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, 2022
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.)*

2642 Michelle Drive, Suite 200, Tustin, California, 92780
(Address of principal executive offices, Zip Code)

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

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 ☒

61,744,350 shares of registrant's common stock were outstanding as of March 1, 2022.

AVID BIOSERVICES, INC.
Form 10-Q

For the Fiscal Quarter Ended January 31, 2022

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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, 2022	April 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 149,957	$ 169,915
Accounts receivable, net	28,009	18,842
Contract assets	3,344	6,112
Inventory	21,054	11,871
Prepaid expenses	1,126	1,064
Total current assets	203,490	207,804
Property and equipment, net	69,395	37,455
Operating lease right-of-use assets	37,508	18,691
Other assets	3,352	1,210
Restricted cash	350	350
Total assets	$ 314,095	$ 265,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,456	$ 9,257
Accrued compensation and benefits	7,742	8,794
Contract liabilities	58,991	50,769
Current portion of operating lease liabilities	2,624	1,355
Other current liabilities	1,489	761
Total current liabilities	77,302	70,936
Convertible senior notes, net	139,313	96,949
Operating lease liabilities, less current portion	38,683	19,889
Finance lease liabilities, less current portion	2,222	–
Total liabilities	257,520	187,774
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; 61,725 and 61,069 shares issued and outstanding at respective dates	62	61
Additional paid-in capital	603,488	637,534
Accumulated deficit	(546,975)	(559,859)
Total stockholders' equity	56,575	77,736
Total liabilities and stockholders' equity	$ 314,095	$ 265,510

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	**2021**	**2022**	**2021**
Revenues	$ 31,508	$ 21,806	$ 88,371	$ 68,262
Cost of revenues	22,421	15,604	58,707	47,098
Gross profit	9,087	6,202	29,664	21,164
Operating expenses:				
Selling, general and administrative	5,818	4,018	15,311	12,009
Total operating expenses	5,818	4,018	15,311	12,009
Operating income	3,269	2,184	14,353	9,155
Interest expense	(718)	–	(2,125)	(4)
Other income (expense), net	(303)	23	(154)	70
Net income	$ 2,248	$ 2,207	$ 12,074	$ 9,221
Comprehensive income	$ 2,248	$ 2,207	$ 12,074	$ 9,221
Series E preferred stock accumulated dividends	–	(1,442)	–	(3,604)
Net income attributable to common stockholders	$ 2,248	$ 765	$ 12,074	$ 5,617
Net income per share attributable to common stockholders:				
Basic	$ 0.04	$ 0.01	$ 0.20	$ 0.10
Diluted	$ 0.04	$ 0.01	$ 0.19	$ 0.10
Weighted average common shares outstanding:				
Basic	61,631	58,865	61,394	57,349
Diluted	63,872	60,097	63,711	58,058

See accompanying notes to condensed consolidated financial statements.

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

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

	Three Months Ended January 31, 2021						
	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance at October 31, 2020	1,648	$ 2	56,722	$ 57	$ 613,384	$ (564,057)	$ 49,386
Series E preferred stock dividends paid ($0.65625 per share)	–	–	–	–	(1,081)	–	(1,081)
Common stock issued, net of issuance costs of $2,359	–	–	3,833	4	32,137	–	32,141
Common stock issued under equity compensation plans	–	–	272	–	1,718	–	1,718
Stock-based compensation expense	–	–	–	–	999	–	999
Net income	–	–	–	–	–	2,207	2,207
Balance at January 31, 2021	1,648	$ 2	60,827	$ 61	$ 647,157	$ (561,850)	$ 85,370

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

	Nine Months Ended January 31, 2021						
	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance at April 30, 2020	1,648	$ 2	56,483	$ 56	$ 612,909	$ (571,071)	$ 41,896
Series E preferred stock dividends paid ($1.96875 per share)	–	–	–	–	(3,244)	–	(3,244)
Common stock issued, net of issuance costs of $2,359	–	–	3,833	4	32,137	–	32,141
Common stock issued under equity compensation plans	–	–	511	1	2,601	–	2,602
Stock-based compensation expense	–	–	–	–	2,754	–	2,754
Net income	–	–	–	–	–	9,221	9,221
Balance at January 31, 2021	1,648	$ 2	60,827	$ 61	$ 647,157	$ (561,850)	$ 85,370

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, 2022	Nine Months Ended January 31, 2021
Cash flows from operating activities:		
Net income	$ 12,074	$ 9,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	5,352	2,754
Depreciation and amortization	3,060	2,540
Amortization of debt issuance costs	766	–
Loss on disposal of property and equipment	385	–
Changes in operating assets and liabilities:		
Accounts receivable, net	(9,167)	(18,507)
Contract assets	2,768	(2,245)
Inventory	(9,183)	(1,063)
Prepaid expenses and other assets	(2,204)	(101)
Accounts payable	(3,621)	(951)
Accrued compensation and benefits	(1,052)	3,481
Contract liabilities	8,222	18,587
Other accrued expenses and liabilities	1,453	(394)
Net cash provided by operating activities	8,853	13,322
Cash flows from investing activities:		
Purchase of property and equipment	(31,845)	(5,717)
Net cash used in investing activities	(31,845)	(5,717)
Cash flows from financing activities:		
Proceeds from issuance of common stock under equity compensation plans	3,034	2,602
Proceeds from issuance of common stock, net of issuance costs	–	32,141
Repayment of note payable	–	(4,379)
Dividends paid on preferred stock	–	(3,244)
Principal payments on finance lease	–	(93)
Net cash provided by financing activities	3,034	27,027
Net (decrease) increase in cash, cash equivalents and restricted cash	(19,958)	34,632
Cash, cash equivalents and restricted cash, beginning of period	170,265	36,612
Cash, cash equivalents and restricted cash, end of period	$ 150,307	$ 71,244
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 914	$ 5
Supplemental disclosures of non-cash activities:		
Unpaid purchases of property and equipment	$ 780	$ 1,880
Unpaid finance lease obligation	$ 40	$ –
Right-of-use assets obtained upon operating lease modification, net	$ 4,554	$ –
Right-of-use assets obtained in exchange for operating lease obligations	$ 16,093	$ –
Property and equipment obtained in exchange for finance lease obligation	$ 2,760	$ –

See accompanying notes to condensed consolidated financial statements.

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, focused on development and CGMP 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 of the information and disclosures required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021, as filed with the SEC on June 29, 2021. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this Quarterly Report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year or any other interim period.

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

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

Note 2 – Summary of Significant Accounting Policies

Information regarding our significant accounting policies is contained in Note 2, “Summary of Significant Accounting Policies”, of the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021.

Revenue Recognition

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

Manufacturing revenue

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

Process development revenue

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

The following table summarizes our manufacturing and process development revenue streams (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	**2021**	**2022**	**2021**
Manufacturing revenues	$ 26,170	$ 17,895	$ 73,858	$ 60,407
Process development revenues	5,338	3,911	14,513	7,855
Total revenues	$ 31,508	$ 21,806	$ 88,371	$ 68,262

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 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, 2022, we recognized revenue of $6.9 million and $31.7 million, respectively, for which the contract liability was recorded in a prior period.

During the three and nine months ended January 31, 2021, we recognized revenue of $3.5 million and $26.3 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. In determining the transaction price, we considered the different sources of variable consideration including, but not limited to, discounts, credits, refunds, price concessions or other similar items. We have included in the transaction price some or all of an amount of variable consideration, utilizing the most likely method, only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The actual amount of consideration ultimately received may differ.

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

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

During the three and nine months ended January 31, 2022, changes in estimates for variable consideration resulted in a decrease in revenues of $1.2 million and $12.4 million, respectively. These changes in estimates for variable consideration can primarily be attributed to a dispute with a customer over the payment of certain cancellation fees due to us under the terms of the related customer contract which resulted in a decrease in revenues of $0.3 million and $11.5 million, for the current year three and nine-month periods, respectively. We believe we have a contractual right to the disputed amount, but as this contractual right is being disputed and therefore may be uncollectible, we have not recorded revenue associated with the disputed amount.

There were no material adjustments in estimates for variable consideration for the three months ended January 31, 2021. During the nine months ended January 31, 2021, changes in estimates for variable consideration resulted in an increase in revenues of $1.1 million.

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, 2022, we do not have any unsatisfied performance obligations for contracts greater than one year.

Restricted Cash

Under the terms of an operating lease related to one of our facilities (Note 4), we are required to maintain a letter of credit as collateral. Accordingly, at January 31, 2022 and April 30, 2021, restricted cash of $0.4 million was pledged as collateral under the letter of credit.

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

	January 31, 2022	April 30, 2021	January 31, 2021	April 30, 2020
Cash and cash equivalents	$ 149,957	$ 169,915	$ 70,894	$ 36,262
Restricted cash	350	350	350	350
Total cash, cash equivalents and restricted cash	$ 150,307	$ 170,265	$ 71,244	$ 36,612

Accounts Receivable

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

Based on our analysis of our accounts receivable balance as of April 30, 2021, we determined no allowance for doubtful accounts was deemed necessary.

Based on our analysis of our accounts receivable balance as of January 31, 2022, we determined an allowance for doubtful accounts of $11.5 million was deemed necessary due to a dispute with a customer over the payment of certain cancellation fees due to us under the terms of the related customer contract. The corresponding amount of revenue was reserved in the current year period. We believe we have a contractual right to this amount, but as this contractual right is being disputed and therefore may be uncollectible, we have chosen to reserve the disputed amount.

Inventory

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

Property and Equipment

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

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

Construction-in-progress, which represents direct costs related to the construction of various equipment and leasehold improvements primarily associated with our manufacturing facilities, is not depreciated until the asset is completed and placed into service. No interest was incurred or capitalized as construction-in-progress as of January 31, 2022 and April 30, 2021. All of our property and equipment are located in the United States. Property and equipment consist of the following (in thousands):

	January 31, 2022	April 30, 2021
Leasehold improvements	$ 36,870	$ 23,000
Laboratory and manufacturing equipment	25,192	20,793
Computer equipment and software	5,562	5,541
Furniture, fixtures and office equipment	843	843
Construction-in-progress	24,676	8,372
Total property and equipment, gross	93,143	58,549
Less: accumulated depreciation and amortization	(23,748)	(21,094)
Total property and equipment, net	$ 69,395	$ 37,455

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

Depreciation and amortization expense for the three and nine months ended January 31, 2021 was $0.9 million and $2.5 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, current portion of 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.

For our finance lease, which has a term greater than one year, an asset is included 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 are calculated using the implicit interest rate in the lease.

We have elected not to apply the recognition requirements of ASC 842 for short-term leases. 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, 2022 and 2021, there were no indicators of impairment of the value of our long-lived assets and no cumulative impairment losses recognized as of January 31, 2022.

Stock-Based Compensation

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

Comprehensive Income

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

Fair Value Measurements

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

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

As of January 31, 2022 and April 30, 2021, we did not have any Level 2 or Level 3 financial assets and our cash equivalents of $138.2 million and $158.8 million, respectively, were invested in money market funds with one and two major commercial banks, respectively, and carried at fair value based on quoted market prices for identical securities (Level 1 input). We consider the fair value of our convertible senior notes to be a Level 2 financial liability due to limited trading activity of the senior convertible notes. Refer to Note 3, *Debt*, of the notes to unaudited condensed consolidated financial statements for further details. We did not have any other Level 2 or Level 3 financial liabilities as of January 31, 2022 and April 30, 2021.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses of Financial Instruments* ("ASU 2016-13"). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. As a smaller reporting company as defined by the SEC, ASU 2016-13 and its subsequent updates are effective for fiscal years beginning after December 15, 2022, which will be our fiscal year 2024 beginning May 1, 2023; however, early adoption is permitted. We are currently evaluating the timing and the impact this standard will have on our unaudited condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes by removing certain exceptions and improving consistent application in certain areas of Topic 740. ASU 2019-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2020, which will be our fiscal year 2022 beginning May 1, 2021. Early adoption is permitted. We adopted ASU 2019-12 on May 1, 2021 and the adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, Debt with Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). The amendments in this ASU will eliminate the beneficial conversion and cash conversion accounting models for convertible instruments, as well as, amend the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. The ASU will also modify how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted earnings per share calculation. As a smaller reporting company as defined by the SEC, ASU 2020-06 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2023, which will be our fiscal year 2025 beginning May 1, 2024. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020.

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

The adoption of ASU 2020-06 resulted in the re-combination of the debt and equity components of our convertible senior notes (Note 3) into a single debt instrument, which resulted in a $42.4 million decrease in additional paid-in capital from the derecognition of the bifurcated equity component, a $41.6 million increase in convertible senior notes from the derecognition of the discount associated with the bifurcated equity component, or debt discount, and $0.8 million decrease to the opening balance of accumulated deficit, representing the cumulative non-cash interest expense recognized related to the amortization of the debt discount associated with the bifurcated equity component of our convertible senior notes. The adoption of this standard also reduces the non-cash interest expense recognized in future periods due to the derecognition of the debt discount associated with the bifurcated equity component of our convertible senior notes. When calculating net income per share of common stock attributable to common stockholders, we use the if-converted method as required under ASU 2020-06 to determine the dilutive effect of our convertible senior notes.

Note 3 – Debt

Convertible Senior Notes Due 2026

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

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

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

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

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

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

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

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

As of January 31, 2022, the conditions allowing holders of the Convertible Notes to convert had not been met and, therefore, the Convertible Notes are classified as a long-term liability on the condensed consolidated balance sheets at January 31, 2022 and April 30, 2021.

In accounting for the issuance of the Convertible Notes, prior to the adoption of ASU 2020-06, we separated the Convertible Notes into debt and equity components. The carrying amount of the debt component on the date of the issuance was $99.7 million and was determined based on a binomial lattice model, which yielded an effective discount rate of 8.78% and was derived with the assistance of a third-party valuation. The equity component was allocated a value of $44.1 million, representing the difference between the par value of the Convertible Notes and the fair value of the debt component. The equity component was not remeasured as long as it continued to meet the conditions for equity classification, and the equity component was recorded as additional paid-in capital within stockholders' equity on the condensed consolidated balance sheet at April 30, 2021. The difference between the principal amount of the Convertible Notes and the debt component, or the debt discount, was amortized to interest expense using the effective interest method over the contractual term of the Convertible Notes.

In accounting for the issuance costs related to the Convertible Notes, prior to the adoption of ASU 2020-06, we allocated the total amount incurred to the debt and equity components of the Convertible Notes based on their relative values. Issuance costs attributable to the debt component were $3.7 million and are being amortized to interest expense using the effective interest method over the contractual term of the Convertible Notes. Issuance costs attributable to the equity component were $1.6 million and were netted with the equity component in additional paid-in capital within stockholders' equity on the condensed consolidated balance sheet at April 30, 2021.

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

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

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

	January 31, 2022	April 30, 2021
Principal	$ 143,750	$ 143,750
Unamortized debt discount [1]	–	(43,189)
Unamortized issuance costs	(4,437)	(3,612)
Net carrying amount	$ 139,313	$ 96,949

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

	January 31, 2022	April 30, 2021
Equity component (debt discount)	$ –	$ 44,051
Issuance costs	–	(1,620)
Net carrying amount [1]	$ –	$ 42,431

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

As of January 31, 2022, the estimated fair value of the Convertible Notes was approximately $197.7 million. The fair value was determined based on the last actively traded price per $100 of the Convertible Notes for the period ended January 31, 2022 (Level 2).

The following table summarizes the interest expense recognized related to the Convertible Notes for the three and nine months ended January 31, 2022 (in thousands). There were no Convertible Notes outstanding for the three and nine months ended January 31, 2021.

	Three Months Ended January 31, 2022	Nine Months Ended January 31, 2022
Contractual interest expense	$ 449	$ 1,347
Amortization of issuance costs	257	766
Total interest expense	$ 706	$ 2,113

Capped Call Transactions

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

We determined that the Capped Calls should be accounted for as a separate transaction from the Convertible Notes and that the Capped Calls met the criteria for equity classification. Therefore, the cost of $12.8 million to purchase the Capped Calls were recorded as a reduction to additional paid-in capital in the condensed consolidated balance sheet at April 30, 2021. The Capped Calls will not be subsequently remeasured as long as the conditions for equity classification continue to be met.

Note 4 – Leases

We currently lease certain office, manufacturing, laboratory and warehouse space located in southern California under operating lease agreements. Our leased facilities have original lease terms ranging from 7 to 12 years, contain multi-year renewal options, and scheduled rent increases of 3% on either an annual or biennial basis. A multi-year renewal option was included in determining the right-of-use asset and lease liability for one of our leases as we considered it reasonably certain that we would exercise such renewal option. In addition, three of our leases provide for periods of free rent, lessor improvements and/or tenant improvement allowances, of which certain of these improvements have been classified as leasehold improvements and are being amortized over the shorter of the estimated useful life of the improvements or the remaining life of the lease. The operating lease ROU assets and liabilities on our accompanying condensed consolidated balance sheets primarily relate to these facility leases.

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

The components of operating lease cost for the three and nine months ended January 31, 2022 and 2021 were as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	**2021**	**2022**	**2021**
Operating lease cost	$ 1,051	$ 788	$ 2,828	$ 2,364
Variable lease cost	221	112	620	433
Short-term lease cost	163	99	379	289
Total operating lease cost	$ 1,435	$ 999	$ 3,827	$ 3,086

We also lease certain manufacturing equipment under a 5 year finance lease that commenced in October 2021. Finance lease costs were immaterial for the three and nine months ended January 31, 2022 and 2021.

Supplemental consolidated balance sheet and other information related to our operating and finance leases as of January 31, 2022 and April 30, 2021 were as follows (in thousands, expect weighted average data):

Leases	Classification	January 31, 2022	April 30, 2021
Assets			
Operating	Operating lease right-of-use assets	$ 37,508	$ 18,691
Finance	Property and equipment, net	2,760	–
Total leased assets		$ 40,268	$ 18,691
Liabilities			
Current:			
Operating	Current portion of operating lease liabilities	$ 2,624	$ 1,355
Finance	Other current liabilities	498	–
Non-current:			
Operating	Operating lease liabilities, less current portion	38,683	19,889
Finance	Finance lease liabilities, less current portion	2,222	–
Total lease liabilities		$ 44,027	$ 21,244

Weighted average remaining lease term (years):		
Operating leases	12.6	9.6
Finance lease	4.9	–
Weighted average discount rate		
Operating leases	3.3%	8.0%
Finance lease	5.3%	–

Cash paid for amounts included in the measurement of our operating lease liabilities was $1.6 million and $2.2 million for the nine months ended January 31, 2022 and 2021, respectively, and included in net cash used in operating activities in our accompanying unaudited condensed consolidated statements of cash flows. We did not have any cash payments associated with our finance lease liability as of January 31, 2022. As of January 31, 2022, 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 Lease	Total
2022 (remaining period)	$ 794	$ 157	$ 951
2023	4,279	629	4,908
2024	4,140	629	4,769
2025	4,060	629	4,689
2026	4,167	629	4,796
Thereafter	32,908	419	33,327
Total lease payments	$ 50,348	$ 3,092	$ 53,440
Less: imputed interest	(9,041)	(372)	(9,413)
Total lease liabilities	$ 41,307	$ 2,720	$ 44,027

Note 5 – Stockholders' Equity

Series E Preferred Stock

On April 12, 2021 (the "Redemption Date"), we redeemed all then current outstanding shares of our 10.50% Series E Convertible Preferred Stock (the "Series E Preferred Stock") at a per share price equal to the $25.00 liquidation amount plus accrued and unpaid dividends up to, but excluding, the Redemption Date. In connection with the completed redemption, we incurred a charge of $3.4 million during the quarter ended April 30, 2021 related to the excess of the redemption value paid upon redemption over the carrying value of our Series E Preferred Stock. As a result of the completed redemption, our Series E Preferred Stock is no longer issued and outstanding.

Holders of our Series E Preferred Stock were entitled to receive cumulative dividends at the rate of 10.50% per annum based on the liquidation preference of $25.00 per share, or $2.625 per annum per share, and were payable quarterly in cash, on or about the first day of each January, April, July and October. For the three and nine months ended January 31, 2021, we paid aggregate cash dividends of $1.1 million and $3.2 million, respectively, for issued and outstanding shares of our Series E Preferred Stock. No amounts were paid for the three and nine months ended January 31, 2022.

Note 6 – Equity Compensation Plans

Stock Incentive Plans

As of January 31, 2022, we had an aggregate of 9,077,276 shares of our common stock reserved for issuance under our stock incentive plans, of which 3,578,469 shares were subject to outstanding stock options, restricted stock units ("RSUs") and performance stock units ("PSUs") and 5,498,807 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, 2022:

	Stock Options	Grant Date Weighted Average Exercise Price
	(in thousands)	
Outstanding at May 1, 2021	3,130	$6.56
Granted	36	$24.42
Exercised	(403)	$5.95
Canceled or expired	(170)	$7.47
Outstanding at January 31, 2022	2,593	$6.84

Restricted Stock Units

The following summarizes our RSUs transaction activity for the nine months ended January 31, 2022:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at May 1, 2021	560	$6.52
Granted	334	$25.59
Vested	(209)	$9.23
Forfeited	(49)	$15.17
Outstanding at January 31, 2022	636	$14.98

Performance Stock Units

During the nine months ended January 31, 2022, the Compensation Committee of the Board of Directors granted performance stock units (“PSUs”) to our officers. The PSUs are subject to annual vesting, as to one-third of the PSUs, over our three fiscal years ending April 30, 2022, 2023 and 2024 (each a “Performance Period”) based upon our attainment of certain predetermined financial metrics for each such Performance Period. Each PSU that vests represents the right to receive one share of our common stock. 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”). In the event that a financial metric is achieved at a rate below the Maximum Performance Target, or is not achieved, the corresponding portion of the PSUs that do not vest will be forfeited.

The following summarizes our PSUs transaction activity for the nine months ended January 31, 2022:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at May 1, 2021	–	$–
Granted	380	$25.36
Vested	–	$–
Forfeited	(30)	$26.03
Outstanding at January 31, 2022	350	$25.31

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, 2022, a total of 44,364 shares of our common stock were purchased under the ESPP at a weighted average purchase price per share of $14.50. As of January 31, 2022, we had 1,031,962 shares of our common stock reserved for issuance under the ESPP.

Stock-Based Compensation

Stock-based compensation expense for the three and nine months ended January 31, 2022 and 2021 was comprised of the following (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	**2021**	**2022**	**2021**
Cost of revenues	$ 694	$ 386	$ 1,855	$ 1,035
Selling, general and administrative	1,417	613	3,497	1,719
Total stock-based compensation	$ 2,111	$ 999	$ 5,352	$ 2,754

As of January 31, 2022, the total estimated unrecognized compensation cost related to non-vested stock options and RSUs was $3.6 million and $8.8 million, respectively. These costs are expected to be recognized over weighted average vesting periods of 2.0 and 2.6 years, respectively.

As of January 31, 2022, there was $0.7 million of total estimated unrecognized compensation cost related to unvested PSUs associated with the Performance Period ending April 30, 2022. These costs are expected to be recognized over the weighted average vesting period of 0.3 years.

Note 7 – Net Income Per Common Share

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

Net income attributable to common stockholders represents our net income less Series E Preferred Stock accumulated dividends. Series E Preferred Stock accumulated dividends include dividends declared for the period (regardless of whether or not the dividends have been paid) and dividends accumulated for the period (regardless of whether or not the dividends have been declared).

The potential dilutive effect of stock options, unvested RSUs and PSUs, and shares of common stock expected to be issued under our ESPP during the period are calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. The potential dilutive effect of our Convertible Notes and Series E Preferred Stock outstanding during the period are calculated using the if-converted method assuming the conversion of Convertible Notes and Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. A reconciliation of the numerators and the denominators of the basic and dilutive net income per common share computations are as follows (in thousands, expect per share amounts):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
Numerator:				
Net income	$ 2,248	$ 2,207	$ 12,074	$ 9,221
Series E preferred stock accumulated dividends	–	(1,442)	–	(3,604)
Net income attributable to common stockholders	$ 2,248	$ 765	$ 12,074	$ 5,617
Denominator:				
Weighted average basic common shares outstanding	61,631	58,865	61,394	57,349
Effect of dilutive securities:				
Stock options	1,862	937	1,926	507
RSUs, PSUs and ESPP	379	295	391	202
Weighted average dilutive common shares outstanding	63,872	60,097	63,711	58,058
Net income per share attributable to common stockholders				
Basic	$ 0.04	$ 0.01	$ 0.20	$ 0.10
Diluted	$ 0.04	$ 0.01	$ 0.19	$ 0.10

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
Stock options	40	325	37	1,665
RSUs, PSUs and ESPP	3	–	5	6
Convertible Notes	6,776	–	6,776	–
Series E Preferred Stock	–	1,979	–	1,979
Total	6,819	2,304	6,818	3,650

Note 8 – Commitments and Contingencies

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

In March 2020, the World Health Organization declared the global novel coronavirus disease ("COVID-19") outbreak a pandemic and recommended containment and mitigation measures worldwide. Since the announcement we have been monitoring this closely, and although the COVID-19 pandemic has not had a significant impact on our operations to date, the ultimate duration and severity of the outbreak and its impact on the economic environment and our business is highly uncertain. Accordingly, we cannot provide any assurance that the COVID-19 pandemic will not have a material adverse impact on our operations or future results. The extent to which the COVID-19 pandemic may impact our future business, strategic initiatives, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity and resurgence of the COVID-19 pandemic, the effects of the COVID-19 pandemic on our customers, vendors, and employees and the remedial actions and stimulus measures adopted by local and federal governments, and the extent to which normal economic and operating conditions can resume.

Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations

The following discussion and analysis of the financial condition and results of our operations should be read together with the financial statements and related notes of Avid Bioservices, Inc. included in Part I Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, including the anticipated future impact of the ongoing COVID-19 global pandemic on our business operations, that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results of operations to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. These forward-looking statements are subject to numerous risks and uncertainties, including the risks and uncertainties described under the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021, 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, focused on development and CGMP manufacturing of biologics for the biotechnology and biopharmaceutical industries. With 28 years of experience producing monoclonal antibodies and recombinant proteins, our services include CGMP clinical and commercial drug substance manufacturing, bulk packaging, release and stability testing and regulatory submissions support. We also provide a variety of process development services, including upstream and downstream development and optimization, analytical methods development, testing and characterization.

Strategic Objectives

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

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

Third Quarter Highlights

The following summarizes select highlights from our third quarter ended January 31, 2022:

- Reported revenues of $31.5 million, an increase of 44%, or $9.7 million, compared to the same prior year period;
- Reported net income attributable to common stockholders of $2.2 million, or $0.04 per basic and diluted share;
- Expanded our customer base and programs with existing customers and ended the quarter with a backlog of $140 million, representing our highest backog to date;
- Announced the official opening of our second downstream processing suite within our Myford facility. This milestone marks the completion of the first phase of our two-phased expansion of our Myford facility; and
- Continued to advance the second phase of expansion of our Myford facility as well as planning efforts for the construction of a world-class, purpose-built viral vector development and manufacturing facility as further discussed in the "Facility Expansions" section below.

Facility Expansions

During fiscal year 2021, we announced plans for a two-phased expansion of our Myford facility. The first phase, which was initiated during the second quarter of fiscal 2021 and completed in January 2022, expands the production capacity of our existing north side of our Myford facility ("Myford North") by adding an additional downstream processing suite. This phase is now operational and we are actively scheduling new business into the suite. The second phase, which was initiated during the fourth quarter of fiscal 2021 and is anticipated to be online during the first calendar quarter of 2023, will further expand our capacity through the build out of a second manufacturing train, including both upstream and downstream processing suites, within the south side of our Myford facility ("Myford South"). We estimate that the total cost to complete these two phases of expansion will be approximately $70 to $75 million. Upon completion, we estimate that the first and second phases of the Myford expansions will result in a total revenue generating capacity of up to $270 million annually, depending on the mix of projects.

In October 2021, we announced plans to expand our CDMO service offerings into viral vector development and manufacturing services for the rapidly growing cell and gene therapy market. As part of this expansion, we are in the process of constructing a world-class, purpose-built viral vector development and CGMP manufacturing facility within a building we are leasing in Costa Mesa, California (the "Viral Vector Facility"). Based on current projections, we expect the entire build out of our new Viral Vector Facility will take up to 18 months at an estimated cost of approximately $65 to $75 million. The Viral Vector Facility's analytical and process development laboratories are expected to come online more rapidly, with the potential to be operational by mid calendar 2022, followed by CGMP manufacturing coming online approximately one year later. Upon completion of the entire build out of the Viral Vector Facility, we estimate this expansion, combined with the existing facilities and ongoing Myford facility expansions, has the potential to bring our total revenue generating capacity to more than $350 million annually, depending on the mix of projects.

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") outbreak a global pandemic. To date, the COVID-19 pandemic has not had a significant impact on our operations, as we have been able to continue to operate our manufacturing facilities and provide essential services to our customers. Additionally, in an effort to protect the health and safety of our employees and in compliance with state regulations, we have instituted a work-from-home policy for employees who can perform their job functions offsite, implemented daily temperature checking, social distancing requirements and other measures to allow manufacturing and other personnel essential to production to continue work within our manufacturing facilities, and suspended all non-essential employee travel.

The full extent to which COVID-19 will directly or indirectly impact our business, financial condition, and results of operations will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19, the actions taken to contain it or treat its impact and the economic impact on local, regional, national and international markets. We will continue to assess the potential impact of the COVID-19 pandemic on our business, financial condition, and results of operations. For a further discussion of potential risks to our business from the COVID-19 pandemic, please refer to *"Part I, Item 1A—Risk Factors"* in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021.

Performance and Financial Measures

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

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

Revenues

Revenues are derived from services provided under our customer contracts and are disaggregated into manufacturing and process development revenue streams. The manufacturing revenue stream generally represents revenue from the manufacturing of customer products derived from mammalian cell culture covering clinical through commercial manufacturing runs. The process development revenue stream 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 of all 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 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. SG&A expenses are generally not directly proportional to revenues, but we expect such expenses to increase over time to support the needs of our growing company.

Interest Expense

Interest expense is composed of interest related to our outstanding convertible senior notes and finance lease obligations.

Results of Operations

The following table compares the unaudited condensed consolidated statements of operations for the three and nine months ended January 31, 2022 and 2021 (in thousands):

	Three Months Ended January 31,			Nine Months Ended January 31,		
	2022	2021	$ Change	2022	2021	$ Change
Revenues	$ 31,508	$ 21,806	$ 9,702	$ 88,371	$ 68,262	$ 20,109
Cost of revenues	22,421	15,604	6,817	58,707	47,098	11,609
Gross profit	9,087	6,202	2,885	29,664	21,164	8,500
Operating expenses:						
Selling, general and administrative	5,818	4,018	1,800	15,311	12,009	3,302
Total operating expenses	5,818	4,018	1,800	15,311	12,009	3,302
Operating income	3,269	2,184	1,085	14,353	9,155	5,198
Interest expense	(718)	–	(718)	(2,125)	(4)	(2,121)
Other income (expense), net	(303)	23	(326)	(154)	70	(224)
Net income	$ 2,248	$ 2,207	$ 41	$ 12,074	$ 9,221	$ 2,853

Three Months Ended January 31, 2022 Compared to Three Months Ended January 31, 2021

Revenues

Revenues for the three months ended January 31, 2022 were $31.5 million compared to $21.8 million for the same period in the prior year, an increase of $9.7 million, or 44%. The increase in revenues can primarily be attributed to an increase in the scope of in-process and completed manufacturing runs during the current year period compared to the prior year period combined with an increase in process development revenues primarily associated with services provided to new customers. The increase in revenues was attributed to the following components of our revenue streams:

	$ millions
Net increase in manufacturing revenues	$ 8.3
Net increase in process development revenues	1.4
Total increase in revenues	$ 9.7

Gross Profit

Gross profit for the three months ended January 31, 2022 was $9.1 million compared to $6.2 million for the same period in the prior year, an increase of $2.9 million, and gross margins for such periods were 29% and 28%, respectively. The $2.9 million increase in gross profit for the current-year period can primarily be attributed to increased revenues, partially offset by increases in planned growth costs including compensation and benefits, stock-based compensation, and facility and equipment related costs. We expect our gross profit will continue to be impacted by these planned growth costs as we continue to increase the hiring of personnel to support our growing manufacturing capacity and expanded CDMO service offerings.

Operating Expenses

Selling, General and Administrative Expenses

SG&A expenses were $5.8 million for the three months ended January 31, 2022 compared to $4.0 million for the same period in the prior year, an increase of approximately $1.8 million, or 45%. As a percentage of revenues, SG&A expenses for the three months ended January 31, 2022 and 2021 were both 18%. The net increase in SG&A expenses was attributed to the following components:

	$ millions
Increase in stock-based compensation expense	$ 0.8
Increase in compensation and benefit related expenses	0.6
Increase in facility and related expenses	0.2
Net increase in all other SG&A expenses	0.2
Total increase in SG&A expenses	$ 1.8

Operating Income

Operating income was $3.3 million for the three months ended January 31, 2022 compared to $2.2 million for the same period in the prior year. This $1.1 million improvement in year-over-year operating income can primarily be attributed to a $2.9 million increase in gross profit, partially offset by an increase in SG&A expense of approximately $1.8 million.

Interest Expense

Interest expense was $0.7 million for the three months ended January 31, 2022 compared to no interest expense for the same period in the prior year. The increase of $0.7 million can be attributed to interest expense related to our outstanding Convertible Notes issued in March 2021 (as described in Note 3 of the notes to unaudited condensed consolidated financial statements).

Nine Months Ended January 31, 2022 Compared to Nine Months Ended January 31, 2021

Revenues

Revenues for the nine months ended January 31, 2022 were $88.4 million compared to $68.3 million for the same period in the prior year, an increase of $20.1 million, or 29%. The increase in revenues in the current year period compared to the prior year period can primarily be attributed to an increase in the number and scope of in-process and completed manufacturing runs, an increase in unutilized reserved capacity fees, and an increase in process development revenues primarily associated with services provided to new customers. The increase in revenues was attributed to the following components of our revenue streams:

	$ millions
Net increase in manufacturing revenues	$ 13.4
Net increase in process development revenues	6.7
Total increase in revenues	$ 20.1

Gross Profit

Gross profit for the nine months ended January 31, 2022 was $29.7 million compared to $21.2 million for the same period in the prior year, an increase of approximately $8.5 million, and gross margins for such periods were 34% and 31%, respectively. The $8.5 million increase in gross profit for the current-year period can primarily be attributed to increased revenues, partially offset by increases in planned growth costs including compensation and benefits, stock-based compensation, and facility and equipment related costs.

Operating Expenses

Selling, General and Administrative Expenses

SG&A expenses were $15.3 million for the nine months ended January 31, 2022 compared to $12.0 million for the same period in the prior year, an increase of approximately $3.3 million, or 27%. As a percentage of revenues, SG&A expenses for the nine months ended January 31, 2022 and 2021 were 17% and 18%, respectively. The net increase in SG&A expenses was attributed to the following components:

	$ millions	
Increase in stock-based compensation expense	$	1.8
Increase in facility and related expenses		0.4
Increase in advertising expenses		0.3
Increase in compensation and benefit related expenses		0.2
Increase in legal and accounting fees		0.2
Increase in consulting expenses		0.1
Net increase in all other SG&A expenses		0.3
Total increase in SG&A expenses	$	3.3

Operating Income

Operating income was $14.4 million for the nine months ended January 31, 2022 compared to $9.2 million for the same period in the prior year. This $5.2 million improvement in year-over-year operating income can primarily be attributed to a $8.5 million increase in gross profit, partially offset by an increase in SG&A expense of approximately $3.3 million.

Interest Expense

Interest expense was $2.1 million for the nine months ended January 31, 2022 compared to an inconsequential amount for the same period in the prior year. The increase of $2.1 million can be attributed to interest expense related to our outstanding Convertible Notes issued in March 2021 (as described in Note 3 of the notes to unaudited condensed consolidated financial statements).

Liquidity and Capital Resources

The following table presents our selected unaudited financial information as of January 31, 2022 and 2021 and for the nine months ended January 31, 2022 and 2021 (in thousands):

	Nine Months Ended January 31,	
	2022	2021
Cash, cash equivalents and restricted cash (1)	$ 150,307	$ 71,244
Net cash provided by operating activities	$ 8,853	$ 13,322
Net cash used in investing activities	$ (31,845)	$ (5,717)
Net cash provided by financing activities	$ 3,034	$ 27,027

(1) As of January 31, 2022 and 2021, cash, cash equivalents and restricted cash included $0.4 million that was restricted from general use, related to cash that was pledged as collateral under a letter of credit under the terms of a facility lease agreement.

We believe that our existing cash on hand and our anticipated cash from operating activities will be sufficient to fund our operations for at least the next 12 months from the date of this Quarterly Report.

We currently expect to finance our operations with our existing cash on hand and our anticipated cash flows from operations. If cash flows from operations are not sufficient to support our operations or capital requirements, including our ongoing expansion to our Myford facility and the planned build out of our Viral Vector Facility, then we may need to obtain additional equity or debt financing to fund our future operations and/or such expansions. We may raise these funds at the appropriate time, accessing the form of capital that we determine is most appropriate considering the markets available to us and their respective costs of capital, such as through the issuance of debt or through the public offering of securities. These financings may not be available on acceptable terms, or at all. Our ability to raise additional capital in the equity and debt markets is dependent on a number of factors including, but not limited to, the market demand for our common stock. The market demand or liquidity of our common stock is subject to a number of risks and uncertainties including, but not limited to, our financial results, economic and market conditions, and global financial crises and economic downturns, including those caused by widespread public health crises such as the COVID-19 pandemic, 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.

Net Cash Provided By Operating Activities

During the nine months ended January 31, 2022, net cash provided by operating activities decreased by $4.4 million to $8.9 million from $13.3 million of net cash provided by operating activities during the nine months ended January 31, 2021.

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

Net cash provided by operating activities for the nine months ended January 31, 2021 was primarily attributable to net income of $9.2 million combined with non-cash adjustments to net income of $5.3 million related to depreciation and amortization and stock-based compensation, offset by cash flows from the net change in operating assets and liabilities of $1.2 million.

Net Cash Used In Investing Activities

During the nine months ended January 31, 2022, net cash used in investing activities increased by $26.1 million to $31.8 million from $5.7 million of net cash used in investing activities during the nine months ended January 31, 2021.

Net cash used in investing activities for the nine months ended January 31, 2022 and 2021 consisted of $31.8 million and $5.7 million, respectively, used to acquire property and equipment primarily related to our development and manufacturing operations.

Net Cash Provided By Financing Activities

During the nine months ended January 31, 2022, net cash provided by financing activities decreased by $24.0 million to $3.0 million from $27.0 million of net cash provided by financing activities during the nine months ended January 31, 2021.

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

Net cash provided by financing activities for the nine months ended January 31, 2021 consisted primarily of $32.1 million in net proceeds from the issuance of our common stock pursuant to an underwritten public offering completed in December 2020 and $2.6 million of proceeds from the issuance of common stock under our equity compensation plans, partially offset by $4.4 million of cash used to repay in full a promissory note issued pursuant to the Paycheck Protection Program and $3.2 million of cash used to pay preferred dividends to holders of our Series E Preferred Stock.

Capital Expenditures

During the nine months ended January 31, 2022, our capital expenditures were $31.8 million. We currently anticipate that our capital expenditures for the fiscal year ending April 30, 2022 will be approximately $50 to $60 million, primarily related to the expansion of our Myford facility and the construction of our new Viral Vector Facility as further discussed in the “Facility Expansions” section above.

Contractual Obligations

Except as set forth below, during the nine months ended January 31, 2022, there were no material changes in our contractual obligations and commitments, as described in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2021.

Leases

During the nine months ended January 31, 2022, we entered into and/or amended certain operating and finance leases, which leases resulted in $23.0 million of total future minimum lease payments, of which, $0.2 million is expected to be paid during the remainder of fiscal 2022, $1.9 million is expected to be paid in fiscal 2023, $2.1 million is expected to be paid in fiscal 2024, $2.1 million is expected to be paid in fiscal 2025, $2.2 million is expected to be paid in fiscal 2026, and $14.5 million is expected to be paid thereafter.

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, 2022, there were no significant changes in our critical accounting policies as previously disclosed by us in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended April 30, 2021, except for our critical accounting policies and estimates on stock-based compensation associated with performance stock units granted under our equity compensation plans, as described in Note 2, *Summary of Significant Accounting Policies*, in the accompanying notes to the unaudited condensed consolidated financial statements.

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, future revenue from work not yet completed under signed contracts. As of January 31, 2022, our backlog was approximately $140 million, as compared to approximately $118 million as of April 30, 2021. While we anticipate the majority of our backlog will be recognized as revenue over the next twelve (12) months, our backlog is subject to a number of risks and uncertainties, including but not limited to: the risk that a customer timely cancels its commitments prior to our initiation of manufacturing services, in which case we may be required to refund some or all of the amounts paid to us in advance under those canceled commitments; the risk that a customer may experience delays in its program(s) or otherwise, which could result in the postponement of anticipated manufacturing services; the risk that we may not successfully execute on all customer projects; and the risk of a potential negative impact from the COVID-19 global pandemic, any of which could have a negative impact on our liquidity, reported backlog and future revenue and profitability.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the nine months ended January 31, 2022, there were no material changes in the market risks described in the "Quantitative and Qualitative Disclosures About Market Risk" section of our Annual Report on Form 10-K for the fiscal year ended April 30, 2021.

Item 4. Controls And Procedures

Evaluation of Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of January 31, 2022, the end of the period covered by this Quarterly Report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of January 31, 2022.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting, during the quarter ended January 31, 2022, 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 IA, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2021. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K, except as follows:

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

Our announced expansion in October 2021 of our CDMO service offering into viral vector development and manufacturing services for the cell and gene therapy market involves a number of risks that could adversely affect our operations and financial results, including the following risks:

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

In addition to the foregoing, we are commencing a service offering that is currently dominated by a small number of larger organizations with established viral vector operations and significantly greater financial resources with whom we may experience difficulties in competing for talent and customers. Due to the foregoing risks and uncertainties, we cannot assure you that our viral vector development and manufacturing service offering will be successful and will not materially adversely affect our business, operating results, or financial condition. If we are unable to manage these risks in connection with our business expansion, our business and operating results could be materially harmed.

Item 6. Exhibits

(a) Exhibits:

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.

Dated: March 8, 2022	Signed: /s/ Nicholas S. Green Nicholas S. Green President and Chief Executive Officer (Principal Executive Officer)
Dated: March 8, 2022	Signed: /s/ Daniel R. Hart Daniel R. Hart Chief Financial Officer (signed both as an officer duly authorized to sign on behalf of the Registrant and Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

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

I, Nicholas S. Green, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 8, 2022

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

Exhibit 31.2

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

I, Daniel R. Hart, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 8, 2022

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, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc. at the dates and for the periods indicated.

Dated: March 8, 2022

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, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report of Avid Bioservices, Inc. on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Avid Bioservices, Inc. at the dates and for the periods indicated.

Dated: March 8, 2022

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.