

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 July 31, 2020

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-32839

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

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**95-3698422**  
(I.R.S. Employer Identification No.)

**2642 Michelle Drive, Suite 200, Tustin, California 92780**  
(Address of principal executive offices and zip code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, \$0.001 par value per share</b>	<b>CDMO</b>	<b>The NASDAQ Stock Market LLC</b>
<b>10.50% Series E Convertible Preferred Stock, \$0.001 par value per share</b>	<b>CDMOP</b>	<b>The NASDAQ Stock Market LLC</b>

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

As of August 24, 2020, the number of shares of registrant's common stock outstanding was 56,602,792.

**AVID BIOSERVICES, INC.**  
**Form 10-Q**  
**For The Quarter Ended July 31, 2020**

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**PART I—FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

	<b>July 31, 2020</b>	<b>April 30, 2020</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,211	\$ 36,262
Accounts receivable	14,311	8,606
Contract assets	4,317	3,300
Inventory	9,610	10,883
Prepaid expenses	569	712
<b>Total current assets</b>	<b>57,018</b>	<b>59,763</b>
Property and equipment, net	28,134	27,105
Operating lease right-of-use assets	19,757	20,100
Restricted cash	350	350
Other assets	302	302
<b>Total assets</b>	<b>\$ 105,561</b>	<b>\$ 107,620</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,724	\$ 5,926
Accrued payroll and related costs	3,405	3,019
Contract liabilities	27,123	29,120
Operating lease liabilities	1,268	1,228
Note payable	—	4,379
Other current liabilities	591	808
<b>Total current liabilities</b>	<b>38,111</b>	<b>44,480</b>
Operating lease liabilities, less current portion	20,911	21,244
<b>Total liabilities</b>	<b>59,022</b>	<b>65,724</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000 shares authorized; 1,648 shares issued and outstanding at July 31, 2020 and April 30, 2020, respectively	2	2
Common stock, \$0.001 par value; 150,000 shares authorized; 56,601 and 56,483 shares issued and outstanding at July 31, 2020 and April 30, 2020, respectively	56	56
Additional paid-in capital	612,822	612,909
Accumulated deficit	(566,341)	(571,071)
<b>Total stockholders' equity</b>	<b>46,539</b>	<b>41,896</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 105,561</b>	<b>\$ 107,620</b>

See accompanying notes to condensed consolidated financial statements.

**AVID BIOSERVICES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

(Unaudited) (In thousands, except per share information)

	Three Months Ended	
	July 31,	
	2020	2019
Revenues	\$ 25,392	\$ 15,254
Cost of revenues	16,848	14,168
Gross profit	8,544	1,086
Operating expenses:		
Selling, general and administrative	3,825	4,459
Operating income (loss)	4,719	(3,373)
Interest and other income, net	11	209
Net income (loss)	\$ 4,730	\$ (3,164)
Comprehensive income (loss)	\$ 4,730	\$ (3,164)
Series E preferred stock accumulated dividends	(1,442)	(1,442)
Net income (loss) attributable to common stockholders	\$ 3,288	\$ (4,606)
Net income (loss) per share attributable to common stockholders:		
Basic	\$ 0.06	\$ (0.08)
Diluted	\$ 0.06	\$ (0.08)
Weighted average common shares outstanding:		
Basic	56,523	56,167
Diluted	56,892	56,167

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 July 31, 2020						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance at April 30, 2020</b>	1,648	\$ 2	56,483	\$ 56	\$ 612,909	\$ (571,071)	\$ 41,896
Series E preferred stock dividends paid (\$0.65625 per share)	-	-	-	-	(1,081)	-	(1,081)
Common stock issued under Employee Stock Purchase Plan	-	-	32	-	179	-	179
Exercise of stock options	-	-	20	-	85	-	85
Vesting of restricted stock units	-	-	66	-	-	-	-
Stock-based compensation expense	-	-	-	-	730	-	730
Net income	-	-	-	-	-	4,730	4,730
<b>Balance at July 31, 2020</b>	<u>1,648</u>	<u>\$ 2</u>	<u>56,601</u>	<u>\$ 56</u>	<u>\$ 612,822</u>	<u>\$ (566,341)</u>	<u>\$ 46,539</u>

	Three Months Ended July 31, 2019						
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance at April 30, 2019</b>	1,648	\$ 2	56,136	\$ 56	\$ 613,615	\$ (560,605)	\$ 53,068
Series E preferred stock dividends paid (\$0.65625 per share)	-	-	-	-	(1,081)	-	(1,081)
Exercise of stock options	-	-	74	-	258	-	258
Vesting of restricted stock units	-	-	28	-	-	-	-
Stock-based compensation expense	-	-	-	-	603	-	603
Net loss	-	-	-	-	-	(3,164)	(3,164)
<b>Balance at July 31, 2019</b>	<u>1,648</u>	<u>\$ 2</u>	<u>56,238</u>	<u>\$ 56</u>	<u>\$ 613,395</u>	<u>\$ (563,769)</u>	<u>\$ 49,684</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>July 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 4,730	\$ (3,164)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	830	726
Stock-based compensation	730	603
Changes in operating assets and liabilities:		
Accounts receivable	(5,705)	(849)
Contract assets	(1,017)	(1,262)
Inventory	1,273	(1,474)
Prepaid expenses	143	(68)
Accounts payable	(1,572)	(410)
Accrued payroll and related costs	386	(310)
Contract liabilities	(1,997)	3,453
Other accrued expenses and liabilities	(74)	287
Net cash used in operating activities	<u>(2,273)</u>	<u>(2,468)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(489)	(38)
Net cash used in investing activities	<u>(489)</u>	<u>(38)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock under employee stock purchase plan	179	–
Proceeds from exercise of stock options	85	258
Repayment of note payable	(4,379)	–
Dividends paid on preferred stock	(1,081)	(1,081)
Principal payments on finance lease	(93)	(78)
Net cash used in financing activities	<u>(5,289)</u>	<u>(901)</u>
Net decrease in cash, cash equivalents and restricted cash	(8,051)	(3,407)
Cash, cash equivalents and restricted cash, beginning of period	36,612	33,501
Cash, cash equivalents and restricted cash, end of period	<u>\$ 28,561</u>	<u>\$ 30,094</u>

**Supplemental disclosures of non-cash activities:**

Unpaid purchases of property and equipment	\$ 1,370	\$ 1,516
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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 above:

	<b>July 31,</b>	<b>April 30,</b>	<b>July 31,</b>	<b>April 30,</b>
	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
Cash and cash equivalents	\$ 28,211	\$ 36,262	\$ 28,944	\$ 32,351
Restricted cash	350	350	1,150	1,150
Total cash, cash equivalents and restricted cash	<u>\$ 28,561</u>	<u>\$ 36,612</u>	<u>\$ 30,094</u>	<u>\$ 33,501</u>

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 biopharmaceutical drug substances derived from mammalian cell culture for biotechnology and pharmaceutical companies.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) and with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) related to quarterly reports on Form 10-Q, and accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2020, as filed with the SEC on June 30, 2020. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Results of operations for interim periods covered by this Quarterly Report on Form 10-Q may not necessarily be indicative of results of operations for the full fiscal year or any other interim period.

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

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

**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, 2020.

**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 and the product is manufactured according to the customer’s specifications and typically only one performance obligation is included. Each manufacturing run represents a distinct service that is sold separately and has stand-alone value to the customer. The 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 only one performance obligation is included. Each process represents a distinct service that is sold separately and has stand-alone value to the customer. The customer also retains control of 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 July 31,	
	2020	2019
Manufacturing revenues	\$ 24,063	\$ 12,908
Process development revenues	1,329	2,346
Total revenues	<u>\$ 25,392</u>	<u>\$ 15,254</u>

The timing of revenue recognition, billings and cash collections results in billed trade receivables, contract assets (unbilled receivables), and contract liabilities (customer deposits and deferred revenue). Contract assets are recorded when our right to consideration is conditioned on something other than the passage of time. Contract assets are reclassified to 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 months ended July 31, 2020 and 2019, we recognized revenue of \$16.4 million and \$6.2 million, respectively, for which the contract liability was recorded in a prior period.

The transaction price for services provided under our customer contracts reflects our best estimates of the amount of consideration to which we are entitled in exchange for providing goods and services to our customers. 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.

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, 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.

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 July 31, 2020, we do not believe we have any unsatisfied performance obligations for contracts greater than one year.



**Restricted Cash**

Under the terms of an operating lease related to our facilities (Note 4), we are required to maintain, as collateral, a letter of credit, during the term of such lease. At July 31, 2020 and April 30, 2020, restricted cash of \$0.4 million was pledged as collateral under the letter of credit.

**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 assets, operating lease liabilities and operating lease liabilities, less current portion in our condensed consolidated balance sheets. Right-of-use 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 right-of-use 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.

We elected the post-transition practical expedient to not separate lease components from non-lease components for all existing leases. We also elected a policy to not apply the recognition requirements of ASC 842 for short-term leases.

**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 assets, which are generally as follows:

<b>Description</b>	<b>Estimated Useful Life</b>
Leasehold improvements	Shorter of estimated useful life or lease term
Laboratory and manufacturing equipment	5 – 10 years
Furniture, fixtures and office equipment	5 – 10 years
Computer equipment and software	3 – 5 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 July 31, 2020 and April 30, 2020. All of our property and equipment are located in the U.S. Property and equipment consist of the following (in thousands):

	<b>July 31, 2020</b>	<b>April 30, 2020</b>
Leasehold improvements	\$ 21,130	\$ 21,130
Laboratory and manufacturing equipment	15,414	15,033
Computer equipment and software	5,350	5,334
Furniture, fixtures and office equipment	685	685
Construction-in-progress	4,026	2,564
Total property and equipment, gross	\$ 46,605	\$ 44,746
Less: accumulated depreciation and amortization	(18,471)	(17,641)
Total property and equipment, net	\$ 28,134	\$ 27,105

Depreciation and amortization expense for the three months ended July 31, 2020 and 2019 was \$0.8 million and \$0.7 million, respectively.

### **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. Long-lived assets are reported at the lower of carrying amount or fair value less cost to sell if impairment indicators exist. For the three months ended July 31, 2020 and 2019, there were no indicators of impairment of the value of our long-lived assets and no cumulative impairment losses recognized as of July 31, 2020.

### **Stock-Based Compensation**

We account for stock options, restricted stock units and other stock-based awards granted under our equity compensation plans in accordance with the authoritative guidance for stock-based compensation. The estimated fair value of stock options granted to employees in exchange for services is measured at the grant date, using a fair value based method, such as a Black-Scholes option valuation model, and is recognized as expense on a straight-line basis over the requisite service periods. The fair value of restricted stock units is measured at the grant date based on the closing market price of our common stock on the date of grant, and is recognized as expense on a straight-line basis over the period of vesting. Forfeitures are recognized as a reduction of stock-based compensation expense as they occur. As of July 31, 2020 and April 30, 2020, there were no outstanding stock-based awards with market or performance conditions.

### **Comprehensive Income (Loss)**

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

### **Fair Value Measurements**

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

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

As of July 31, 2020 and April 30, 2020, we do not have any Level 2 or Level 3 financial assets or liabilities and our cash equivalents, which are primarily invested in money market funds with one major commercial bank, are carried at fair value based on quoted market prices for identical securities (Level 1 input).

### **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, 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 impact this standard will have on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”), which eliminates, adds and modifies certain disclosure requirements of fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. We adopted ASU 2018-13 on May 1, 2020. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and other Internal-Use Software (Subtopic 350-40): *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”). The new guidance aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirement for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for fiscal years, and interim periods within those years, beginning after December 14, 2019. We adopted ASU 2018-15 on May 1, 2020. The adoption of this standard did not have a material impact on our 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 are currently evaluating the timing and impact of adopting ASU 2019-12 on our condensed consolidated financial statements and related disclosures.

### **Note 3 – Note Payable**

On April 17, 2020, we entered into a promissory note (the “Note”) with City National Bank, the lender, evidencing an unsecured loan pursuant to the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the “CARES Act”) of approximately \$4.4 million (the “PPP Loan”). We applied for and received the PPP Loan pursuant to the then published PPP qualification and certification requirements.

On April 23, 2020, the SBA, in consultation with the Department of Treasury, issued new guidance that created uncertainty regarding the qualification requirements for a PPP Loan (the “New Guidance”). In light of the New Guidance, we determined it appropriate to pay off the entire amount of the PPP Loan. Accordingly, on May 12, 2020, we paid off in full the principal and interest on the PPP Loan, resulting in the termination of the Note.

### **Note 4 – Leases**

We currently lease office, manufacturing, laboratory and warehouse space in four buildings under three separate non-cancellable operating lease agreements. All of our leased facilities are located in close proximity in Tustin, California, have original lease terms ranging from 7 to 12 years, contain two 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 two of our leases as we considered it reasonably certain that we would exercise such renewal options. In addition, two of our leases provide for periods of free rent, lessor improvements and tenant improvement allowances, of which certain of these improvements have been classified as leasehold improvements and are being amortized over the shorter of the estimated useful life of the improvements or the remaining life of the lease. The operating lease right-of-use assets and liabilities included in our accompanying condensed consolidated balance sheets primarily relate to these facility leases.

Certain of our 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.

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

The components of lease cost included in our accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three months ended July 31, 2020 and 2019 were as follows (in thousands):

	<b>Three Months Ended July 31,</b>	
	<b>2020</b>	<b>2019</b>
Operating lease cost	\$ 788	\$ 892
Variable lease cost	121	156
Short-term lease cost	92	–
Total lease cost	<u>\$ 1,001</u>	<u>\$ 1,048</u>

Supplemental consolidated balance sheet and other information related to our operating leases as of July 31, 2020 and April 30, 2020 were as follows (in thousands, except weighted average data):

	<b>July 31, 2020</b>	<b>April 30, 2020</b>
<b>Assets</b>		
Operating lease right-of-use assets	<u>\$ 19,757</u>	<u>\$ 20,100</u>
<b>Liabilities</b>		
Operating lease liabilities	\$ 1,268	\$ 1,228
Operating lease liabilities, less current portion	20,911	21,244
Total operating lease liabilities	<u>\$ 22,179</u>	<u>\$ 22,472</u>
Weighted average remaining lease term	10.3 years	10.5 years
Weighted average discount rate	8.0%	8.0%

Cash paid for amounts included in the measurement of lease liabilities for the three months ended July 31, 2020 and 2019 was \$0.7 million and \$0.8 million, respectively, and is included in net cash used in operating activities in our accompanying unaudited condensed consolidated statements of cash flows.

As of July 31, 2020, the maturities of our operating lease liabilities, which includes those derived from lease renewal options that we considered it reasonably certain that we would exercise, were as follows (in thousands):

<b>Fiscal Year Ending April 30,</b>	<b>Total</b>
2021 (remaining period)	\$ 2,233
2022	2,995
2023	3,010
2024	3,086
2025	3,171
Thereafter	18,767
Total lease payments	<u>\$ 33,262</u>
Less: imputed interest	(11,083)
Total operating lease liabilities	<u>\$ 22,179</u>

**Note 5 – Stockholders’ Equity**

**Series E Preferred Stock**

Each share of issued and outstanding 10.50% Series E Convertible Preferred Stock \$0.001 par value per share (“Series E Preferred Stock”) is convertible at any time, at the option of the holder, into a number of shares of our common stock determined by dividing the liquidation preference of \$25.00 per share Series E Preferred Stock, plus any accrued and unpaid dividends (whether or not earned or declared), by the then-current conversion price per share, currently \$21.00 per share, rounded down to the nearest whole number. As of July 31, 2020, if all of our issued and outstanding shares of Series E Preferred Stock were converted at the conversion price of \$21.00 per share, the holders of our Series E Preferred Stock would receive an aggregate of 1,978,783 shares of our common stock. However, because the conversion price of our Series E Preferred Stock is subject to adjustment from time to time in accordance with the applicable provisions of our certificate of incorporation, we have reserved the maximum number of shares of our common stock that could be issued upon the conversion of our Series E Preferred Stock upon a change of control event, assuming our shares of common stock are acquired for consideration of \$5.985 per share or less. In this scenario, each outstanding share of our Series E Preferred Stock would be converted into 4.14 shares of our common stock, or 6,826,435 shares in the aggregate.

The Series E Preferred Stock has no stated maturity date or mandatory redemption and is senior to all of our other securities. We may redeem the Series E Preferred Stock for cash, in whole or in part, by paying the redemption price of \$25.00 per share, plus any accrued and unpaid dividends to the redemption date. Holders of the Series E Preferred Stock have no voting rights, except as defined in the Certificate of Designations of Rights and Preferences filed with the Secretary of State of the State of Delaware on February 12, 2014.

Holders of our Series E Preferred Stock are 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 are payable quarterly in cash, on or about the first day of each January, April, July and October. For each of the three months ended July 31, 2020 and 2019, we paid aggregate cash dividends of \$1.1 million for issued and outstanding shares of our Series E Preferred Stock.

**Note 6 – Equity Compensation Plans**

**Stock Incentive Plans**

As of July 31, 2020, we had an aggregate of 6,853,052 shares of our common stock reserved for issuance under our stock incentive plans, of which 4,190,908 shares were subject to outstanding stock options and restricted stock units (“RSUs”) and 2,662,144 shares were available for future grants of stock-based awards.

**Stock Options**

The following summarizes our stock option transaction activity for the three months ended July 31, 2020:

	<b>Stock Options</b> <i>(in thousands)</i>	<b>Grant Date</b> <b>Weighted Average</b> <b>Exercise Price</b>
Outstanding at May 1, 2020	2,896	\$ 6.20
Granted	770	\$ 6.97
Exercised	(20)	\$ 4.33
Canceled or expired	(30)	\$ 7.67
Outstanding at July 31, 2020	<u>3,616</u>	<u>\$ 6.36</u>

**Restricted Stock Units**

The following summarizes our RSUs transaction activity for the three months ended July 31, 2020:

	<b>Shares</b> <i>(in thousands)</i>	<b>Weighted Average</b> <b>Grant Date Fair</b> <b>Value</b>
Outstanding at May 1, 2020	307	\$ 5.23
Granted	337	\$ 7.09
Vested	(68)	\$ 5.10
Forfeited	(1)	\$ 4.77
Outstanding at July 31, 2020	<u>575</u>	<u>\$ 6.34</u>

### Employee Stock Purchase Plan

The Avid Bioservices, Inc. 2010 Employee Stock Purchase Plan (the “ESPP”) is a stockholder-approved plan under which eligible 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 offering period or on the last trading day of the six-month offering period. During the three months ended July 31, 2020, a total of 32,197 shares of our common stock were purchased under the ESPP at a purchase price of \$5.58 per share. As of July 31, 2020, we had 1,116,538 shares of our common stock reserved for issuance under the ESPP.

### Stock-Based Compensation

Stock-based compensation expense for the three months ended July 31, 2020 and 2019 was comprised of the following (in thousands):

	Three Months Ended July 31,	
	2020	2019
Cost of revenues	\$ 278	\$ 187
Selling, general and administrative	452	416
Total stock-based compensation	<u>\$ 730</u>	<u>\$ 603</u>

As of July 31, 2020, the total estimated unrecognized compensation cost related to non-vested stock options and non-vested RSUs was \$6.9 million and \$3.5 million, respectively. These costs are expected to be recognized over weighted average vesting periods of 3.02 years and 3.39 years, respectively.

### Note 7 – Net Income (Loss) Per Common Share

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

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

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

The potential dilutive effect of stock options, unvested RSUs, 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 Series E Preferred Stock outstanding during the period is calculated using the if-converted method assuming the conversion of Series E Preferred Stock as of the earliest period reported or at the date of issuance, if later, but are excluded if their effect is anti-dilutive. A reconciliation of the numerators and the denominators of the basic and dilutive net income (loss) per common share computations for the three months ended July 31, 2020 and 2019, are as follows (in thousands, except per share amounts):

	<b>Three Months Ended July 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Numerator</b>		
Net income (loss)	\$ 4,730	\$ (3,164)
Series E preferred stock accumulated dividends	(1,442)	(1,442)
Net income (loss) attributable to common stockholders	\$ 3,288	\$ (4,606)
<b>Denominator</b>		
Weighted average common shares outstanding, basic	56,523	56,167
Effect of dilutive securities:		
Stock options	264	–
RSUs	101	–
ESPP	4	–
Weighted average common shares outstanding, dilutive	56,892	56,167
Net income (loss) per share, basic	\$ 0.06	\$ (0.08)
Net income (loss) per share, diluted	\$ 0.06	\$ (0.08)

The following table presents the securities excluded from the calculation of diluted net income (loss) per share for the three months ended July 31, 2020 and 2019, as the effect of their inclusion would have been anti-dilutive (in thousands):

	<b>Three Months Ended July 31,</b>	
	<b>2020</b>	<b>2019</b>
Stock options	2,064	2,965
RSUs	48	88
ESPP	–	2
Series E Preferred Stock	1,979	1,979
Total	4,091	5,034



**Note 8 – Commitments and Contingencies**

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.

**Note 9 – Subsequent Events**

On August 31, 2020, our Board of Directors declared a quarterly cash dividend of \$0.65625 per share on our outstanding Series E Preferred Stock. The dividend payment is equivalent to an annualized 10.50% per share, based on the \$25.00 per share stated liquidation preference, accruing from July 1, 2020 through September 30, 2020. The cash dividend is payable on October 1, 2020 to holders of the Series E Preferred Stock of record on September 14, 2020.

## 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, 2020.

### 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, 2020, 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 CDMO that provides a comprehensive range of services from process development to CGMP clinical and commercial manufacturing, focused on biopharmaceutical drug substances derived from mammalian cell culture. With 27 years of experience producing monoclonal antibodies and recombinant proteins, our services include CGMP clinical and commercial product manufacturing, bulk packaging, release and stability testing and regulatory submissions support. We also provide a variety of process development services, including upstream and downstream development and optimization, analytical methods development, testing and characterization.

### Strategic Objectives

We have established and are currently executing on the following strategic 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; and
- Increase our operating profit margin to best in class industry standards.

## First Quarter Highlights

The following summarizes select highlights from our first quarter ended July 31, 2020:

- Reported revenues of \$25.4 million, an increase of 66%, or \$10.1 million, compared to the same prior year period;
- Reported net income attributable to common stockholders of \$3.3 million, or \$0.06 per basic and diluted share;
- Appointed Nicholas (Nick) Green as President and Chief Executive Officer. Mr. Green has more than 30 years of experience in the global pharmaceutical and healthcare services industry with significant expertise in the contract manufacturing of novel pharmaceutical products;
- Increased our customer base with the addition of three new customers to whom we are initially providing for a range of services including technical transfer, process development and scale-up, with a view towards anticipated future manufacturing services;
- Validated remediation to the specific piece of equipment that caused an interruption of production in the second half of fiscal 2020. The validation process entailed the completion of multiple successful revenue-generating production campaigns using this equipment. All batches deferred from fiscal 2020 have now been completed resulting in first quarter fiscal 2021 revenues of \$4.3 million; and
- Continued to advance the pre-engineering, design and permitting work required to allow us to break ground on a facility expansion when we determine it is appropriate;

## Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the global novel coronavirus disease (“COVID-19”) outbreak a 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 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, 2020.

## 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 and operating income.

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 personnel costs within the manufacturing, process and analytical development, quality assurance, quality control, validation, supply chain and facilities functions. Overhead costs include the rent, common area maintenance, utilities, property taxes, security, materials and supplies, software, small equipment and depreciation 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 personnel and support costs of corporate functions such as executive management, finance and accounting, business development, legal, human resources, information technology, project management, 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, project management, and business development activities. SG&A expenses are generally not directly proportional to revenues, but we expect such expenses to increase over time to support the needs of our growing company.

## Results of Operations

The following table compares the unaudited condensed consolidated statements of operations for the three months ended July 31, 2020 and 2019 (in thousands):

	Three Months Ended July 31,		\$ Change
	2020	2019	
Revenues	\$ 25,392	\$ 15,254	\$ 10,138
Cost of revenues	16,848	14,168	2,680
Gross profit	8,544	1,086	7,458
Operating expenses:			
Selling, general and administrative	3,825	4,459	(634)
Operating income (loss)	4,719	(3,373)	8,092
Interest and other income, net	11	209	(198)
Net income (loss)	\$ 4,730	\$ (3,164)	\$ 7,894

## Three Months Ended July 31, 2020 Compared to Three Months Ended July 31, 2019

### Revenues

Revenues for the three months ended July 31, 2020 were \$25.4 million compared to \$15.3 million for the same period in the prior year, an increase of \$10.1 million, or 66%. The increase in revenues can be attributed to an \$11.1 million increase in manufacturing revenues primarily due to an increase in the number and scale of manufacturing runs in-process and/or completed in the current year period compared to the prior year period, partially offset by a decrease in process development revenues. In addition, the current-year period increase in manufacturing revenues includes \$3.1 million in fees received from a customer that had reached its inventory requirements with fewer manufacturing runs than expected, therefore not utilizing all their reserved capacity that had been scheduled for the third quarter of fiscal 2021. The increase in revenues was attributed to the following components of our revenue streams:

	\$ millions
Net increase in manufacturing revenues	\$ 11.1
Net decrease in process development revenues	(1.0)
Total increase in revenues	\$ 10.1

Additionally, growth in manufacturing revenues during the current-year period was supplemented by \$4.3 million from the completion of certain manufacturing runs that had been previously postponed during the second half of fiscal 2020 as a result of a previously disclosed production interruption related to a problem with a specific piece of equipment. Further, the remediation activities that we implemented during the fourth quarter of fiscal 2020 to resolve this equipment issue were validated during the current-year period with the successful completion of multiple revenue-generating production campaigns using such equipment.

### **Gross Profit**

Gross profit for the three months ended July 31, 2020 was \$8.5 million compared to \$1.1 million for the same period in the prior year, an increase of approximately \$7.5 million, and gross margins for such periods were 34% and 7%, respectively. The \$7.5 million increase in gross profit for the current-year period can primarily be attributed to increased revenues, which includes the aforementioned fees associated with a customer's unused capacity of \$3.1 million, partially offset by planned growth costs associated with payroll and benefits, and increased facility and equipment related costs.

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

SG&A expenses were \$3.8 million for the three months ended July 31, 2020 compared to \$4.5 million for the same period in the prior year, a decrease of approximately \$0.6 million, or 14%. As a percentage of revenue, SG&A expenses for the three months ended July 31, 2020 and 2019 were 15% and 29%, respectively. The net decrease in SG&A expenses was attributed to the following components:

	<b>\$ millions</b>
Decrease in separation related expenses	\$ (0.8)
Increase in payroll and benefit costs	0.4
Net decrease in all other SG&A expenses	(0.2)
Total decrease in SG&A expenses	<u>\$ (0.6)</u>

### **Operating Income (Loss)**

Operating income was \$4.7 million for the three months ended July 31, 2020 compared to an operating loss of \$3.4 million for the same period in the prior year. This \$8.1 million improvement in year-over-year operating income (loss) can primarily be attributed to a \$7.5 million increase in gross profit combined with a decrease in SG&A expense of approximately \$0.6 million.

### **Liquidity and Capital Resources**

Our principal sources of liquidity are our existing cash and cash equivalents. As of July 31, 2020, we had cash and cash equivalents of \$28.2 million. Our ability to fund our operations is dependent on the amount of cash on hand and our ability to generate positive cash flow to sustain our current operations.

We currently anticipate that our cash and cash equivalents as of July 31, 2020, combined with our anticipated collection of existing accounts receivable and projected cash receipts from services to be rendered under our existing customer contracts, will be sufficient to fund our operations for at least the next 12 months from the date of this Quarterly Report.

In the event we are unable to generate sufficient cash flow to support our current operations, we may need to raise additional capital in the equity markets in order to fund our future operations. We may raise funds through the issuance of debt or through the public offering of securities. There can be no assurance that these financings will 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. If we are unable to fund our continuing operations through these sources, we may need to restructure, or cease, our operations. In addition, even if we are able to raise additional capital, it may not be at a price or on terms that are favorable to us. Any of these actions could materially harm our business, financial condition, results of operations, and future prospects.

The following table presents our cash flows from operating, investing and financing activities for the three months ended July 31, 2020 and 2019 (in thousands):

	<b>Three Months Ended July 31,</b>	
	<b>2020</b>	<b>2019</b>
Cash, cash equivalents and restricted cash <sup>(1)</sup>	\$ 28,561	\$ 30,094
Net cash used in operating activities	(2,273)	(2,468)
Net cash used in investing activities	(489)	(38)
Net cash used in financing activities	(5,289)	(901)

(1) As of July 31, 2020 and 2019, cash, cash equivalents and restricted cash included \$0.4 million and \$1.2 million, respectively, that was restricted from general use, related to cash that was pledged as collateral under letters of credit under the terms of certain facility lease agreements.

#### ***Net Cash Used In Operating Activities***

During the three months ended July 31, 2020, net cash used in operating activities decreased by \$0.2 million to \$2.3 million from \$2.5 of net cash used in operating activities during the three months ended July 31, 2019.

Net cash used in operating activities for the three months ended July 31, 2020 was a result of a net change in operating assets and liabilities of \$8.6 million, offset by \$4.7 million of net income and non-cash adjustments to net income of \$1.6 million related to depreciation and amortization and stock-based compensation.

Net cash used in operating activities for the three months ended July 31, 2019 was a result of a \$3.2 million net loss, offset by non-cash adjustments to net loss of \$1.3 million related to depreciation and amortization and stock-based compensation, and cash flows from the net change in operating assets and liabilities of \$0.6 million.

#### ***Net Cash Used In Investing Activities***

During the three months ended July 31, 2020, net cash used in investing activities increased by \$0.5 million to \$0.5 million from a nominal amount of net cash used in investing activities during the three months ended July 31, 2019.

Net cash used in investing activities for the three months ended July 31, 2020 consisted of \$0.5 million used to acquire property and equipment primarily related to our manufacturing and development operations.

Net cash used in investing activities for the three months ended July 31, 2019 consisted of property and equipment acquisitions of less than \$0.1 million.

#### ***Net Cash Used In Financing Activities***

During the three months ended July 31, 2020, net cash used in financing activities increased by \$4.4 million to \$5.3 million from \$0.9 million of net cash used in financing activities during the three months ended July 31, 2019.

Net cash used in financing activities for the three months ended July 31, 2020 consisted primarily of \$4.4 million of cash used to repay in full a promissory note issued pursuant to the Paycheck Protection Program (as further described in Note 3 of the Notes to the Condensed Consolidated Financial Statements) and \$1.1 million of cash used to pay preferred dividends to holders of our Series E Preferred Stock, partially offset by proceeds from the issuance of common stock under our employee stock purchase plan of \$0.2 million.

Net cash used in financing activities for the three months ended July 31, 2019 consisted primarily of cash used to pay preferred dividends to holders of our Series E Preferred Stock of \$1.1 million, partially offset by proceeds from the exercise of stock options of \$0.3 million.

### **Contractual Obligations**

During the three months ended July 31, 2020, 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, 2020.

### **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 three months ended July 31, 2020, 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, 2020.

### **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 July 31, 2020, our backlog was approximately \$60 million, as compared to approximately \$65 million as of April 30, 2020. 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 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; and, the risk that we may not successfully execute on all customer projects, any of which could have a negative impact on our liquidity, reported backlog and future revenue.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

During the three months ended July 31, 2020, 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, 2020.

## **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 July 31, 2020, 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 July 31, 2020.

***Changes in Internal Control over Financial Reporting***

There were no significant changes in our internal control over financial reporting, during the quarter ended July 31, 2020, 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, 2020. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K.

### **ITEM 6. EXHIBITS**

(a) Exhibits:

- 10.8 [Employment Agreement by and between Avid Bioservices, Inc. and Nicholas S. Green, effective July 30, 2020.](#) †\*
- 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 XBRL Taxonomy Extension Instance Document. \*
- 101.SCHXBRL Taxonomy Extension Schema Document. \*
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document. \*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document. \*
- 101.LABXBRL Taxonomy Extension Label Linkbase Document. \*
- 101.PREXBRL Presentation Extension Linkbase Document. \*

† Indicates management contract or compensatory plan.

\* Filed herewith.

**SIGNATURES**

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

AVID BIOSERVICES, INC.

Date: September 1, 2020

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

Date: September 1, 2020

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

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement”) is by and between Avid Bioservices, Inc., a Delaware corporation (“Employer” or the “Company”), and Nicholas S Green (“Executive”).

In consideration of the promises and mutual covenants contained herein, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. Employment. Upon the terms and conditions hereinafter set forth, Employer hereby agrees to continue to employ Executive to serve as President and Chief Executive Officer, and Executive hereby accepts such continued employment under the terms and conditions set forth herein.

2. Effective Date. The effective date of the Agreement shall be July 30, 2020 (the “Effective Date”). The employment relationship pursuant to this Agreement shall be for an initial one-year period commencing on the Effective Date (“Initial Term”), unless sooner terminated in accordance with paragraph 7 below. On each anniversary of the Effective Date, the term of this Agreement will automatically be extended for an additional one (1) year period (in each instance, as so extended, the “Subsequent Term”), unless either party gives to the other written notice at least ninety (90) days prior to the expiration of the then current year period, of such party’s intent not to extend this Agreement.

3. Duties. Executive shall perform such duties as are customarily performed by a President and Chief Executive Officer, and such other duties and responsibilities that may be assigned to him by the Board of Directors of the Company (the “Board”). Specifically, Executive shall manage the Company’s operations, and perform such duties and responsibilities as set forth in the Chief Executive Officer’s job description.

Executive shall report to the Board and have such authority as is delegated by the Board. Executive shall be governed by the policies and practices established by the Company. Employer requires that: (i) Executive will devote his utmost knowledge and best skill to the performance of his duties; (ii) Executive shall devote his full business time (not less than 40 hours per week) to the rendition of such services, subject to absences for customary vacations and for temporary illness; and (iii) Executive will not engage in any other gainful occupation which requires his personal attention and/or creates a conflict of interest with his job responsibilities under this Agreement without the prior written consent of the Board, with the exception that Executive may personally trade in stock, bonds, securities, commodities or real estate investments for his own benefit to the extent permitted by the provisions herein and applicable law.

Executive’s job performance will be reviewed by the Board annually. Executive acknowledges and understands that performance reviews do not necessitate or correlate with salary increases and that a favorable performance review neither guarantees continued employment nor increased compensation.

4. At-Will Employment. Executive and Employer agree that Executive’s employment may be terminated by Executive or by Employer, with or without Cause (as defined below) in accordance with paragraph 7 of this Agreement. Executive and Employer expressly agree that this provision is intended by Executive and Employer to be the complete and final expression of their understanding regarding the terms and conditions under which Executive’s employment may be terminated. Executive and Employer further understand and agree that no representation contrary to this provision is valid, and that this provision may not be augmented, contradicted or modified in any way, except in writing signed by Executive and Chairperson of the Compensation Committee of the Board.

5. Compensation.

5.1 Base Salary. Executive shall be paid an annual base salary of Five Hundred Fifty Thousand Dollars and Ten Cents (\$550,000.10) payable according to Employer’s payroll schedule and subject to applicable state and federal withholdings and other payroll deductions.

5.2 Annual Bonus. In addition to Executive's base salary, Executive may be eligible to receive an additional discretionary bonus of up to one hundred percent (100%) of his then in effect base salary, prorated for partial years of service, based on the Company's achievement of annual fiscal year performance targets and your achievement of individual goals, as determined by the Compensation Committee of the Board in accordance with the Company's cash bonus plan for executives then in effect and in its sole discretion ("Target Bonus"). Executive acknowledges that although a discretionary bonus may be provided by the Company, any such bonus is neither required nor guaranteed by this Agreement.

5.3 Stock Options. Executive may also be eligible to receive restricted stock awards ("RSUs") and/or stock options as determined by the Compensation Committee of the Board in its sole discretion. Any such RSUs and stock options will be granted pursuant to, and will be subject to the terms of Company's equity incentive plan then in effect, as such may be amended from time to time, or any successor plan thereto and the award agreement that you must execute as a condition to receive such awards. On the Effective Date you shall receive a stock option to purchase 75,000 shares of the Company's common stock and a restricted stock award ("RSU") of 150,000 shares of the Company's common stock. The stock option and RSU will each vest in equal annual installments over a four-year period, with the first vesting on the first anniversary of the Effective Date. The exercise price of the stock option will be the closing price of the Company's common stock on the Effective Date as reported by The NASDAQ Stock Market.

## 6. Fringe Benefits.

6.1 Benefits. Executive shall, in accordance with Company policy and the terms of the applicable plan documents, be eligible to participate in benefits under any Company benefit plan or arrangement which may be in effect from time to time and made available to its executive management employees. The terms and conditions of Executive's participation in such plans shall be set forth in the relevant benefit plan documents.

6.2 Paid-Time-Off (PTO). Executive shall earn and accrue paid-time-off covering vacation and sick time benefits at the initial rate of twenty (20) days per year for employment periods of up to five (5) years of service. The PTO accrual rate shall automatically increase by five (5) additional days for each additional five (5) years of service up to maximum of thirty (30) days per year after ten (10) years of service. For example, after five years of service, the annual PTO accrual rate shall increase to twenty-five (25) days. Accrued and unused PTO shall governed by the Employee Handbook, as such may be amended from time to time in the Company's sole discretion. Accrued and unused PTO days which are not in excess of maximum amount accruable under the Employee Handbook shall be paid in a cash lump sum payment promptly after Executive's termination of employment.

6.3 Expenses. Employer shall reimburse Executive for travel and other business expenses incurred by Executive in the performance of Executive's duties hereunder, consistent with Employer's normal expense reimbursement policy.

6.4 Housing and Relocation Benefit. The Company will pay Executive a "relocation bonus" of Fifty Thousand Dollars (\$50,000) to cover his relocation to Orange County, California. This amount will be paid within thirty (30) days following Executive's establishment of a permanent residence (e.g., purchase or rental of a place to live) in Orange County, California. Executive may elect to treat this amount as a bonus (which will not be grossed up for United States federal or state income tax purposes) or as the reimbursement of relocation expenses in accordance with the United States income tax code (subject to Executive's submission of appropriate receipts and documentation). In the event that Executive terminates his employment for any reason or Employer terminates Executive's employment for Cause (as defined below) (i) within six (6) months following such relocation date, Executive will be required to return to Employer one hundred percent (100%) of the relocation bonus, or (ii) during months seven (7) through twenty-four (24) following such relocation date, Executive will be required to return a pro-rata portion of the relocation bonus (e.g., 1/18th or \$2,777.78 per remaining month). After twenty-four (24) months of employment post relocation, your relocation bonus will be fully earned. Employer also will pay for a temporary stay at a Residence Inn or similar accommodation for up to ninety (90) days to support your search for permanent accommodations in Orange County, California and for one rental car during this ninety (90) day period while you secure personal transportation. The temporary accommodations and rental car will be taxable to Executive.

7. Termination.

7.1 Termination With Cause. If Executive (a) breaches in any material respect or fails to fulfill in any material respect fiduciary duty owed to Employer; (b) breaches in any material respect this Agreement or any other confidentiality or non-solicitation, non-competition agreement between Employer and Executive; (c) pleads guilty to or is convicted of a felony; (d) is found to have engaged in any reckless, fraudulent, dishonest or grossly negligent misconduct, (e) fails to perform his duties to the Company, provided that Executive fails to cure any such failure within thirty (30) days after written notice from Employer of such failure, provided further, however, that such right to cure shall not apply to any repetition of the same failure previously cured hereunder; or (f) violates any material rule, regulation or policy of the Company that may be established and made known to Employer's employees from time to time, including without limitation, the Company Employee Handbook, a copy of which has been provided to Executive (collectively, "Cause"), Employer may terminate immediately his employment and Executive shall have no right to receive any compensation or benefit hereunder after such termination other than base salary and PTO earned or accrued but unpaid as of the date of termination (collectively "Standard Entitlements"). Notwithstanding the foregoing, Executive shall not be terminated for Cause pursuant to paragraph 7.1, unless and until Executive has received written notice of the proposed termination for Cause, including details of the bases for such termination, and Executive has had an opportunity to be heard before at least a majority of the Board. Executive shall be deemed to have had such an opportunity if written notice is given to him at least ten (10) days in advance of a meeting and Executive has the actual opportunity to be heard, at that meeting, by no less than a majority of the Board on the issues of his proposed termination. For the avoidance of doubt, Executive shall not be entitled to any bonus, or proration thereof, if terminated for Cause under this paragraph.

7.2 Termination without Cause. As stated in paragraph 4 of this Agreement, Executive or the Company may at any time terminate Executive's employment with or without Cause. If the Company terminates Executive's employment without Cause during the Initial Term or any Subsequent Term, Executive shall receive the Standard Entitlements. In addition, subject to Executive's execution (and non-revocation) of the general release as described in paragraph 7.6, Executive shall be entitled receive (a) a cash severance equal to the sum of twelve (12) months of Executive's base salary in effect on the date of termination with such severance payable in substantially equal installments over twelve (12) months according to Employer's payroll schedule; and (b) any stock options that are vested and outstanding as of the date of Executive's termination of employment shall be amended to provide that such options will remain exercisable until the earlier of the scheduled expiration date of the option or twelve (12) months following the date of Executive's termination of employment. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished.

7.3 Voluntary Resignation for Good Reason. If, within ninety (90) days of the initial existence of the condition(s) that constitute Good Reason, Executive: (a) provides written notice to the Board of his intention to resign his employment for Good Reason; (b) provides written notice to the Board of the grounds that Executive believes he has to resign for Good Reason and within thirty (30) days of receipt of such written notice, the Board has not cured by eliminating the condition(s) that constitute Good Reason; and (c) Executive actually terminates his employment within twelve (12) months following the initial existence of the Good Reason condition, then, subject to Executive's execution (and non-revocation) of the general release as described in paragraph 7.6, Executive shall be entitled to receive the Standard Entitlements and the severance and benefits described in paragraphs 7.2(a) and (b). Executive will be deemed to have resigned for "Good Reason" in the following circumstances: (a) provided Executive shall have relocated to Orange County, California, Company relocates Executive's principal place of work to a location more than fifty (50) miles from the original location, without Executive's prior written approval; (b) Executive's position and/or duties are modified so that Executive's duties are no longer consistent with the position of President and Chief Executive Officer; (c) Executive's Base Salary as set forth in paragraph 5.1, as adjusted from time to time, is reduced without Executive's written authorization. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished.

7.4 Termination Upon Death or Disability. Executive's employment shall terminate upon his death or Disability (with "Disability" defined as any mental or physical condition which, in the reasonable opinion of a mutually agreed upon licensed physician and/or psychiatrist (as the case may be), renders Executive unable or incompetent to carry out Executive's duties under this Agreement, with or without reasonable accommodation, for a period of at least six (6) months). In the event of a termination of Executive's employment for death or Disability, Executive shall receive the Standard Entitlements. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished.

7.5 Change of Control. If Executive incurs a termination without Cause or terminates his employment for Good Reason during the three (3) month period preceding or twenty-four (24) months following a “Change in Control” as defined below, then subject to Executive’s execution (and non-revocation) of the general release as described in paragraph 7.6, Executive shall be entitled receive: (a) a cash severance payment equal to the sum of twelve (12) months of Executive’s base salary in effect on the date of termination with such severance payable in substantially equal installments over twelve (12) months according to Employer’s payroll schedule; and (b) any equity awards that are outstanding as of the date of Executive’s termination of employment shall be amended to provide for full vesting and, with respect to stock options, that such options will remain exercisable until the earlier of the scheduled expiration date of the option or twelve (12) months following the date of Executive’s termination of employment. All other Company obligations to Executive pursuant to this Agreement will become automatically terminated and completely extinguished. For purposes of this Agreement, “Change in Control” shall mean the (i) acquisition by any one person, or more than one person acting as a group (as determined in accordance with Treasury Regulation Section 1.409A-3(i)(5)), of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company, (ii) consummation of a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not own, directly or indirectly, either (A) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving entity in such merger, consolidation or similar transaction or (B) more than 50% of the combined outstanding voting power of the parent of the surviving entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their ownership of the outstanding voting securities of the Company immediately prior to such transaction, or (iii) sale of all or substantially all of the consolidated assets of the Company and its subsidiaries, other than a sale of all or substantially all of the consolidated assets of the Company and its subsidiaries to an entity, more than 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the outstanding voting securities of the Company immediately prior to such sale.

7.6 Release Required. In order to be entitled to the severance and other benefits described in paragraphs 7.2, 7.3, and 7.5, as applicable, Executive must, no later than sixty (60) days following his termination date, sign (and not revoke) a general release of all claims known and unknown, against Employer, its officers and directors, agents and employees and any related entities or persons. Notwithstanding anything in this Agreement to the contrary, if the consideration period described in the release, plus the revocation period described in the release spans two (2) calendar years, the severance payments described in paragraphs 7.2, 7.3, and 7.5 that are subject to Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) shall not begin to be paid until the second calendar year. Nothing herein will be construed to limit or modify the duty of Executive to mitigate Executive’s damages in the event Employer terminates Executive’s employment without Cause.

8. Trade Secrets, Confidential Information and Inventions.

8.1 Trade Secrets In General. During the course of Executive’s employment, Executive will have access to various trade secrets, confidential information and inventions of Employer as defined below.

(i) “Confidential Information” means all information and material which is proprietary to the Company, whether or not marked as “confidential” or “proprietary” and which is disclosed to or obtained from the Company by the Executive, which relates to the Company’s past, present or future research, development or business activities. Confidential Information is all information or materials prepared by or for the Company and includes, without limitation, all of the following: designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, systems, methods, machinery, procedures, “know-how”, new product or new technology information, formulas, patents, patent applications, product prototypes, product copies, cost of production, manufacturing, developing or marketing techniques and materials, cost of production, development or marketing time tables, customer lists, strategies related to customers, suppliers or personnel, contract forms, pricing policies and financial information, volumes of sales, and other information of similar nature, whether or not reduced to writing or other tangible form, and any other Trade Secrets, as defined by subparagraph (iii), or non-public business information. Confidential Information does not include any information which (1) was in the lawful and unrestricted possession of the Executive prior to its disclosure by the Company, (2) is or becomes generally available to the public by acts other than those of the Executive after receiving it, (3) becomes generally available to the public by acts of the Executive necessary to performing duties associated with Executive’s job description, or (4) has been received lawfully and in good faith by the Executive from a third party who did not derive it from the Company.

(ii) "Inventions" means all discoveries, concepts and ideas, whether patentable or not, including but not limited to, processes, methods, formulas, compositions, techniques, articles and machines, as well as improvements thereof or "know-how" related thereto, relating at the time of conception or reduction to practice to the business engaged in by the Company, or any actual or anticipated research or development by the Company.

(iii) "Trade Secrets" shall mean any scientific or technical data, information, design, process, procedure, formula or improvement that is commercially available to the Company and is not generally known in the industry.

This paragraph includes not only information belonging to Employer which existed before the date of this Agreement, but also information developed by Executive for Employer or its employees during his employment and thereafter.

8.2 Restriction on Use of Confidential Information. Executive agrees that his use of Trade Secrets and other Confidential Information is subject to the following restrictions during the term of the Agreement and for an indefinite period thereafter so long as the Trade Secrets and other Confidential Information have not become generally known to the public.

8.2.1 Non-Disclosure. Except as required by the performance of the Executive's services to the Company under the terms of this Agreement, neither the Executive nor any of his agents or representatives, shall, directly or indirectly, publish or otherwise disclose, or permit others to publish, divulge, disseminate, copy or otherwise disclose the Company's Trade Secrets, Confidential Information and/or Inventions as defined above.

8.2.2 Use Restriction. Executive shall use the Trade Secrets, other Confidential Information and/or Inventions only for the limited purpose for which they were disclosed. Executive shall not disclose the Trade Secrets, other Confidential Information and/or Inventions to any third party without first obtaining written consent from the Board of Directors and shall disclose the Trade Secrets, other Confidential Information and/or Inventions only to Employer's own employees having a need know. Executive shall promptly notify the Board of Directors of any items of Trade Secrets prematurely disclosed.

8.2.3 Surrender Upon Termination. Upon termination of his employment with Employer for any reason, Executive will surrender and return to Employer all documents and materials in his possession or control which contain Trade Secrets, Inventions and other Confidential Information. Executive shall immediately return to the Company all lists, books, records, materials and documents, together with all copies thereof, and all other Company property in his possession or under his control, relating to or used in connection with the past, present or anticipated business of the Company, or any affiliate or subsidiary thereof. Executive acknowledges and agrees that all such lists, books, records, materials and documents, are the sole and exclusive property of the Company.

8.2.4 Prohibition Against Unfair Competition. At any time after the termination of his employment with Employer for any reason, Executive will not engage in competition with Employer while making use of the Trade Secrets of Employer.

8.2.5 Patents and Inventions. The Executive agrees that any inventions made, conceived or completed by him during the term of his service, solely or jointly with others, which are made with the Company's equipment, supplies, facilities or Confidential Information, or which relate at the time of conception or reduction to purpose of the invention to the business of the Company or the Company's actual or demonstrably anticipated research and development, or which result from any work performed by the Executive for the Company, shall be the sole and exclusive property of the Company. The Executive promises to assign such inventions to the Company. The Executive also agrees that the Company shall have the right to keep such inventions as trade secrets, if the Company chooses. The Executive agrees to assign to the Company the Executive's rights in any other inventions where the Company is required to grant those rights to the United States government or any agency thereof. In order to permit the Company to claim rights to which it may be entitled, the Executive agrees to disclose to the Company in confidence all inventions which the Executive makes arising out of the Executive's service and all patent applications filed by the Executive within one year after the termination of his service. The Executive shall assist the Company in obtaining patents on all inventions, designs, improvements and discoveries patentable by the Company in the United States and in all foreign countries, and shall execute all documents and do all things necessary to obtain letters patent, to vest the Company with full and extensive title thereto.

8.3 This Agreement does not limit Executive's ability to communicate with any government agencies regarding matters within their jurisdiction or otherwise participate in any investigation or proceeding that may be conducted by any government agency, including providing documents or other information, without notice, to the government agencies. Nothing in this Agreement shall prevent Executive from the disclosure of Confidential Information or Trade Secrets that: (a) is made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In the event that Executive files a lawsuit alleging retaliation by Company for reporting a suspected violation of law, Executive may disclose Confidential Information or Trade Secrets related to the suspected violation of law or alleged retaliation to Executive's attorney and use the Confidential Information or trade secrets in the court proceeding if Executive or Executive's attorney: (a) files any document containing Confidential Information or trade secrets under seal; and (b) does not disclose the Confidential Information or Trade Secrets, except pursuant to court order. The Company provides this notice in compliance with, among others, the Defend Trade Secrets Act of 2016.

9. Solicitation of Employees or Customers.

9.1 Information About Other Employees. Executive will be called upon to work closely with employees of Employer in performing services under this Agreement. All information about such employees which becomes known to Executive during the course of his employment with Employer, and which is not otherwise known to the public, including compensation or commission structure, is a Trade Secret of Employer and shall not be used by Executive in soliciting employees of Employer at any time during or after termination of his employment with Employer.

9.2 Solicitation of Employees Prohibited. During Executive's employment and for one year following the termination of Executive's employment, Executive shall not, directly or indirectly ask, solicit or encourage any employee(s) of Employer to leave their employment with Employer. Executive further agrees that he shall make any subsequent employer aware of this non-solicitation obligation.

9.3 Solicitation of Customers Prohibited. For a period of one year following the termination of Executive's employment, Executive shall not, directly or indirectly solicit the business of any of Employer's customers in any way competitive with the business or demonstrably anticipated business of the Company. Executive further agrees that he shall make any subsequent employer aware of this non-solicitation obligation.

10. Non-Competition. During the course of Executive's employment with the Company, Executive shall not directly or indirectly own any interest in (other than owning less than 5% of a publicly held company), manage, control, participate in (whether as an officer, director, employee, partner, agent, representative, volunteer or otherwise), consult with, render services for or in any manner engage (whether or not during business hours) in any business activity that is in any way competitive with the business or demonstrably anticipated business of the Company. Further, Executive will not during the course of his employment with the Company, assist any other person or organization in competing or in preparing to compete with any business or demonstrably anticipated business of the Company.

11. Unfair Competition, Misappropriation of Trade Secrets and Violation of Solicitation/Noncompetition Clauses. Executive acknowledges that unfair competition, misappropriation of trade secrets or violation of any of the provisions contained in paragraphs 8 through 10 would cause irreparable injury to Employer, that the remedy at law for any violation or threatened violation thereof would be inadequate, and that Employer shall be entitled to temporary and permanent injunctive or other equitable relief without the necessity of proving actual damages.

12. Representation Concerning Prior Agreements. Executive represents to Employer that he is not bound by any non-competition and/or non-solicitation agreement that would preclude, limit or in any manner affect his employment with Employer. Executive further represents that he can fully perform the duties of his employment without violating any obligations he may have to any former employer, including but not limited to, misappropriating any proprietary information acquired from a prior employer. Executive agrees that he will indemnify and hold Employer harmless from any and all liability and damage, including attorneys' fees and costs, resulting from any breach of this provision.



13. Personnel Policies and Procedures. The Employer shall have the authority to establish from time to time personnel policies and procedures to be followed by its employees. Executive agrees to comply with the policies and procedures of the Employer. To the extent any provisions in Employer's personnel policies and procedures differ with the terms of this Agreement, the terms of this Agreement shall apply.

14. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

15. Successors and Assigns. The rights and obligations of the Employer under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Employer. Executive shall not be entitled to assign any of his rights or delegate any of his obligations under this Agreement.

16. Governing Law. This Agreement shall be interpreted, construed, governed and enforced in accordance with the laws of the State of California.

17. Severability. Each term, condition, covenant or provision of this Agreement shall be viewed as separate and distinct, and in the event that any such term, covenant or provision shall be held by a court of competent jurisdiction to be invalid, the remaining provisions shall continue in full force and effect.

18. Survival. The provisions in paragraphs 8 through 11, 14 through 23, inclusive, of this Agreement shall survive termination of Executive's employment, regardless of who causes the termination and under what circumstances.

19. Waiver. Neither party's failure to enforce any provision or provisions of this Agreement shall be deemed or in any way construed as a waiver of any such provision or provisions, nor prevent that party thereafter from enforcing each and every provision of this Agreement. A waiver by either party of a breach of provision or provisions of this Agreement shall not constitute a general waiver, or prejudice the other party's right otherwise to demand strict compliance with that provision or any other provisions in this Agreement.

20. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient, if in writing, sent by mail to Executive's residence in the case of Executive, or hand delivered to the Executive, and, in the case of Employer, to the Board of Directors at the principal corporate office.

21. Arbitration. The parties agree that disputes concerning the terms of this Agreement and Executive's employment under this Agreement are subject to arbitration in accordance with the Employee Arbitration Agreement attached hereto as Exhibit "A" and incorporated by this reference as though fully set forth herein.

22. Entire Agreement. Executive acknowledges receipt of this Agreement and agrees that this Agreement represents the entire agreement with Employer concerning the subject matter hereof, and supersedes any previous oral or written communications, representations, understandings or agreements with Employer or any officer or agent thereof through the date the Agreement is executed by the parties, except the Employee Arbitration Agreement which is incorporated herein as set forth in paragraph 21 of this Agreement and attached hereto as Exhibit "A." Executive understands that no representative of the Employer has been authorized to enter into any agreement or commitment with Executive which is inconsistent in any way with the terms of this Agreement.

23. Construction. This Agreement shall not be construed against any party on the grounds that such party drafted the Agreement or caused it to be drafted.

24. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. Further, facsimiles of signatures may be taken as the actual signatures, and each party agrees to furnish the other with documents bearing the original signatures within ten days of the facsimile transmission.

25. Acknowledgment. Executive acknowledges that he has been advised by Employer to consult with independent counsel of his own choice, at his expense, concerning this Agreement, that he has had the opportunity to do so, and that he has taken advantage of that opportunity to the extent that he desires. Executive further acknowledges that he has read and understands this Agreement, is fully aware of its legal effect, and has entered into it freely based on his own judgment.

26. Code Section 280G.

26.1 Sections 280G and 4999 of the Code may place significant tax burdens on both Executive and the Company if the total payments made to Executive due to certain change in control events described in Section 280G of the Code (the "Total Change in Control Payments") equal or exceed Executive's 280G Cap. For this purpose, Executive's "280G Cap" is equal to Executive's average annual compensation in the five (5) calendar years preceding the calendar year in which the change in control event occurs (the "Base Period Income Amount") times three (3). If the Total Change in Control Payments equal or exceed the 280G Cap, Section 4999 of the Code imposes a 20% excise tax (the "Excise Tax") on all amounts in excess of one (1) times Executive's Base Period Income Amount. In determining whether the Total Change in Control Payments will equal or exceed the 280G Cap and result in the imposition of an Excise Tax, the provisions of Sections 280G and 4999 of the Code and the applicable Treasury Regulations will control over the general provisions of this paragraph 26. All determinations and calculations required to implement the rules set forth in this paragraph 26 shall take into account all applicable federal, state, and local income taxes and employment taxes (and for purposes of such calculations, Executive shall be deemed to pay income taxes at the highest combined federal, state and local marginal tax rates for the calendar year in which the Total Change in Control Payments are to be made, less the maximum federal income tax deduction that could be obtained as a result of a deduction for state and local taxes (the "Assumed Taxes")).

26.2 Subject to the "best net" exception described in paragraph 26.3), in order to avoid the imposition of the Excise Tax, the total payments to which Executive is entitled under this Agreement or otherwise will be reduced to the extent necessary to avoid equaling or exceeding the 280G Cap, with such reduction first applied to the cash severance payments that Executive would otherwise be entitled to receive pursuant to this Agreement and thereafter applied in a manner that will not subject Executive to tax and penalties under Section 409A of the Code.

26.3 If Executive's Total Change in Control Payments minus the Excise Tax and the Assumed Taxes (payable with respect to the amount of the Total Change in Control Payments) exceeds the 280G Cap minus the Assumed Taxes (payable with respect to the amount of the 280G Cap), then the total payments to which Executive is entitled under this Agreement or otherwise will not be reduced pursuant to paragraph 26.2. If this "best net" exception applies, Executive shall be fully responsible for paying any Excise Tax (and income or other taxes) that may be imposed on Executive pursuant to Section 4999 of the Code or otherwise.

26.4 The Company will engage a law firm, a certified public accounting firm, and/or a firm of reputable executive compensation consultants (the "Consultant") to make any necessary determinations and to perform any necessary calculations required in order to implement the rules set forth in this paragraph 26. The Consultant shall provide detailed supporting calculations to both the Company and Executive and all fees and expenses of the Consultant shall be borne by the Company. If the provisions of Section 280G and 4999 of the Code are repealed without succession, this paragraph 26 shall be of no further force or effect. In addition, if this provision does not apply to Executive for whatever reason, this paragraph shall be of no further force or effect.

27. Code Section 409A. This Agreement is intended to comply with Section 409A of the Code, or with an exemption thereto, and, to the maximum extent permitted, this Agreement shall be interpreted and administered consistent with that intent. Notwithstanding anything in this Agreement to the contrary, if the Company concludes that the payments described in paragraph 7 are subject to Section 409A of the Code, no such payments will be made prior to Executive's "separation from service" as defined in Treasury Regulation Section 1.409A-1(h)(applying the default rules of Treasury Regulation Section 1.409A-1(h)). In addition, if the payments described paragraph 7 are subject to Section 409A of the Code, and if Executive is a "specified employee" as defined in Treasury Regulation Section 1.409A-1(i)(1) on the date of his termination of employment, such payments shall not begin until the first day of the seventh month following his "separation from service." Installment payments shall be treated as separate payments for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii). Executive acknowledges that the Company makes no representations or warranties regarding the tax treatment or tax consequences of any compensation, benefits or other payments made pursuant to this Agreement, including by operation of Section 409A of the Code. Neither the time nor schedule of any payment under this Agreement may be accelerated or subject to further deferral except as permitted by Section 409A of the Code and Executive does not have any right to make any election regarding the time or form of any payment due under this Agreement. Any expenses that are to be reimbursed pursuant to this Agreement that are subject to Section 409A of the Code shall: (i) be paid no later than the last day of Executive's tax year following the tax year in which the expense was incurred; (ii) not affect or be affected by any other expenses that are eligible for reimbursement in any other tax year of Executive; and (iii) not be subject to liquidation or exchange for any other benefit.

*Signature page follows*

*Signature page to Employment Agreement*

IN WITNESS HEREOF, the parties have executed this Agreement as of the date set forth below.

EXECUTIVE

Dated: July 30, 2020

/s/ Nicholas S. Green  
Nicholas S. Green

AVID BIOSERVICES, INC.

Dated: July 30, 2020

By: /s/ Daniel Hart  
Name: Daniel Hart  
Title: Chief Financial Officer

## EXHIBIT A

### EXECUTIVE ARBITRATION AGREEMENT

THIS ARBITRATION AGREEMENT (“Agreement”) is made by and between Avid Bioservices, Inc. (“Employer”) and Nicholas S. Green (“Executive”).

The purpose of this Agreement is to establish final and binding arbitration for all disputes arising out of Executive’s relationship with Employer, including without limitation Executive’s employment or the termination of Executive’s employment. Executive and Employer desire to arbitrate their disputes on the terms and conditions set forth below to gain the benefits of a speedy, impartial dispute-resolution procedure. Executive and Employer agree to the following:

1. Claims Covered by the Agreement. Executive and Employer mutually consent to the resolution by final and binding arbitration of all claims or controversies (“claims”) that Employer may have against Executive or that Executive may have against Employer or against its officers, directors, partners, employees, agents, pension or benefit plans, administrators, or fiduciaries, or any subsidiary or affiliated company or corporation (collectively referred to as “Employer”), relating to, resulting from, or in any way arising out of Executive’s relationship with Employer, Executive’s employment relationship with Employer and/or the termination of Executive’s employment relationship with Employer, to the extent permitted by law. The claims covered by this Agreement include, but are not limited to, claims for wages or other compensation due; claims for breach of any contract or covenant (express or implied); tort claims; claims for unfair competition, misappropriation of trade secrets, breach of fiduciary duty, usurpation of corporate opportunity or similar claims; claims for discrimination and harassment (including, but not limited to, race, sex, religion, national origin, age, marital status or medical condition, disability, sexual orientation, or any other characteristic protected by federal, state or local law); claims for benefits (except where an employee benefit or pension plan specifies that its claims procedure shall culminate in an arbitration procedure different from this one); and claims for violation of any public policy, federal, state or other governmental law, statute, regulation or ordinance.

2. Required Notice of Claims and Statute of Limitations. Executive may initiate arbitration by serving or mailing a written notice to the Board of Directors. Employer may initiate arbitration by serving or mailing a written notice to Executive at the last address recorded in Executive’s personnel file. The written notice must specify the claims asserted against the other party. Notice of any claim sought to be arbitrated must be served within the limitations period established by applicable federal or state law.

3. Arbitration Procedures.

a. After demand for arbitration has been made by serving written notice under the terms of paragraph 2 of this Agreement, the party demanding arbitration shall file a demand for arbitration with the American Arbitration Association (“AAA”) in Orange County.

b. Except as provided herein, all rules governing the arbitration shall be the then applicable rules set forth by the AAA. If the dispute is employment-related, the dispute shall be governed by the AAA’s then current version of the national rules for the resolution of employment disputes. The AAA’s then applicable rules governing the arbitration may be obtained from the AAA’s website which currently is [www.adr.org](http://www.adr.org).

c. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state in which the claim arose, or federal law, or both, as applicable to the claim(s) asserted. The arbitrator shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to any claim that all or any part of this Agreement is void or voidable.

d. Either party may file a motion for summary judgment with the arbitrator. The arbitrator is entitled to resolve some or all of the asserted claims through such a motion. The standards to be applied by the arbitrator in ruling on a motion for summary judgment shall be the applicable laws as specified in paragraph 4(c) of this Agreement.

e. Discovery shall be allowed and conducted pursuant to the then applicable arbitration rules of the AAA. The arbitrator is authorized to rule on discovery motions brought under the applicable discovery rules.

4. Application for Emergency Injunctive and/or Other Equitable Relief. Claims by Employer or Executive for emergency injunctive and/or other equitable relief relating to unfair competition and/or the use and/or unauthorized disclosure of trade secrets or confidential information shall be subject to the then current version of the AAA's Optional Rules for Emergency Measures of Protection set forth within the AAA's Commercial Dispute Resolution Procedures. The AAA shall appoint a single emergency arbitrator to handle the claim(s) for emergency relief. The emergency arbitrator selected by the AAA shall be either a retired judge or an individual experienced in handling matters involving claims for emergency injunctive and/or other equitable relief relating to unfair competition and the use or unauthorized disclosure of trade secrets and/or confidential information.

5. Arbitration Decision. The arbitrator's decision will be final and binding. The arbitrator shall issue a written arbitration decision revealing the essential findings and conclusions upon which the decision and/or award is based. A party's right to appeal the decision is limited to grounds provided under applicable federal or state law.

6. Place of Arbitration. The arbitration will be at a mutually convenient location that must be within 50 miles of Executive's last company employment location. If the parties cannot agree upon a location, then the arbitration will be held at the AAA's office nearest to Executive's last employment location.

7. Administrative Agencies. Nothing in this Agreement is intended to prohibit Employee from filing a claim or communicating with the United States Equal Employment Opportunity Commission ("EEOC"), the National Labor Relations Board ("NLRB") or the California Department of Fair Employment and Housing ("DFEH").

8. Construction. Should any portion of this Agreement be found to be unenforceable, such portion will be severed from this Agreement, and the remaining portions shall continue to be enforceable.

9. Representation, Fees and Costs. Each party may be represented by an attorney or other representative selected by the party. Except as otherwise provided for by statute, the arbitrator shall award reasonable attorneys' fees and costs (including without limitation, costs for depositions, experts, etc.) to Executive provided Executive is the prevailing party except that Employer shall be responsible for the arbitrator's fees and costs, or any fees or costs charged by the AAA, to the extent they exceed any fee or cost that Executive would be required to bear if the action were brought in court. In no event shall Executive be responsible for attorneys' fees and costs of Employer.

10. Waiver of Jury Trial/Exclusive Remedy. EXECUTIVE AND EMPLOYER KNOWINGLY AND VOLUNTARILY WAIVE ANY CONSTITUTIONAL RIGHT TO HAVE ANY DISPUTE BETWEEN THEM DECIDED BY A COURT OF LAW AND/OR BY A JURY IN COURT.

11. Sole and Entire Agreement. This Agreement expresses the entire Agreement of the parties and shall supersede any and all other agreements, oral or written, concerning arbitration. This Agreement is not, and shall not be construed to create, any contract of employment, express or implied.

12. Requirements for Modification or Revocation. This Agreement to arbitrate shall survive the termination of Executive's employment. It can only be revoked or modified by a writing signed by the Chairperson of the Compensation Committee of the Board of Directors of Employer and Executive that specifically states an intent to revoke or modify this Agreement.

13. Voluntary Agreement. EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS CAREFULLY READ THIS AGREEMENT, UNDERSTANDS ITS TERMS, AND AGREES THAT ALL UNDERSTANDINGS AND AGREEMENTS BETWEEN EMPLOYER AND EXECUTIVE RELATING TO THE SUBJECTS COVERED IN THE AGREEMENT ARE CONTAINED IN IT. EXECUTIVE HAS KNOWINGLY AND VOLUNTARILY ENTERED INTO THE AGREEMENT WITHOUT RELIANCE ON ANY PROVISIONS OR REPRESENTATIONS BY EMPLOYER, OTHER THAN THOSE CONTAINED IN THIS AGREEMENT.

EXECUTIVE FURTHER ACKNOWLEDGES THAT EXECUTIVE HAS BEEN GIVEN THE OPPORTUNITY TO DISCUSS THIS AGREEMENT WITH EXECUTIVE'S PRIVATE LEGAL COUNSEL AND EXECUTIVE HAS UTILIZED THAT OPPORTUNITY TO THE EXTENT DESIRED.

EXECUTIVE:

/s/ Nicholas S. Green  
Nicholas S. Green

EMPLOYER:

AVID BIOSERVICES, INC., a Delaware corporation

By: /s/ Daniel Hart  
Name: Daniel Hart  
Title: Chief Financial Officer

**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: September 1, 2020

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



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

I, Daniel R. Hart, certify that:

1. I have reviewed this 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: September 1, 2020

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

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

I, Nicholas S. Green, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Avid Bioservices, Inc. on Form 10-Q for the quarter ended July 31, 2020 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: September 1, 2020

By: /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 July 31, 2020 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: September 1, 2020

By: /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.*