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

FORM 10-Q

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

For the quarterly period ended January 31, 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 ☒

63,479,794 shares of the registrant's common stock were outstanding as of April 8, 2024.

AVID BIOSERVICES, INC.

Form 10-Q

For the Fiscal Quarter Ended January 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)

	January 31, 2024	April 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,708	$ 38,542
Accounts receivable, net	18,538	18,298
Contract assets	12,197	9,609
Inventory	34,568	43,908
Prepaid expenses and other current assets	7,578	2,094
Total current assets	103,589	112,451
Property and equipment, net	187,518	177,770
Operating lease right-of-use assets	41,567	42,772
Deferred tax assets	117,844	113,751
Other assets	4,709	4,473
Restricted cash	–	350
Total assets	$ 455,227	$ 451,567
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 19,514	$ 24,593
Accrued compensation and benefits	4,107	8,780
Contract liabilities	52,945	37,352
Convertible senior notes, net	141,421	140,623
Current portion of operating lease liabilities	1,310	1,358
Other current liabilities	3,590	2,440
Total current liabilities	222,887	215,146
Operating lease liabilities, less current portion	44,695	45,690
Finance lease liabilities, less current portion	7,475	1,562
Total liabilities	275,057	262,398
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; 63,463 and 62,692 shares issued and outstanding at respective dates	63	63
Additional paid-in capital	628,874	620,224
Accumulated deficit	(448,767)	(431,118)
Total stockholders' equity	180,170	189,169
Total liabilities and stockholders' equity	$ 455,227	$ 451,567

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2024	**2023**	**2024**	**2023**
Revenues	$ 33,815	$ 38,018	$ 96,936	$ 109,467
Cost of revenues	31,432	28,193	95,118	86,378
Gross profit	2,383	9,825	1,818	23,089
Operating expenses:				
Selling, general and administrative	6,382	7,107	19,202	20,320
Total operating expenses	6,382	7,107	19,202	20,320
Operating income (loss)	(3,999)	2,718	(17,384)	2,769
Interest expense	(875)	(636)	(2,527)	(2,354)
Other income (expense), net	(2,184)	432	(1,786)	627
Net income (loss) before income taxes	(7,058)	2,514	(21,697)	1,042
Income tax (benefit) expense	(1,052)	2,761	(4,048)	448
Net income (loss)	$ (6,006)	$ (247)	$ (17,649)	$ 594
Comprehensive income (loss)	$ (6,006)	$ (247)	$ (17,649)	$ 594
Net income (loss) per share:				
Basic	$ (0.09)	$ (0.00)	$ (0.28)	$ 0.01
Diluted	$ (0.09)	$ (0.00)	$ (0.28)	$ 0.01
Weighted average common shares outstanding:				
Basic	63,321	62,388	63,103	62,166
Diluted	63,321	69,164	63,103	63,634

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended January 31, 2024				
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at October 31, 2023	63,234	$ 63	$ 626,031	$ (442,761)	$ 183,333
Common stock issued under equity compensation plans	229	–	384	–	384
Stock-based compensation expense	–	–	2,459	–	2,459
Net loss	–	–	–	(6,006)	(6,006)
Balance at January 31, 2024	63,463	$ 63	$ 628,874	$ (448,767)	$ 180,170

	Three Months Ended January 31, 2023				
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at October 31, 2022	62,308	$ 62	$ 612,102	$ (430,536)	$ 181,628
Common stock issued under equity compensation plans	215	–	995	–	995
Stock-based compensation expense	–	–	2,744	–	2,744
Net loss	–	–	–	(247)	(247)
Balance at January 31, 2023	62,523	$ 62	$ 615,841	$ (430,783)	$ 185,120

	Nine Months Ended January 31, 2024				
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at April 30, 2023	62,692	$ 63	$ 620,224	$ (431,118)	$ 189,169
Common stock issued under equity compensation plans	771	–	1,382	–	1,382
Stock-based compensation expense	–	–	7,268	–	7,268
Net loss	–	–	–	(17,649)	(17,649)
Balance at January 31, 2024	63,463	$ 63	$ 628,874	$ (448,767)	$ 180,170

	Nine Months Ended January 31, 2023				
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at April 30, 2022	61,807	$ 62	$ 605,841	$ (431,377)	$ 174,526
Common stock issued under equity compensation plans	716	–	2,573	–	2,573
Stock-based compensation expense	–	–	7,427	–	7,427
Net income	–	–	–	594	594
Balance at January 31, 2023	62,523	$ 62	$ 615,841	$ (430,783)	$ 185,120

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended January 31, 2024	Nine Months Ended January 31, 2023
Cash flows from operating activities:		
Net income (loss)	$ (17,649)	$ 594
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,250	5,326
Stock-based compensation	7,268	7,427
Amortization of debt issuance costs	915	782
Deferred income taxes	(4,093)	265
Loss on disposal of property and equipment	46	82
Changes in operating assets and liabilities:		
Accounts receivable, net	(240)	5,721
Contract assets	(2,588)	(5,019)
Inventory	9,340	(19,040)
Prepaid expenses and other assets	(5,837)	(7)
Accounts payable	3,140	2,904
Accrued compensation and benefits	(4,673)	(18)
Contract liabilities	15,593	(16,048)
Other accrued expenses and liabilities	223	1,164
Net cash provided by (used in) operating activities	9,695	(15,867)
Cash flows from investing activities:		
Purchase of property and equipment	(26,112)	(52,580)
Net cash used in investing activities	(26,112)	(52,580)
Cash flows from financing activities:		
Proceeds from issuance of common stock under equity compensation plans	1,382	2,573
Proceeds from finance lease	7,412	–
Principal payments on finance leases	(561)	(376)
Net cash provided by financing activities	8,233	2,197
Net decrease in cash, cash equivalents and restricted cash	(8,184)	(66,250)
Cash, cash equivalents and restricted cash, beginning of period	38,892	126,516
Cash, cash equivalents and restricted cash, end of period	$ 30,708	$ 60,266
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 603	$ 492
Cash paid for income taxes	$ 14	$ 220
Supplemental disclosures of non-cash investing activities:		
Unpaid purchases of property and equipment	$ 6,057	$ 24,283

See accompanying notes to condensed consolidated financial statements.

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

Note 1 – Description of Company and Basis of Presentation

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) related to quarterly reports on Form 10-Q, and accordingly, they do not include all the information and disclosures required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in Amendment No. 1 to our Annual Report on Form 10-K/A for the fiscal year ended April 30, 2023, as filed with the SEC on April 24, 2024 (the “Amended Form 10-K”). 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.

Acceleration of Convertible Senior Notes Due 2026

As described in Note 10, *Subsequent Events*, on February 29, 2024, we received an Acceleration Notice from a holder of our 2026 Notes. Following the receipt of the Acceleration Notice and a re-evaluation of the accounting for our 2026 Notes, we determined that the 2026 Notes should be classified as a current liability beginning on October 15, 2022, resulting in an understatement of current liabilities on our consolidated balance sheet. The re-classification of the 2026 Notes to a current liability resulted in negative working capital and created a substantial doubt regarding our ability to continue as a going concern. However, this substantial doubt has been resolved through the subsequent issuance of the 2029 Notes, as further described in Note 10.

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 the Amended Form 10-K, as filed with the SEC on April 24, 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 January 31,		Nine Months Ended January 31,	
	2024	**2023**	**2024**	**2023**
Manufacturing revenues	$ 29,093	$ 32,182	$ 82,641	$ 91,277
Process development revenues	4,722	5,836	14,295	18,190
Total revenues	$ 33,815	$ 38,018	$ 96,936	$ 109,467

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

During the three and nine months ended January 31, 2024, we recognized revenue of $3.3 million and $24.1 million, respectively, for which the contract liability was recorded in a prior period.

During the three and nine months ended January 31, 2023, we recognized revenue of $8.3 million and $35.2 million, respectively, for which the contract liability was recorded in a prior period.

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.

During the three months ended January 31, 2024, there were no material adjustments in estimates for variable consideration. During the nine months ended January 31, 2024, changes in estimates for variable consideration resulted in a decrease in revenues of $3.2 million, which can be attributed to an insolvent customer combined with consideration under a contract where uncertainties have been resolved.

During the three and nine months ended January 31, 2023, we recognized revenue of $3.0 million for changes in estimates for variable consideration under a contract where uncertainties have been resolved.

We apply the practical expedient available under ASC 606 that permits us not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. As of January 31, 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 unaudited condensed consolidated statements of income (loss) and comprehensive income (loss).

Restricted Cash

Under the terms of an operating lease for office space that expired in August of 2023, we were required to maintain a letter of credit as collateral during the term of the lease. As of January 31, 2024 and April 30, 2023, we had no restricted cash and $0.4 million of restricted cash pledged as collateral under this letter of credit, respectively.

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

	January 31, 2024	April 30, 2023	January 31, 2023	April 30, 2022
Cash and cash equivalents	$ 30,708	$ 38,542	$ 59,916	$ 126,166
Restricted cash	–	350	350	350
Total cash, cash equivalents and restricted cash	$ 30,708	$ 38,892	$ 60,266	$ 126,516

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 January 31, 2024 and April 30, 2023, we determined an allowance for doubtful accounts of $1.7 million and $0.5 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, Net

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 nine months ended January 31, 2024 was $0.2 million and $0.6 million, respectively.

Interest capitalized as construction-in-progress for the three and nine months ended January 31, 2023 was $0.3 million and $0.5 million, respectively.

All of our property and equipment are located in the United States. Property and equipment, net consist of the following (in thousands):

	January 31, 2024	April 30, 2023
Leasehold improvements	$ 101,678	$ 97,514
Laboratory and manufacturing equipment	44,756	35,501
Computer equipment and software	5,170	5,028
Furniture, fixtures and office equipment	1,945	1,681
Construction-in-progress	72,462	68,414
Total property and equipment, gross	226,011	208,138
Less: accumulated depreciation and amortization	(38,493)	(30,368)
Total property and equipment, net	$ 187,518	$ 177,770

Depreciation and amortization expense for the three and nine months ended January 31, 2024 was $2.8 million and $8.3 million, respectively.

Depreciation and amortization expense for the three and nine months ended January 31, 2023 was $1.9 million and $5.3 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 nine months ended January 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 as of January 31, 2024.

Stock-Based Compensation

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

Debt Issuance Costs

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

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

Comprehensive Income (Loss)

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

Fair Value Measurements

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

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

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

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

As of January 31, 2024 and April 30, 2023, our Level 1 financial assets consisted of our cash equivalents invested in money market funds of $26.3 million and $28.7 million, respectively, and our other current assets related to investments in equity securities of $4.8 million and $0, respectively. Our Level 1 financial assets are carried at a fair value based on quoted market prices for identical securities (Level 1 input). We did not have any Level 2 or Level 3 financial assets as of January 31, 2024 and April 30, 2023.

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). We did not have any other Level 2 or Level 3 financial liabilities as of January 31, 2024 and April 30, 2023.

Recently Adopted Accounting Standard

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses of Financial Instruments* ("ASU 2016-13"). The standard amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses for most financial assets and certain other instruments. We adopted ASU 2016-13 on May 1, 2023, and the adoption of this standard did not have a material impact on our unaudited condensed consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

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 unaudited condensed consolidated financial statements and related disclosures.

Note 3 – Debt

Convertible Senior Notes Due 2026

In March 2021, we issued $143.8 million aggregate principal amount of 1.25% exchangeable senior notes due 2026 ("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 are senior unsecured obligations and accrue interest at a rate of 1.25% per annum, payable semi-annually in arrears on March 15 and September 15 of each year. The 2026 Notes mature on March 15, 2026, unless earlier redeemed or repurchased by us or converted at the option of the holders. The 2026 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 "2026 Notes Indenture") governing the 2026 Notes.

The initial conversion rate for the 2026 Notes is approximately 47.1403 shares of our common stock per $1,000 principal amount, which represents an initial conversion price of approximately $21.21 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain events in accordance with the terms of the 2026 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 2026 Notes in connection with such a fundamental change, as defined in the 2026 Notes Indenture.

Holders of the 2026 Notes may convert their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding September 15, 2025, only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending July 31, 2021, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the 2026 Notes Indenture) per $1,000 principal amount of the 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the exchange rate on each such trading day; (3) if we call any or all of the 2026 Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; and (4) upon the occurrence of specified corporate events as described in the 2026 Notes Indenture.

On or after September 15, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders at their option may convert their 2026 Notes at any time, regardless of the foregoing circumstances.

We may not redeem the 2026 Notes prior to March 20, 2024. On or after March 20, 2024, the 2026 Notes are redeemable for cash, whole or in part, at our option, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

If we undergo a fundamental change (as defined in the 2026 Notes Indenture), holders may require us to repurchase for cash all or any portion of their 2026 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid interest to, but excluding the redemption date.

The 2026 Notes Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding 2026 Notes may declare the entire principal of all the 2026 Notes plus accrued and unpaid interest to be immediately due and payable.

As described in Note 10, *Subsequent Events*, on February 29, 2024, as a result of the Event of Default, a holder of at least 25% aggregate principal amount of 2026 Notes declared 100% of the principal amount of, and accrued and unpaid interest on, the 2026 Notes to be due and payable immediately.

Refer also to Note 10, *Subsequent Events*, for further information regarding the subsequent repurchase and payoff of the 2026 Notes.

The net carrying amount of the 2026 Notes is as follows (in thousands):

	January 31, 2024	April 30, 2023
Principal	$ 143,750	$ 143,750
Unamortized issuance costs	(2,329)	(3,127)
Net carrying amount	$ 141,421	$ 140,623

As of January 31, 2024, the estimated fair value of the 2026 Notes was approximately $111.3 million. The fair value was determined based on the last actively traded price per $100 of the 2026 Notes for the period ended January 31, 2024 (Level 2).

The effective annual interest rate of the 2026 Notes for the three and nine months ended January 31, 2024 and 2023 was 2.31%.

The following table summarizes the interest expense recognized related to the 2026 Notes (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2024	2023	2024	2023
Contractual interest expense	$ 412	$ 344	$ 1,323	$ 1,476
Amortization of issuance costs	267	262	798	782
Total interest expense associated with 2026 Notes	$ 679	$ 606	$ 2,121	$ 2,258

Capped Call Transactions

In connection with the issuance of the 2026 Notes, we entered into privately negotiated capped call transactions (the "Capped Calls") with certain financial institution counterparties (the "Option Counterparties"). We used $12.8 million of the net proceeds from the issuance of the 2026 Notes to pay the cost of the Capped Calls. The Capped Calls cover, subject to customary anti-dilution adjustments, the aggregate number of shares of our common stock that initially underlie the 2026 Notes, and are generally expected to reduce the potential dilution of our common stock upon any conversion of the 2026 Notes, as the case may be, with such reduction and/or offset subject to a cap, based on the cap price of the Capped Calls. The cap share price of the Capped Calls is approximately $28.02 per share, which represents a premium of 75% over the last reported sale price of our common stock on March 9, 2021 and is subject to certain adjustments under the terms of the Capped Calls. However, there would nevertheless be dilution upon conversion of the 2026 Notes to the extent that such market price exceeds the capped share price as measured under the terms of the Capped Calls.

We evaluated the Capped Calls under ASC 815-10 and determined that they should be accounted for as a separate transaction from the 2026 Notes and that the Capped Calls met the criteria for equity classification. Therefore, the cost of $12.8 million to purchase the Capped Calls was recorded as a reduction to additional paid-in capital. The Capped Calls will not be subsequently remeasured as long as the conditions for equity classification continue to be met. As of January 31, 2024 and April 30, 2023, there were no conversions of our 2026 Notes, and therefore, there was no activity with respect to the Capped Calls. We believe the conditions for equity classification continue to be met as of January 31, 2024 and April 30, 2023.

As described in Note 10, *Subsequent Events*, during March 2024, in connection with our repurchase and payoff of the remaining balance of the 2026 Notes we entered into transactions to unwind all of our Capped Calls. As a result, we received $1.3 million in net proceeds from the unwinding of the Capped Calls.

Revolving Credit Facility

On March 14, 2023, we entered into a credit agreement with Bank of America, N.A., as administrative agent and letter of credit issuer (as amended, the "Credit Agreement"). The Credit Agreement provides for a revolving credit facility (the "Revolving Credit Facility") in an amount equal to the lesser of (i) $50 million and (ii) a borrowing base calculated as the sum of (a) 80% of the value of certain of our eligible accounts receivable, plus (b) up to 100% of the value of eligible cash collateral. The Credit Agreement is secured by substantially all our assets.

On October 27, 2023, we entered into Amendment No. 1 to the Credit Agreement which, among other things, (i) extends the maturity date of the Revolving Credit Facility to October 25, 2024, (ii) amends the applicable interest rate applied to loans under the Revolving Credit Facility as described below, and (iii) increases the aggregate amount of indebtedness we can incur at any one time for fixed or capital assets. Other than the foregoing, the material terms of the Credit Facility remain unchanged.

As of January 31, 2024, there were no outstanding loans under the Revolving Credit Facility.

As a result of the Acceleration Event associated with the 2026 Notes (Note 10), such occurrence resulted in a cross-default under our Credit Agreement. On March 12, 2024, we entered into Amendment No. 2 to the Credit Agreement which, among other things, (i) waives the events of default under the Credit Agreement as a result of the acceleration of our 2026 Notes, (ii) permits the issuance of our 2029 Notes and the repayment of our 2026 Notes (Note 10) and (iii) adjusts the financial covenant in the Credit Agreement.

Loans under the Revolving Credit Facility will bear interest at either a term Secured Overnight Financing Rate ("SOFR") rate for a specified interest period plus a SOFR adjustment (equal to 0.10%) plus a margin of 1.60% or base rate plus a margin of 0.60% at our option. Interest on any outstanding loans is due and payable monthly and the principal balance is due at maturity. In addition, we pay a quarterly unused revolving line facility fee of 0.25% per annum on the average unused facility.

The Credit Agreement includes certain customary affirmative and negative covenants, including limitations on mergers, consolidations and sales of assets, limitations on liens, limitations on certain restricted payments and investments, limitations on transactions with affiliates and limitations on incurring additional indebtedness. In addition, the Credit Agreement requires maintenance of a minimum consolidated EBITDA, as defined in the Credit Agreement, of $15 million for the most recently completed four fiscal quarters as measured at the end of each fiscal quarter. As of January 31, 2024, we were in compliance with the Credit Agreement's financial covenant.

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

Note 4 – Leases

We 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 term 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 ranging from 5 to 7 years.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2024	2023	2024	2023
Operating leases	$ 1,140	$ 1,060	$ 3,430	$ 3,233
Variable leases	354	348	1,129	1,145
Short-term leases	36	187	103	514
Finance leases:				
Amortization of right-of-use assets	127	54	235	162
Interest on lease liabilities	148	30	200	96
Total lease cost	$ 1,805	$ 1,679	$ 5,097	$ 5,150

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

Leases	Classification	January 31, 2024	April 30, 2023
Assets			
Operating	Operating lease right-of-use assets	$ 41,567	$ 42,772
Finance	Property and equipment, net	9,552	2,529
Total leased assets		$ 51,119	$ 45,301
Liabilities			
Current:			
Operating	Current portion of operating lease liabilities	$ 1,310	$ 1,358
Finance	Other current liabilities	1,425	531
Non-current:			
Operating	Operating lease liabilities, less current portion	44,695	45,690
Finance	Finance lease liabilities, less current portion	7,475	1,562
Total lease liabilities		$ 54,905	$ 49,141
Weighted average remaining lease term (years):			
Operating leases		16.0	16.6
Finance leases		6.0	3.7
Weighted average discount rate:			
Operating leases		6.0%	6.0%
Finance leases		6.4%	5.3%

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

	Nine Months Ended January 31, 2024	Nine Months Ended January 31, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 3,136	$ 2,955
Operating cash flows from finance leases	192	96
Financing cash flows from finance leases	561	376
Non-cash transaction		
Unpaid finance lease obligation	$ 45	$ –

As of January 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
2024 (remaining period)	$ 1,004	$ 491	$ 1,495
2025	4,060	1,963	6,023
2026	4,167	1,963	6,130
2027	4,199	1,754	5,953
2028	4,036	1,334	5,370
Thereafter	56,418	3,336	59,754
Total lease payments	$ 73,884	$ 10,841	$ 84,725
Less: imputed interest	(27,879)	(1,941)	(29,820)
Total lease liabilities	$ 46,005	$ 8,900	$ 54,905

Note 5 – Equity Compensation Plans

Stock Incentive Plans

As of January 31, 2024, we had an aggregate of 7,522,149 shares of our common stock reserved for issuance under our stock incentive plans, of which 4,498,096 shares were subject to outstanding stock options, restricted stock units (“RSUs”) and performance stock units (“PSUs”) and 3,024,053 shares were available for future grants of stock-based awards.

Stock Options

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

	Stock Options	Grant Date Weighted Average Exercise Price
	(in thousands)	
Outstanding at May 1, 2023	2,079	$ 6.76
Granted	–	$ –
Exercised	(64)	$ 7.55
Canceled or expired	(21)	$ 11.89
Outstanding at January 31, 2024	1,994	$ 6.68

Restricted Stock Units

The following summarizes our RSUs transaction activity for the nine months ended January 31, 2024:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at May 1, 2023	1,006	$ 16.83
Granted	853	$ 12.26
Vested	(432)	$ 14.67
Forfeited	(58)	$ 16.63
Outstanding at January 31, 2024	1,369	$ 14.67

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 nine months ended January 31, 2024:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at May 1, 2023	522	$ 19.70
Granted	613	$ 13.92
Vested	–	$ –
Forfeited	–	$ –
Outstanding at January 31, 2024	1,135	$ 16.58

Employee Stock Purchase Plan

The Avid Bioservices, Inc. 2010 Employee Stock Purchase Plan (the “ESPP”) is a stockholder-approved plan under which employees can purchase shares of our common stock, based on a percentage of their compensation, subject to certain limits. The purchase price per share is equal to the lower of 85% of the fair market value of our common stock on the first trading day of the six-month offering period or on the last trading day of the six-month offering period. During the nine months ended January 31, 2024, a total of 114,098 shares of our common stock were purchased under the ESPP at a weighted average purchase price of $7.93 per share. As of January 31, 2024, we had 849,218 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 income (loss) and comprehensive income (loss) for the three and nine months ended January 31, 2024 and 2023 was comprised of the following (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2024	2023	2024	2023
Cost of revenues	$ 1,038	$ 1,017	$ 3,099	$ 2,749
Selling, general and administrative	1,421	1,727	4,169	4,678
Total stock-based compensation	$ 2,459	$ 2,744	$ 7,268	$ 7,427

As of January 31, 2024, the total estimated unrecognized compensation cost related to non-vested stock options and RSUs was $0.4 million and $19.0 million, respectively. These costs are expected to be recognized over weighted average vesting periods of 0.5 and 2.54 years, respectively. As of January 31, 2024, there was $9.5 million of total estimated unrecognized compensation cost related to non-vested PSUs associated with the Performance Periods ending April 30, 2024, 2025 and 2026. This cost is expected to be recognized over the weighted average vesting period of 0.96 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 restricted stock unit and performance stock unit awards. As of January 31, 2024, contributions to the DC Plan were not material and are included in accrued compensation and benefits on the unaudited condensed consolidated balance sheet at January 31, 2024.

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 for income taxes recorded for the three and nine months ended January 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, and transportation fringe benefits.

For the three and nine months ended January 31, 2024, we recorded an income tax benefit of $1.1 million and $4.0 million, respectively, resulting in an effective tax rate of approximately 14.9% and 18.7%, respectively.

For the three and nine months ended January 31, 2023, we recorded an income tax expense of $2.8 million and $0.4 million, respectively, resulting in an effective tax rate of 109.5% and 42.8%, respectively.

We have no material uncertain tax position liabilities as of January 31, 2024 and April 30, 2023. It is our policy to recognize interest and penalties related to income tax matters in interest expense and other income (expense), net, respectively, in our unaudited condensed consolidated statements of income (loss) and comprehensive income (loss). There was no accrued interest or penalties associated with uncertain tax positions as of January 31, 2024 and April 30, 2023.

Note 8 – Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing our net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is computed by dividing our net income (loss) 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 2026 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 is calculated using the if-converted method assuming the conversion of our 2026 Notes as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive.

A reconciliation of the numerators and the denominators of the basic and dilutive net income (loss) per common share computations are as follows (in thousands, except per share amounts):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2024	**2023**	**2024**	**2023**
Numerator				
Net income (loss), basic	$ (6,006)	$ (247)	$ (17,649)	$ 594
Add interest expense on 2026 Notes, net of tax	–	(58)	–	–
Net income (loss), diluted	$ (6,006)	$ (305)	$ (17,649)	$ 594
Denominator				
Weighted average basic common shares outstanding	63,321	62,388	63,103	62,166
Effect of dilutive securities:				
Stock options	–	–	–	1,239
RSUs, PSUs and ESPP	–	–	–	229
2026 Notes	–	6,776	–	–
Weighted average dilutive common shares outstanding	63,321	69,164	63,103	63,634
Net income (loss) per share:				
Basic	$ (0.09)	$ (0.00)	$ (0.28)	$ 0.01
Diluted	$ (0.09)	$ (0.00)	$ (0.28)	$ 0.01

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2024	2023	2024	2023
Stock options	1,383	1,174	898	49
RSUs, PSUs and ESPP	1,287	1,016	1,324	695
2026 Notes	6,776	–	6,776	6,776
Total potential dilutive securities	9,446	2,190	8,998	7,520

Subsequent to January 31, 2024, we completed a private offering of $160.0 million aggregate principal amount of 7.00% convertible senior notes due 2029 (Note 10), which are not included in the calculation of basic and diluted net loss per common share for the three and nine months ended January 31, 2024.

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

Acceleration of Convertible Senior Notes Due 2026

On February 29, 2024, we received an acceleration notice (the "Acceleration Notice") from a holder of our 2026 Notes. The Acceleration Notice stipulated, among other things, that (i) we did not remove the restrictive legend on the 2026 Notes by March 17, 2022 as required under the 2026 Notes Indenture, (ii) due to such failure, additional interest had accrued thereafter at a rate of 0.50% per annum (the "Additional Interest"), (iii) such Additional Interest had not been paid by us as of the date of the Acceleration Notice, which constitutes an event of default under the 2026 Notes Indenture (the "Event of Default"), and (iv) such holder was the beneficial owner of at least 25% in aggregate principal amount of the outstanding 2026 Notes and therefore had the right to accelerate all of the 2026 Notes. As a result of the Event of Default, such holder declared 100% of the principal amount of, and accrued and unpaid interest on, the 2026 Notes to be due and payable immediately.

Sale and Issuance of Convertible Senior Notes Due 2029

On March 12, 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 (Note 3) 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, 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 may declare the entire principal of all the 2029 Notes plus accrued and unpaid interest to be immediately due and payable.

Capped Call Transactions

During March 2024, in connection with our repurchase and payoff of the remaining balance of the 2026 Notes, as further described above, we entered into transactions to unwind all of our Capped Calls (Note 3). As a result, we received $1.3 million in net proceeds from the unwinding of the Capped Calls.

Revolving Credit Facility

On March 12, 2024, we entered into Amendment No. 2 to the Credit Agreement (Note 3) which, among other things, (i) waives the events of default under the Credit Agreement as a result of the acceleration of the 2026 Notes, (ii) permits the issuance of the 2029 Notes and the repayment of the 2026 Notes and (iii) adjusts certain financial covenant in the Credit Agreement.

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 Amendment No. 1 to our Annual Report on Form 10-K/A, as filed with the SEC on April 24, 2024 (the "Amended 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 the Amended Form 10-K, as filed with the SEC on April 24, 2024, those identified in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q, and in other filings we may make with the Securities and Exchange Commission from time to time. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time, and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements and, except as required by law, assume no obligation and do not intend to update these forward-looking statements.

Overview

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

Strategic Objectives

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

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

Third Quarter Highlights

The following summarizes select highlights from our third quarter ended January 31, 2024:

- Expanded our customer base and programs with existing customers and ended the quarter with a backlog of approximately $206 million compared to $176 million at the end of the same quarter in fiscal 2023; and
- Marked the completion of our cell and gene therapy facility by hosting a grand opening in January 2024.

Facility Expansion

During fiscal year 2022, we announced plans to expand our CDMO service offerings into viral vector development and manufacturing services for the rapidly growing cell and gene therapy ("CGT") market. This expansion consisted of a two-phased approach to the construction of a world-class CGT development and CGMP manufacturing facility in Costa Mesa, California (the "CGT Facility"). In June 2022, we completed the first phase with the opening of our new analytical and process development laboratories. In October 2023, we completed the second phase with the build out of CGMP manufacturing suites, as scheduled. In January 2024, we marked the completion of our CGT facility by hosting a grand opening of the newly completed CGMP manufacturing suites.

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 consolidated financial statements, the changes in certain key items in those consolidated financial statements from period to period and the primary factors that accounted for those changes.

Revenues

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

Gross Profit

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

Selling, General and Administrative Expenses

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

Interest Expense

Interest expense consists of interest costs related to our outstanding convertible senior notes, revolving credit facility and finance 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 losses from the disposal of long-lived assets and unrealized losses from investments in equity securities.

Income Tax (Benefit) Expense

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

Results of Operations

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

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

	Three Months Ended January 31,		
	2024	**2023**	**$ Change**
Revenues	$ 33,815	$ 38,018	$ (4,203)
Cost of revenues	31,432	28,193	3,239
Gross profit	2,383	9,825	(7,442)
Operating expenses:			
Selling, general and administrative	6,382	7,107	(725)
Total operating expenses	6,382	7,107	(725)
Operating income (loss)	(3,999)	2,718	(6,717)
Interest expense	(875)	(636)	(239)
Other income (expense), net	(2,184)	432	(2,616)
Net income (loss) before income taxes	(7,058)	2,514	(9,572)
Income tax (benefit) expense	(1,052)	2,761	(3,813)
Net loss	$ (6,006)	$ (247)	$ (5,759)

Revenues

Revenues for the three months ended January 31, 2024 were $33.8 million compared to $38.0 million for the same period in the prior year, a decrease of $4.2 million, or 11%. The decrease in revenues can primarily be attributed to decreases in manufacturing runs and process development services from early-stage programs. The following table compares revenues by revenue stream for the three months ended January 31, 2024 and 2023 (in thousands):

	Three Months Ended January 31,		
	2024	**2023**	**Change**
Manufacturing revenues	$ 29,093	$ 32,182	$ (3,089)
Process development revenues	4,722	5,836	(1,114)
Total revenues	$ 33,815	$ 38,018	$ (4,203)

Gross Profit

Gross profit for the three months ended January 31, 2024 was $2.4 million (7% gross margin) compared to a gross profit of $9.8 million (26% gross margin) for the same period in the prior year. The decrease in gross margin during the three months ended January 31, 2024, as compared to the same prior year period was primarily driven by fewer manufacturing runs, a reduction in process development revenues from early-stage customers, and an increase in costs related to expansions of both our capacity and our technical capabilities.

Selling, General and Administrative Expenses

SG&A expenses were $6.4 million for the three months ended January 31, 2024 compared to $7.1 million for the same period in the prior year, a decrease of $0.7 million, or 10%. The net decrease in SG&A expenses can be attributed to the following components:

	$ millions
Decrease in compensation and benefit related expenses	$ (0.7)
Decrease in consulting fees	(0.1)
Decrease in facility and related expenses	(0.1)
Net increase in all other SG&A expenses	0.2
Total decrease in SG&A expenses	$ (0.7)

As a percentage of revenues, SG&A expenses for the three months ended January 31, 2024 and 2023 were both 19%.

Operating Income (Loss)

Operating loss was $4.0 million for the three months ended January 31, 2024 compared to operating income of $2.7 million for the same period in the prior year. This $6.7 million decrease in year-over-year operating income (loss) can be attributed to the $7.4 million decrease in gross profit, partially offset by the $0.7 million decrease in SG&A expenses.

Interest Expense

Interest expense was $0.9 million for the three months ended January 31, 2024 compared to $0.6 million for the same period in the prior year. This increase of approximately $0.2 million can be attributed to interest expense associated with our 2026 Notes, revolving credit facility, and a finance lease we entered into in October 2023.

Other Income (Expense), net

Other income (expense), net ("OI&E") was an expense of $2.2 million for the three months ended January 31, 2024 compared to income of $0.4 million for the same period in the prior year. This $2.6 million decrease in year-over-year OI&E can primarily be attributed to an unrealized loss from an investment in an equity security of $2.4 million combined with a $0.2 million decrease in interest income.

Income Tax (Benefit) Expense

Income tax benefit was $1.1 million for the three months ended January 31, 2024 compared to income tax expense of $2.8 million for the same period in the prior year. This $3.8 million decrease in our provision for income taxes can primarily be attributed to our pre-tax net loss for the current year period. Our effective tax rate for the current year period was approximately 14.9% 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.

Nine Months Ended January 31, 2024 Compared to Nine Months Ended January 31, 2023

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

	Nine Months Ended January 31,		
	2024	2023	$ Change
Revenues	$ 96,936	$ 109,467	$ (12,531)
Cost of revenues	95,118	86,378	8,740
Gross profit	1,818	23,089	(21,271)
Operating expenses:			
Selling, general and administrative	19,202	20,320	(1,118)
Total operating expenses	19,202	20,320	(1,118)
Operating income (loss)	(17,384)	2,769	(20,153)
Interest expense	(2,527)	(2,354)	(173)
Other income (expense), net	(1,786)	627	(2,413)
Net income (loss) before income taxes	(21,697)	1,042	(22,739)
Income tax (benefit) expense	(4,048)	448	(4,496)
Net income (loss)	$ (17,649)	$ 594	$ (18,243)

Revenues

Revenues for the nine months ended January 31, 2024 were $96.9 million compared to $109.5 million for the same period in the prior year, a decrease of approximately $12.5 million, or 11%. The decrease in revenues can primarily be attributed to decreases in manufacturing runs and process development services from early-stage programs, combined with a reduction of revenue for changes in estimated variable consideration under a contract where uncertainties have been resolved. The following table compares revenues by revenue stream for the nine months ended January 31, 2024 and 2023 (in thousands):

	Nine Months Ended January 31,		
	2024	2023	Change
Manufacturing revenues	$ 82,641	$ 91,277	$ (8,636)
Process development revenues	14,295	18,190	(3,895)
Total revenues	$ 96,936	$ 109,467	$ (12,531)

Gross Profit

Gross profit for the nine months ended January 31, 2024 was $1.8 million (2% gross margin) compared to a gross profit of $23.1 million (21% gross margin) for the same period in the prior year. The decrease in gross margin during the nine months ended January 31, 2024, as compared to the same prior year period was primarily driven by fewer manufacturing runs, a reduction in process development services from early-stage customers, and an increase in costs related to expansions of both our capacity and our technical capabilities. Margins during the current year period were also impacted by (i) a reduction of revenues for changes in estimated variable consideration under a contract where uncertainties have been resolved, (ii) a terminated project relating to the insolvency of one of our smaller customers, and (iii) a delay in our ability to recognize revenues of a customer product pending the implementation of a process change.

Selling, General and Administrative Expenses

SG&A expenses were $19.2 million for the nine months ended January 31, 2024 compared to $20.3 million for the same period in the prior year, a decrease of approximately $1.1 million, or 6%. The net decrease in SG&A expenses can be attributed to the following components:

	$ millions
Decrease in compensation and benefit related expenses	$ (0.7)
Decrease in consulting fees	(0.4)
Decrease in legal fees	(0.2)
Net increase in all other SG&A expenses	0.2
Total decrease in SG&A expenses	$ (1.1)

As a percentage of revenues, SG&A expenses for the nine months ended January 31, 2024 and 2023 were 20% and 19%, respectively.

Operating Income (Loss)

Operating loss was $17.4 million for the nine months ended January 31, 2024 compared to operating income of $2.8 million for the same period in the prior year. This decrease of $20.2 million in year-over-year operating income (loss) can be attributed to the $21.3 million decrease in gross profit, partially offset by the $1.1 million decrease in SG&A expenses.

Interest Expense

Interest expense was $2.5 million for the nine months ended January 31, 2024 compared to $2.4 million for the same period in the prior year. This increase of approximately $0.2 million can primarily be attributed to interest expense associated with the revolving credit facility we entered into during March 2023.

Other Income (Expense), net

OI&E was expense of $1.8 million for the nine months ended January 31, 2024 compared to income of $0.6 million for the same period in the prior year, a decrease of $2.4 million. This decrease in year-over-year OI&E can primarily be attributed to a $2.4 million unrealized loss from an investment in an equity security.

Income Tax Expense (Benefit)

Income tax benefit was $4.0 million for the nine months ended January 31, 2024 compared to income tax expense of $0.4 million for the same period in the prior year. This decrease of approximately $4.5 million in our provision for income taxes can primarily be attributed to our pre-tax net loss for the current year period. Our effective tax rate for the current year period was approximately 18.7% 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

Our principal sources of liquidity are our existing cash and cash equivalents on hand. As of January 31, 2024, we had cash and cash equivalents of $30.7 million. Further, as of January 31, 2024, there was $143.8 million aggregate principal outstanding on our 2026 Notes, which due to an Event of Default (as further described in Note 10 of the notes to unaudited condensed consolidated financial statements), are classified as a current liability on the unaudited condensed consolidated balance sheets at January 31, 2024 and April 30, 2023.

On February 29, 2024, a holder of at least 25% of the 2026 Notes declared 100% of the principal amount of, and accrued and unpaid interest on, the 2026 Notes to be due and payable immediately (as further described in Note 10 of the notes to unaudited condensed consolidated financial statements).

On March 12, 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 (as further described in Note 10 of the notes to unaudited condensed consolidated financial statements). 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 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 indenture for the 2026 Notes, following which no 2026 Notes remained outstanding (as further described in Note 10 of the notes to unaudited condensed consolidated financial statements).

As a result, 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.

If our existing cash and cash equivalents on hand and our anticipated cash flows from operations are not sufficient to support our operations or capital requirements, then we may, in the future, draw on our existing revolving credit facility (which was amended on March 12, 2024 to, among other things, waive the events of default under the revolving credit facility as a result of the aforementioned acceleration of the 2026 Notes), which is subject to covenant compliance and availability (as described in Note 3 of the notes to unaudited condensed consolidated financial statements) and/or obtain additional debt or equity financing to fund our future operations. We may raise these funds at the appropriate time, accessing the form of capital that we determine is most appropriate considering the markets available to us and their respective costs of capital, such as through the issuance of debt or through the public offering of securities. These financings may not be available on acceptable terms, or at all. Our ability to raise additional capital in the equity and debt markets is dependent on several factors including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties including, but not limited to, our financial results, economic and market conditions, and global financial crises and economic downturns, which may cause extreme volatility and disruptions in capital and credit markets. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us, or it may contain restrictions on the operations of our business.

Cash Flows

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

	Nine Months Ended January 31,		
	2024	**2023**	**$ Change**
Net cash provided by (used in) operating activities	$ 9,695	$ (15,867)	$ 25,562
Net cash used in investing activities	$ (26,112)	$ (52,580)	$ 26,468
Net cash provided by financing activities	$ 8,233	$ 2,197	$ 6,036

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities for the nine months ended January 31, 2024 was a result of a net loss of $17.6 million, offset by non-cash adjustments to net loss of approximately $12.4 million primarily related to depreciation and amortization expense, 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 approximately $15.0 million.

Net cash used in operating activities for the nine months ended January 31, 2023 was a result of net income of $0.6 million combined with non-cash adjustments to net income of approximately $13.9 million primarily related to stock-based compensation, depreciation and amortization expense, amortization of debt issuance costs and deferred income taxes, offset by a reduction in working capital as a result of a net change in operating assets and liabilities of approximately $30.3 million.

Net Cash Used in Investing Activities

Net cash used in investing activities for the nine months ended January 31, 2024 and 2023 consisted of $26.1 million and $52.6 million, respectively, used to acquire property and equipment primarily related to the expansion of our facilities.

Net Cash Provided by Financing Activities

Net cash provided by financing activities for the nine months ended January 31, 2024 consisted of $7.4 million in proceeds from an equipment finance lease and $1.4 million in net proceeds from the issuance of common stock under our equity compensation plans, offset by $0.6 million in principal payments on finance leases.

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

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 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 our 2029 Notes, see Note 10 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 terms ranging from 5 to 7 years. As of January 31, 2024, we had outstanding lease payment obligations of approximately $84.7 million, of which $1.5 million is payable in the remainder of fiscal 2024, $6.0 million is payable in fiscal 2025, $6.1 million is payable in fiscal 2026, $6.0 million is payable in fiscal 2027, $5.4 million is payable in fiscal 2028, and $59.7 million is payable thereafter.

Capital Expenditures

Our fiscal year 2024 capital expenditures primarily relate to the expansion of our facilities. During the nine months ended January 31, 2024, our capital expenditures were $26.1 million, and $6.1 million were incurred and accrued as of January 31, 2024, for a total of $32.2 million. We currently anticipate that our total capital expenditures for fiscal year 2024 will remain at approximately $32 million.

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 provides for a revolving credit facility (the "Revolving Credit Facility") in an amount equal to the lesser of (i) $50 million and (ii) a borrowing base calculated as the sum of (a) 80% of the value of certain of our eligible accounts receivable, plus (b) up to 100% of the value of eligible cash collateral. The Revolving Credit Facility will mature on October 25, 2024, and is secured by substantially all of our assets. As of January 31, 2024, there were no outstanding loans under the Revolving Credit Facility.

Loans under the Revolving Credit Facility will bear interest at either a term Secured Overnight Financing Rate ("SOFR") rate for a specified interest period plus a SOFR adjustment (equal to 0.10%) plus a margin of 1.60% or base rate plus a margin of 0.60% at our option. Interest on any outstanding loans is due and payable monthly and the principal balance is due at maturity. In addition, we pay a quarterly unused revolving line facility fee of 0.25% per annum on the average unused facility.

The Credit Agreement includes certain customary affirmative and negative covenants, including limitations on mergers, consolidations and sales of assets, limitations on liens, limitations on certain restricted payments and investments, limitations on transactions with affiliates and limitations on incurring additional indebtedness. In addition, the Credit Agreement requires maintenance of a minimum consolidated EBITDA, as defined in the Credit Agreement, of $15 million for the most recently completed four fiscal quarters as measured at the end of each fiscal quarter. As of January 31, 2024, we were in compliance with the Credit Agreement's financial covenant.

The Credit Agreement also provides for certain customary events of defaults, including, among others, failure to make payments, breach of representations and warranties, and default of covenants. For additional information regarding our Credit Agreement, see Note 3 of the notes to unaudited condensed consolidated financial statements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our consolidated financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We review our estimates and assumptions on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. During the nine months ended January 31, 2024, there were no significant changes in our critical accounting policies as previously disclosed by us in Part II, Item 7 of the Amended 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 January 31, 2024, our backlog was approximately $206 million, as compared to approximately $191 million as of April 30, 2023. 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 nine months ended January 31, 2024, there were no material changes in the market risks described in the "Quantitative and Qualitative Disclosures About Market Risk" section of the Amended 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 January 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 not effective as of January 31, 2024, as a result of the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified a material weakness in our internal control over financial reporting related to the lack of an effectively designed control activity in accounting for debt and related interest. Specifically, our debt internal controls did not include the periodic review of covenants, acceleration clauses, events of default, and other pertinent information in our debt agreements as of January 31, 2024.

Remediation Efforts of Material Weakness

Management, under the oversight of the Audit Committee, has designed the necessary controls to remediate the foregoing material weakness. These controls include the initial and periodic review of covenants, acceleration clauses, events of default, and other pertinent information in our debt agreements to enable management to assess whether any of these provisions impact our financial reporting.

Changes in Internal Control over Financial Reporting

Except for the material weakness described above, there were no significant changes in our internal control over financial reporting, during the quarter ended January 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 I, Item 1A, "Risk Factors" in the Amended Form 10-K, as filed with the SEC on April 24, 2024. There have been no material changes to the risk factors as previously disclosed in the Amended Form 10-K, as filed with the SEC on April 24, 2024.

Item 5. Other Information

During the three months ended January 31, 2024, none of our directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement, as such terms are defined under Item 408(a) of Regulation S-K.

Item 6. Exhibits

(a) Exhibits:

10.1	First Amendment to Avid Bioservices, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2023).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	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.

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: April 24, 2024	By: /s/ Nicholas S. Green Nicholas S. Green President and Chief Executive Officer (Principal Executive Officer)
Date: April 24, 2024	By: /s/ Daniel R. Hart Daniel R. Hart Chief Financial Officer (Principal Financial and 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 period covered by this report based on such evaluation; and

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

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

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

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

Date: April 24, 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 period covered by this report based on such evaluation; and

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

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

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

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

Date: April 24, 2024

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

Exhibit 32

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

I, Nicholas S. Green, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended January 31, 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.

Date: April 24, 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 January 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.

Date: April 24, 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.