent company, we currently anticipate that cash required for capital expenditures during fiscal 2025 will be approximately $5 million to $7 million, which includes accrued and unpaid capital expenditures of approximately $0.2 million as of October 31, 2024.

Merger Agreement

On November 6, 2024, we entered into the Merger Agreement. The Merger Agreement contains customary covenants by us regarding the conduct of our business prior to the closing of the Merger. In addition, pursuant to the Merger Agreement, we have agreed, subject to certain exceptions, not to take, authorize, agree or commit to do certain actions outside of the ordinary course of business, including incurring indebtedness (other than to replace existing indebtedness) or materially amending the terms of existing indebtedness. We do not believe that the restrictions in the Merger Agreement will prevent us from meeting our debt obligations, ongoing costs of operations, working capital needs or capital expenditure requirements.

The Merger Agreement contains customary termination rights for each of us and Parent. Upon termination of the Merger Agreement in accordance with its terms, under specified circumstances, we will be required to pay Parent a termination fee, including if the Merger Agreement is terminated due to (i) us accepting a Superior Proposal (as defined in the Merger Agreement) that was not the result of a material breach of our no-shop obligations under the Merger Agreement; or (ii) our Board changing its recommendation that our stockholders vote in favor of the Merger, in which case the termination fee payable by us to Parent will be $32.0 million. The Merger Agreement further provides that Parent will be required to pay us a termination fee of $64.0 million in the event that the Merger Agreement is terminated under certain specified circumstances, including if the Merger Agreement is terminated by us following (i) Parent's failure to consummate the Merger as required pursuant to, and in the circumstances specified in, the Merger Agreement; or (ii) Parent or Merger Sub's breach of their representations, warranties or covenants (including Parent's financing obligations) in a manner that would cause the related closing conditions to not be satisfied. The Merger Agreement further provides that Parent will be required to pay us a termination fee of $32.0 million in the event that the Merger Agreement is validly terminated after January 31, 2025 following Parent's, or any of its Affiliates' (as defined in the Merger Agreement), acquisition or agreement to acquire, or public announcement of the intent to acquire, any assets, business, division or any person that is a material, direct competitor of ours, and such acquisition is a proximate cause of the failure of the parties to receive any consents or approvals necessary in connection with the Merger under applicable antitrust laws.

In addition to the foregoing termination rights, and subject to certain limitations, we or Parent may terminate the Merger Agreement if the Merger is not consummated by May 6, 2025, subject to an automatic extension to November 6, 2025 if the Transactions have not been consummated, but the only closing condition that has not been satisfied or waived (other than those that are to be satisfied at the closing of the Transactions, each of which is capable of being satisfied) is the expiration or earlier termination of the waiting period under the HSR Act.

Critical Accounting Policies and Estimates

Our discussion and analysis of our consolidated financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We review our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. During the six months ended October 31, 2024, 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.

Recent Accounting Pronouncements

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

Backlog

Our backlog represents, as of a point in time, expected future revenue from contracted work not yet completed. As of October 31, 2024, our backlog was approximately $220 million, as compared to approximately $193 million as of April 30, 2024. While we anticipate a significant amount of our backlog will be recognized as revenue over the next five fiscal quarters, our backlog is subject to a number of risks and uncertainties, including but not limited to: (i) the risk that a customer timely cancels its commitments prior to our initiation of services, in which case we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments; (ii) the risk that a customer may experience delays in its program(s) or otherwise, which could result in the postponement of anticipated services; (iii) the risk that we may not successfully execute on all customer projects; and (iv) the risk that commencement of customer projects may be postponed due to supply chain delays, any of which could have a negative impact on our liquidity, reported backlog and future revenues and profitability.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the six months ended October 31, 2024, there were no material changes in the market risks described in the "Quantitative and Qualitative Disclosures About Market Risk" section of our Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2024, 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 at the reasonable assurance level as of October 31, 2024.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting, during the quarter ended October 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, results of operations and cash flows. For a detailed discussion of the risks that affect our business, please refer to Part II, Item 1A, of our Quarterly Report on Form 10-Q for the quarter ended July 31, 2024. There have been no material changes to the risk factors as previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended July 31, 2024, as filed with the SEC on September 9, 2024, except as follows:

Risks Related to the Pending Acquisition by Affiliates of GHO Capital Partners LLP and Ampersand Capital Partners.

The announcement and pendency of our agreement to be acquired by affiliates of GHO Capital Partners LLP and Ampersand Capital Partners may have an adverse effect on our business results, and a failure to complete the merger could have a material and adverse effect on our business, results of operations financial condition, cash flows, and stock price.

On November 6, 2024, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Space Finco, Inc., a Delaware corporation ("Parent"), and Space Mergerco, Inc., a Delaware corporation and a direct wholly owned subsidiary of Parent ("Merger Sub"), providing for the merger of Merger Sub with and into us (the "Merger", and together with the other transactions contemplated by the Merger Agreement, the "Transactions"), with us surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of GHO Capital Partners LLP and Ampersand Capital Partners.

Consummation of the Merger is subject to the satisfaction or waiver of certain conditions, including, but not limited to (i) our receipt of the approval of our stockholders representing a majority of the outstanding shares of our common stock; (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"); (iii) absence of any law, order or injunction issued by any governmental body of competent jurisdiction preventing or making illegal the consummation of the Merger; (iv) the accuracy of the representations and warranties contained in the Merger Agreement (subject to specified materiality qualifiers); (v) compliance with the covenants and obligations under the Merger Agreement in all material respects; and (vi) absence of a Material Adverse Effect (as defined in the Merger Agreement) with respect to us that is continuing as of the effective time of the Merger (the "Effective Time"). There is no assurance that all of the various conditions will be satisfied, or that the Merger will be completed on the proposed terms, within the expected timeframe, or at all.

The Merger may be delayed, and may ultimately not be completed, due to a number of factors, including:

- the failure to obtain requisite stockholder approval to approve the Merger;
- the failure to obtain regulatory approvals from various governmental entities;
- potential future stockholder litigation and other legal and regulatory proceedings; and
- the failure to satisfy the other conditions to the completion of the merger, including the possibility that a Material Adverse Effect would permit Parent not to close the Merger.

If the Merger does not close, we may suffer other consequences that could adversely affect our business, financial condition, operating results, cash flows, and stock price, and our stockholders would be exposed to additional risks, including:

- to the extent that the current market price of our stock reflects an assumption that the Merger will be completed, the price of our common stock could decrease if the Merger is not completed;
- investor confidence in us could decline, stockholder litigation could be brought against us, relationships with existing and prospective customers and other business partners may be adversely impacted, we may be unable to retain key personnel, and our operating results and cash flows may be adversely impacted due to costs incurred in connection with the Merger;
- any disruptions to our business resulting from the announcement and pendency of the Merger, including adverse changes in our relationships with employees, customers and other business partners, may continue or intensify in the event the Merger is not consummated or is significantly delayed; and
- the requirement that we pay Parent a termination fee of $32.0 million under certain circumstances that give rise to the termination of the Merger Agreement.

There can be no assurance that our business, relationships with other parties, liquidity or financial condition will not be adversely affected, as compared to the condition prior to the announcement of the Merger, if the Merger is not consummated.

While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could harm our business relationships, financial condition, operating results, cash flows, and business.

During the period prior to the closing of the Merger or the termination of the Merger Agreement, we may be exposed to certain inherent risks and we are subject to restrictions on our business activities, generally requiring us to conduct our business in the ordinary course consistent with past practice in all material respects, and subjecting us to a variety of specified restrictions absent Parent’s prior consent. These risks and limitations include, among other things:

- potential uncertainty regarding our future plans and strategy, including business model changes and transformation;
- the possibility of disruption to our business and operations resulting from the announcement and pendency of the Merger, including diversion of management attention and resources;
- our inability to attract and retain key personnel and recruit prospective employees, and the possibility that our current employees could be distracted, and their productivity decline as a result, due to uncertainty regarding the Merger;
- the inability to pursue alternative business opportunities or make changes to our business pending the completion of the Merger, and other restrictions on our ability to conduct our business;
- our inability to freely issue securities, incur indebtedness (subject to certain exceptions), or declare or authorize any dividend or distribution without Parent's approval;
- our inability to solicit other acquisition proposals during the pendency of the Merger; and
- the costs, fees, expenses and charges related to the Merger and the Transactions, which may materially and adversely affect our financial condition and cash flows.

These risks and restrictions could prevent us from pursuing strategic business opportunities, taking actions with respect to our business that we may consider advantageous and responding effectively and/or timely to competitive pressures and industry developments, and may, as a result, materially and adversely impact our business, cash flows, results of operations or financial condition, as well as the market price of our common stock and our perceived value, regardless of whether the Merger is completed.

In certain instances, the Merger Agreement requires us to pay a termination fee to Parent, which could require us to use available cash that would have otherwise been available for general corporate purposes.

Under the terms of the Merger Agreement, we may be required to pay Parent a termination fee of $32.0 million if the Merger Agreement is terminated under specific circumstances described in the Merger Agreement, including, but not limited to, (i) us accepting a Superior Proposal (as defined in the Merger Agreement) that was not the result of a material breach of our no-shop obligations or (ii) our Board changing its recommendation that our stockholders vote in favor of the Merger. If the Merger Agreement is terminated the circumstances provided in the Merger Agreement, the termination fee we may be required to pay may require us to use available cash that would have otherwise been available for general corporate purposes and other uses. For these and other reasons, termination of the Merger Agreement could materially and adversely affect our business operations and financial condition, which in turn would materially and adversely affect the price of our common stock.

We have incurred, and will continue to incur, direct and indirect costs as a result of the pending Transactions.

We have incurred, and will continue to incur, significant costs and expenses, including fees for professional services and other transaction costs, in connection with the pending Transactions. We must pay substantially all of these costs and expenses whether or not the Transactions are completed.

There are a number of factors beyond our control that could affect the total amount or the timing of these costs and expenses.

Litigation may arise in connection with the Merger, which could be costly, prevent consummation of the Merger, divert management's attention and otherwise materially harm our business.

Lawsuits may be filed challenging aspects of the proposed Merger. Regardless of the outcome of any future litigation related to the Merger, such litigation may be time-consuming and expensive and may distract our management from running the day-to-day operations of our business. The litigation costs and diversion of management's attention and resources to address the claims and counterclaims in any litigation related to the Merger may materially adversely affect our business, results of operations, prospects, cash flows, and financial condition. If the Merger is not consummated for any reason, litigation could be filed in connection with the failure to consummate the Merger. Any litigation related to the Merger may result in negative publicity or an unfavorable impression of us, which could adversely affect the price of our common stock, impair our ability to recruit or retain employees, damage our relationships with our customers and other business partners, or otherwise materially harm our operations and financial performance.

Item 5. Other Information

There are no disclosures required by this Item, including those relating to Rule 10b5-1 trading arrangements and non-Rule 10b5-1 trading arrangements as those terms are defined in Item 408(a) of Regulation of S-K.

Item 6. Exhibits

(a) Exhibits:

2.1	Agreement and Plan of Merger, dated as of November 6, 2024, by and among Avid Bioservices, Inc., Space Finco, Inc., and Space Mergerco, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed on November 7, 2024). **
3.1	Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on July 2, 2021 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on July 7, 2021).
3.2	Certificate of Amendment to Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on October 19, 2022 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on October 21, 2022).
3.3	Amended and Restated Bylaws, as adopted on June 19, 2023 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on June 23, 2023).
10.1	Second Amendment to the Avid Bioservices, Inc. 2018 Omnibus Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A, filed on August 28, 2024). †
10.2	Amendment to the Avid Bioservices, Inc. 2010 Employee Stock Purchase Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A, filed on August 28, 2024). †
10.3	Second Amendment to Avid Bioservices, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on August 29, 2024). †
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.*
104	Cover Page Interactive Data File (formatted in iXBRL, and included in exhibit 101).*

* Filed herewith.

** Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K, but a copy will be furnished supplementally to the Securities and Exchange Commission upon request.

† This exhibit is a management contract or a compensation plan or arrangement.

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: December 10, 2024

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

Date: December 10, 2024

By: /s/ Daniel R. Hart
Daniel R. Hart
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

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

I, Nicholas S. Green, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: December 10, 2024

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

Exhibit 31.2

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

I, Daniel R. Hart, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: December 10, 2024

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

Exhibit 32.1

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

I, Nicholas S. Green, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended October 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc. at the dates and for the periods indicated.

Dated: December 10, 2024

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

I, Daniel R. Hart, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended October 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc. at the dates and for the periods indicated.

Dated: December 10, 2024

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

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

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Avid Bioservices, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.