

CHAMPIONS ONCOLOGY, INC.  
Form 10-Q  
March 17, 2015

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended January 31, 2015**

**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 0-17263**

**CHAMPIONS ONCOLOGY, INC.**

*(Exact name of registrant as defined in its charter)*

|  |  |
|--|--|
| <b>Delaware</b><br><i>(State or other jurisdiction of<br/>incorporation or organization)</i> | <b>52-1401755</b><br><i>(I.R.S. Employer<br/>Identification No.)</i> |
|--|--|

|  |                                   |
|--|-----------------------------------|
| <b>One University Plaza, Suite 307</b><br><b>Hackensack, New Jersey</b><br><i>(Address of principal executive offices)</i> | <b>07601</b><br><i>(Zip Code)</i> |
|--|-----------------------------------|

**(201) 808-8400**

*(Registrant's telephone number, including area code)*

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The number of Common Shares of the Registrant outstanding as of March 13, 2015 was 104,026,506.

**DOCUMENTS INCORPORATED BY REFERENCE - None**

**INDEX TO FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2015**

**PART I - FINANCIAL INFORMATION**

|   |    |
|---|----|
| Item 1. <u>Financial Statements</u>   |    |
| <u>Condensed Consolidated Balance Sheets as of January 31, 2015 (unaudited) and April 30, 2014</u>  | 2  |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended January 31, 2015 and 2014 (unaudited)</u> | 3  |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended January 31, 2015 and 2014 (unaudited)</u>                                  | 4  |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | 5  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>  | 16 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 20 |
| Item 4. <u>Controls and Procedures</u>  | 20 |

**PART II - OTHER INFORMATION**

|  |    |
|--|----|
| Item 1. <u>Legal Proceedings</u>   | 20 |
| Item 1A. <u>Risk Factors</u>   | 20 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 21 |
| Item 3. <u>Defaults Upon Senior Securities</u>                             | 21 |
| Item 4. <u>Mine Safety Disclosures</u>                                     | 21 |
| Item 5. <u>Other Information</u>   | 21 |
| Item 6. <u>Exhibits</u>  | 21 |

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****CHAMPIONS ONCOLOGY, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in Thousands)**

|   | January 31,<br>2015<br>(unaudited) | April 30,<br>2014 |
|---|------------------------------------|-------------------|
| <b>ASSETS</b>   |                                    |                   |
| Current assets:                                       |                                    |                   |
| Cash and cash equivalents                             | \$ 182                             | \$5,891           |
| Accounts receivable, net                              | 1,092                              | 1,325             |
| Prepaid expenses and other current assets             | 258                                | 383               |
| Total current assets                                  | 1,532                              | 7,599             |
| Restricted cash                                       | 163                                | 165               |
| Property and equipment, net                           | 469                                | 434               |
| Goodwill  | 669                                | 669               |
| Total assets  | \$ 2,833                           | \$8,867           |
| <b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b> |                                    |                   |
| Current liabilities:                                  |                                    |                   |
| Accounts payable                                      | \$ 1,362                           | \$981             |
| Accrued liabilities                                   | 598                                | 587               |
| Notes Payable, related party                          | 2,000                              | -                 |
| Deferred revenue                                      | 2,309                              | 2,091             |
| Total current liabilities                             | 6,269                              | 3,659             |
| Warrant liability                                     | 610                                | 2,011             |
| Other Non-current liability                           | 98                                 | -                 |
| Total liabilities                                     | 6,977                              | 5,670             |

Edgar Filing: CHAMPIONS ONCOLOGY, INC. - Form 10-Q

Stockholders' (deficit) equity:

|  |           |          |
|--|-----------|----------|
| Common stock, \$.001 par value; 125,000,000 shares authorized, including redeemable common stock, 70,125,836 and 70,121,741 shares issued and 66,889,600 and 66,885,741 shares outstanding as of January 31, 2015 and April 30, 2014, respectively | 70        | 70       |
| Treasury stock, at cost, 3,236,236 common shares as of January 31, 2015 and April 30, 2014   | (1,252 )  | (1,252 ) |
| Additional paid-in capital   | 45,388    | 43,259   |
| Accumulated deficit  | (48,350 ) | (38,880) |
| Total stockholders' (deficit) equity   | (4,144 )  | 3,197    |
| Total liabilities and stockholders' (deficit) equity   | \$ 2,833  | \$8,867  |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**CHAMPIONS ONCOLOGY, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Dollars in Thousands Except Per Share Amounts)**

|  | Three Months Ended<br>January 31, |            | Nine Months Ended<br>January 31, |            |
|--|-----------------------------------|------------|----------------------------------|------------|
|  | 2015                              | 2014       | 2015                             | 2014       |
| Operating revenue:   |                                   |            |                                  |            |
| Personalized oncology solutions  | \$453                             | \$590      | \$1,245                          | \$1,834    |
| Translational oncology solutions   | 1,376                             | 3,100      | 4,377                            | 7,258      |
| Total operating revenue  | 1,829                             | 3,690      | 5,622                            | 9,092      |
| Costs and operating expenses:  |                                   |            |                                  |            |
| Cost of personalized oncology solutions  | 674                               | 614        | 2,190                            | 2,139      |
| Cost of translational oncology solutions   | 1,301                             | 1,008      | 3,225                            | 2,585      |
| Research and development   | 1,093                             | 535        | 3,757                            | 1,614      |
| Sales and marketing  | 1,094                             | 821        | 3,340                            | 2,160      |
| General and administrative   | 1,086                             | 2,120      | 3,944                            | 4,476      |
| Total costs and operating expenses   | 5,248                             | 5,098      | 16,456                           | 12,974     |
| Loss from operations   | (3,419                            | ) (1,408   | ) (10,834                        | ) (3,882   |
| Other income (expense):  |                                   |            |                                  |            |
| Change in fair value of warrant liability  | 621                               | 846        | 1,401                            | (1,202     |
| Other income/(expense), net  | (6                                | ) (7       | ) (3                             | ) (37      |
| Total other income (expense)   | 615                               | 839        | 1,398                            | (1,239     |
| Loss before provision for income taxes   | (2,804                            | ) (569     | ) (9,436                         | ) (5,121   |
| Provision for income taxes   | 12                                | 5          | 27                               | 13         |
| Net loss   | \$(2,816                          | ) \$(574   | ) \$(9,463                       | ) \$(5,134 |
| Net loss per common share outstanding, including<br>redeemable common stock, basic<br>and diluted      | \$(0.04                           | ) \$(0.01  | ) \$(0.14                        | ) \$(0.08  |
|  | \$(0.05                           | ) \$(0.02  | ) \$(0.16                        | ) \$(0.08  |
| Weighted average common shares outstanding, including<br>redeemable common stock, basic<br>and diluted | 66,893,364                        | 66,867,114 | 66,890,929                       | 66,860,792 |
|  | 67,245,577                        | 66,867,114 | 67,243,142                       | 66,860,792 |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(Dollars in Thousands)**

|   |   |           |         |           |           |
|---|---|-----------|---------|-----------|-----------|
| Net loss                                |   | \$(2,816) | \$(574) | \$(9,463) | \$(5,134) |
| Foreign currency translation adjustment | - | 1         | -       | (23)      | )         |
| Comprehensive loss                      |   | \$(2,816) | \$(573) | \$(9,463) | \$(5,157) |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**CHAMPIONS ONCOLOGY, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in Thousands)**

|   | Nine Months<br>Ended<br>January 31,<br>2015      2014 |           |
|---|---|-----------|
| Operating activities:   |   |           |
| Net loss  | \$(9,463)   | \$(5,134) |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |           |
| Stock-based compensation expense  | 2,284   | 1,968     |
| Depreciation expense  | 166   | 158       |
| Change in fair value of warrant liability                                   | (1,401)   | 1,202     |
| Changes in operating assets and liabilities:                                |   |           |
| Accounts receivable   | 233   | (2,623)   |
| Prepaid expenses and other current assets                                   | 125   | 34        |
| Restricted cash   | 2   | 28        |
| Accounts payable  | 381   | (266 )    |
| Accrued liabilities   | (167 )  | 94        |
| Deferred revenue  | 218   | 981       |
| Net cash used in operating activities                                       | (7,622)   | (3,558)   |
| Investing activities:   |   |           |
| Purchase of property and equipment  | (84 )   | (164 )    |
| Net cash used in investing activities                                       | (84 )   | (164 )    |
| Financing activities:   |   |           |
| Proceeds from executive note financing                                      | 2,000   | -         |
| Capital lease payments  | (5 )  | -         |
| Proceeds from exercise of options   | 2   | -         |
| Net cash provided by financing activities                                   | 1,997   | -         |
| Exchange rate effect on cash and cash equivalents                           | -   | (27 )     |
| Decrease in cash and cash equivalents                                       | (5,709)   | (3,749)   |
| Cash and cash equivalents, beginning of period                              | 5,891   | 9,561     |



Edgar Filing: CHAMPIONS ONCOLOGY, INC. - Form 10-Q

|  |       |         |
|--|-------|---------|
| Cash and cash equivalents, end of period | \$182 | \$5,812 |
| Non-cash investing activities:           |       |         |
| Purchased equipment under capital lease  | 124   | -       |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**CHAMPIONS ONCOLOGY, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization, Use of Estimates and Basis of Presentation**

Champions Oncology, Inc. (the “Company”), is engaged in the development and sale of advanced technology solutions and products to personalize the development and use of oncology drugs. The Company’s TumorGraft Technology Platform is a novel approach to personalizing cancer care based upon the implantation of human tumors in immune-deficient mice. The Company uses this technology, in conjunction with related services, to offer solutions for two consumer groups: Personalized Oncology Solutions (“POS”) and Translational Oncology Solutions (“TOS”). POS assists physicians in developing personalized treatment options for their cancer patients through tumor specific data obtained from drug panels and related personalized oncology services. The Company’s TOS business offers a technology platform to pharmaceutical and biotechnology companies using proprietary TumorGraft studies, which the Company believes may be predictive of how drugs may perform in clinical settings.

The Company has three operating subsidiaries: Champions Oncology (Israel), Limited, Champions Biotechnology U.K., Limited and Champions Oncology Singapore, PTE LTD. For the three and nine months ended January 31, 2015 and 2014, there were no material revenues earned by these subsidiaries.

The Company’s foreign subsidiaries functional currency is the U.S. dollar. Transaction gains and losses are recognized in earnings. The Company is subject to foreign exchange rate fluctuations in connection with the Company’s international operations.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission or the SEC. All significant intercompany transactions and accounts have been eliminated. All figures are presented in thousands of U.S. dollars, except share data, or except where expressly stated otherwise. Certain information related to the Company’s organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States or GAAP has been condensed or omitted. The accounting policies followed in the preparation of these unaudited condensed consolidated financial statements are consistent with those followed in the Company’s annual consolidated financial statements for the year ended April 30, 2014, as filed on Form 10-K. In the opinion of management, these unaudited condensed consolidated financial statements contain all material adjustments necessary to fairly state our financial position, results of operations and cash flows for the periods presented and the presentations and disclosures herein are adequate when read in conjunction with the Company’s Annual Report on Form 10-K for the year ended April 30, 2014.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassification***

Certain prior year amounts have been reclassified to conform to the current year presentation.

*Earnings Per Share*

Basic net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock plus dilutive potential common stock considered outstanding during the period. Such dilutive shares consist of incremental shares that would be issued upon exercise of the Company's derivative warrants.

|  | Three Months Ended<br>January 31, |                | Nine Months Ended<br>January 31, |                |
|--|-----------------------------------|----------------|----------------------------------|----------------|
|  | 2015                              | 2014           | 2015                             | 2014           |
| Basic loss per share computation                                       |                                   |                |                                  |                |
| Net loss attributable to common stockholders                           | \$(2,816,465 )                    | \$(574,207 )   | \$(9,462,281 )                   | \$(5,133,684 ) |
| Weighted Average common shares - basic                                 | 66,893,364                        | 66,867,114     | 66,890,929                       | 66,860,792     |
| Basic net loss per share   | \$(0.04 )                         | \$(0.01 )      | \$(0.14 )                        | \$(0.08 )      |
| Diluted loss per share computation                                     |                                   |                |                                  |                |
| Net loss attributable to common stockholders                           | \$(2,816,465 )                    | \$(574,207 )   | \$(9,462,281 )                   | \$(5,133,684 ) |
| Less: Gain on derivative warrant liability                             | 620,687                           | 845,774        | 1,401,314                        | -              |
| Loss available to common stockholders                                  | \$(3,437,152 )                    | \$(1,419,981 ) | \$(10,863,595 )                  | \$(5,133,684 ) |
| Weighted Average common shares   | 66,893,364                        | 66,867,114     | 66,890,929                       | 66,860,792     |
| Incremental shares from assumed exercise of warrants and stock options | 352,213                           | -              | 352,213                          | -              |
| Adjusted weighted average share - diluted                              | 67,245,577                        | 66,867,114     | 67,243,142                       | 66,860,792     |
| Diluted net loss per share   | \$(0.05 )                         | \$(0.02 )      | \$(0.16 )                        | \$(0.08 )      |

The following table reflects the total potential share-based instruments outstanding at January 31, 2015 and 2014 that could have an effect on the future computation of dilution per common share:

|                                | January 31, |            |
|--------------------------------|-------------|------------|
|                                | 2015        | 2014       |
| Stock options                  | 23,990,008  | 22,633,955 |
| Warrants                       | 3,126,667   | 3,276,667  |
| Total common stock equivalents | 27,116,675  | 25,910,622 |

*Liquidity*

Our liquidity needs have typically arisen from the funding of our research and development programs and the launch of new products, working capital requirements, and other strategic initiatives. In the past, we have met these cash requirements through our sales of products and services, cash and cash equivalents, working capital management, and proceeds from certain private placements of our securities. As of January 31, 2015, we had negative working capital of \$4.7 million and cash and cash equivalents on hand of \$0.2 million.

On March 11, 2015, (the Company entered into a 2015 Securities Purchase Agreement (the "2015 Securities Purchase Agreement") with related party and non-related party investors for the sale to the investors of units, each unit consisting of one share of the Company's Common Stock, par value \$0.001 per share (the "Common Stock") and a warrant to buy 0.55 shares of Common Stock at \$0.48 per share (the "Warrants"), at a purchase price of \$0.40 per unit, for an aggregate of \$14,000,000. See Note 10 for more detail.

As of March 17, 2015, Management believes that the Company has sufficient cash on hand to continue as a going concern for at least the next 12 months.

### ***Provision for Income Taxes***

Deferred income taxes have been provided to show the effect of temporary differences between the recognition of expenses for financial and income tax reporting purposes and between the tax basis of assets and liabilities, and their reported amounts in the consolidated financial statements. As of January 31, 2015 and 2014, the Company provided a valuation allowance for all net deferred tax assets, as it is not more likely than not that the assets will not be recovered based on an insufficient history of earnings.

The income tax provision for the nine months ended January 31, 2015 was \$27 as compared to \$13 for the corresponding period in the previous year, and primarily consists of income tax obligations payable to the foreign jurisdictions.

There were no uncertain tax position identified by the Company.

### **Note 2. Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*", which will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 allows for both retrospective and prospective methods of adoption and is effective for periods beginning after December 15, 2016. The Company is currently evaluating the impact that the adoption of ASU 2014-09 will have on our financial

statements.

In June 2014, FASB has issued Accounting Standards Update (“ASU”) No. 2014-12, “*Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*”. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s condensed consolidated balance sheets and results of operations.

7

In August 2014, FASB issued Accounting Standards Update (“ASU”) 2014-15, “*Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*”. This ASU requires management to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and provide related disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2014-15 on its financial statements.

### Note 3. Property and Equipment

Property and equipment is recorded at cost and consists of laboratory equipment, furniture and fixtures, and computer hardware and software. Depreciation is calculated on a straight-line basis over the estimated useful lives of the various assets ranging from three to seven years. Property and equipment consisted of the following (in thousands):

|                                 | January 31,<br>2015<br>(unaudited) | April 30,<br>2014 |
|---------------------------------|------------------------------------|-------------------|
| Furniture and fixtures          | \$ 70                              | \$ 69             |
| Computer equipment and software | 694                                | 655               |
| Laboratory equipment            | 457                                | 296               |
| Leasehold improvements          | 2                                  | 2                 |
| Total property and equipment    | 1,223                              | 1,022             |
| Less: Accumulated depreciation  | (754 )                             | (588 )            |
| Property and equipment, net     | \$ 469                             | \$ 434            |

Depreciation expense was \$52 and \$56 for the three months ended January 31, 2015 and 2014, respectively, and \$166 and \$158 for the nine months ended January 31, 2015 and 2014, respectively. As of January 31, 2015 and April 30, 2014, property, plant and equipment included assets held under capital lease of \$124 and \$0, respectively. Related depreciation expense was \$6 and \$0, respectively.

#### *Capital Lease*



Edgar Filing: CHAMPIONS ONCOLOGY, INC. - Form 10-Q

In November 2014, the Company entered into a lease for laboratory equipment. The lease is a capital lease that has costs of approximately \$149 through November 2019. The current monthly capital lease payment is approximately \$3.

The following is a schedule by years of future minimum lease payments under this capital lease together with the present value of the net minimum lease payments as of January 31, 2015:

|                               |      |       |
|-------------------------------|------|-------|
| For the Years Ended April 30, | 2015 | \$6   |
|                               | 2016 | 23    |
|                               | 2017 | 24    |
|                               | 2018 | 25    |
|                               | 2019 | 26    |
|                               | 2020 | 16    |
| Total minimum lease payments  |      | \$120 |
| Less: current maturity        |      | (22 ) |
| Long-term maturity            |      | 98    |

The present value of minimum future obligations shown above is calculated based on interest rate of 5%.

**Note 4. Share-Based Payments**

The Company has in place a 2010 Equity Incentive Plan and a 2008 Equity Incentive Plan. In general, these plans provide for stock-based compensation in the form of (i) Non-statutory Stock Options; (ii) Restricted Stock Awards; and (iii) Stock Appreciation Rights to the Company's employees, directors and non-employees. The plans also provide for limits on the aggregate number of shares that may be granted, the term of grants and the strike price of option awards.

Stock-based compensation in the amount of \$657 and \$941 was recognized for the three months ended January 31, 2015 and 2014, respectively and \$2,284 and \$1,968 for the nine months ended January 31, 2015 and 2014, respectively. As of January 31, 2015, \$158 of stock compensation is included within accrued liabilities line item on the balance sheet. Stock-based compensation expense was recognized as follows (in thousands):

|  | Three Months Ended  |        | Nine Months Ended   |          |
|--|---------------------|--------|---------------------|----------|
|  | January 31,<br>2015 | 2014   | January 31,<br>2015 | 2014     |
| General and administrative             | \$ 474              | \$ 866 | \$ 1,530            | \$ 1,686 |
| Sales and marketing                    | 114                 | 63     | 447                 | 189      |
| Research and development               | 65                  | 4      | 267                 | 19       |
| TOS cost of sales                      | 2                   | 2      | 20                  | 12       |
| POS cost of sales                      | 2                   | 6      | 20                  | 62       |
| Total stock-based compensation expense | \$ 657              | \$ 941 | \$ 2,284            | \$ 1,968 |

***Stock Option Grants***

Black-Scholes assumptions used to calculate the fair value of options granted during the three and nine months ended January 31, 2015 and 2014 were as follows (in thousands):

|                          | Three Months Ended  |             | Nine Months Ended   |             |
|--------------------------|---------------------|-------------|---------------------|-------------|
|                          | January 31,<br>2015 | 2014        | January 31,<br>2015 | 2014        |
| Expected term in years   | -                   | 5 - 6       | 3 - 6               | 5 - 6       |
| Risk-free interest rates | -                   | 1.4% - 2.1% | 0.79% - 1.94%       | 0.8% - 2.4% |
| Volatility               | -                   | 97% - 102%  | 85.8% - 102.1%      | 97% - 102%  |

Edgar Filing: CHAMPIONS ONCOLOGY, INC. - Form 10-Q

|                |   |    |    |    |
|----------------|---|----|----|----|
| Dividend yield | - | 0% | 0% | 0% |
|----------------|---|----|----|----|

The weighted average fair value of stock options granted during the three months ended January 31, 2015 and 2014 was nil and \$0.97, respectively. The weighted average fair value of stock options granted during the nine months ended January 31, 2015 and 2014 was \$0.67 and \$0.96, respectively. The Company's stock options activity for the nine months ended January 31, 2015 is as follows:

|  | Non-<br>Employees | Directors<br>and<br>Employees | Total      | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|--|-------------------|-------------------------------|------------|--|--|---------------------------------|
| Outstanding, May 1, 2014                           | 765,000           | 22,586,037                    | 23,351,037 | \$ 1.01                                  | 7.5  | \$ 985                          |
| Granted  | 80,000            | 1,013,175                     | 1,093,175  | 0.72                                     | 5.9  | -                               |
| Exercised  | -                 | (3,750 )                      | (3,750 )   | 0.49                                     |  |                                 |
| Forfeited  | -                 | (101,250 )                    | (101,250 ) | 0.96                                     |  |                                 |
| Expired  | (150,000 )        | (199,204 )                    | (349,204 ) | 1.04                                     |  |                                 |
| Outstanding, January 31, 2015                      | 695,000           | 23,295,008                    | 23,990,008 | 1.00                                     | 6.6  | 63                              |
| Vested and expected to vest as of January 31, 2015 | 695,000           | 23,295,008                    | 23,990,008 | 1.00                                     | 6.6  | 63                              |
| Exercisable as of January 31, 2015                 | 487,500           | 16,544,466                    | 17,031,966 | 0.91                                     | 5.8  | 62                              |

Included in the beginning balances outstanding in the table above are 3,000,000 options granted to the Company's Chief Executive Officer and President which vest based on service criteria and 3,000,000 options granted to the Company's Chief Executive Officer and President which vest based on performance criteria. The service-based conditions of these options provide for vesting to occur monthly over a period of three years. Since the straight-line method is not available for performance or market-based share-based payments, the 3,000,000 performance-based options will be expensed on an accelerated basis once the Company determines it is probable that the performance-based conditions will be met.

### ***Stock Purchase Warrants***

As of January 31, 2015 and April 30, 2014, the Company had warrants outstanding for the purchase of 3,276,667 shares of its common stock, all of which were exercisable. Of these warrants, 1,266,667 were issued in connection with the April 2011 Private Placement and 1,860,000 were issued in connection with the January 2013 Private Placement and are accounted for as liabilities. The remaining 150,000 warrants, with an exercise price of \$1.00, were accounted for as equity instruments and expired on July 31, 2014. Activity related to these warrants, which expire at various dates through April 2016, is summarized as follows (dollars in thousands):

| Number | Weighted<br>Average | Weighted<br>Average<br>Remaining | Aggregate |
|--------|---------------------|----------------------------------|-----------|
|--------|---------------------|----------------------------------|-----------|

Edgar Filing: CHAMPIONS ONCOLOGY, INC. - Form 10-Q

|                               | of<br>Shares | Exercise<br>Price | Contractual<br>Life (Years) | Intrinsic<br>Value |
|-------------------------------|--------------|-------------------|-----------------------------|--------------------|
| Outstanding, May 1, 2014      | 3,276,667    | \$ 0.61           | 2.9                         | \$ 984             |
| Granted                       | -            | -                 | -                           | -                  |
| Exercised                     | -            | -                 | -                           | -                  |
| Expired                       | (150,000 )   | -                 | -                           | -                  |
| Outstanding, January 31, 2015 | 3,126,667    | \$ 0.60           | 2.3                         | \$ -               |

The warrants issued in connection with both the April 2011 Private Placement and January 2013 Private Placement contain certain exercise price reset provisions. Under these provisions, the exercise price of the warrants may be adjusted downward should the Company have future sales of its Common Stock for no consideration or for a consideration per share less than the Per Share Price (as such term is defined in the April 2011 Private Placement and January 2013 Private Placement). These exercise price reset provisions resulted in a downward adjustment to the exercise price of the warrants issued in the April 2011 Private Placement from \$0.90 to \$0.50.

The Company has accounted for the warrants issued in connection with the April 2011 Private Placement and January 2013 Private Placement as a liability based on the exercise price reset provisions described above. This liability, which is recorded at fair value on the accompanying consolidated balance sheets, totaled \$0.8 million at the time of the close of the January 2013 Private Placement Agreement. As of January 31, 2015 and April 30, 2014, the fair value of these warrants was \$0.6 million and \$2.01 million, respectively. The change in fair value of these warrants has been, and will be, recognized as other income (expense) on the Company's consolidated statements of operations. The fair value of these warrants was calculated by the Monte Carlo simulation valuation method. Assumptions used to calculate the fair value of these warrants were as follows:

|                          | January 31,<br>2015 | April 30,<br>2014 |
|--------------------------|---------------------|-------------------|
| Expected term in years   | 1.2 - 3.0           | 1.9 - 3.7         |
| Risk-free interest rates | 0.6% - 1.05%        | 0.4% - 1.17%      |
| Volatility               | 73% - 100%          | 95% - 113%        |
| Dividend yield           | 0%                  | 0%                |

The Company estimated the volatility based upon the applicable look-back periods or historical volatility observed for the Company. For the Risk-free rate the Company used the yield on a T-bill with maturity closest to the expected time to the warrant expiration.

In addition to the assumptions above, the Company also takes into consideration whether or not the Company would participate in another round of financing and if that financing is registered or not and what that stock price would be for the financing at that time.

The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise of the warrants, at which time the liability will be reclassified to stockholders' equity, or expiration of the warrants.

The Company has granted demand registration rights in connection with the investment in common shares and the common shares underlying the warrants for both the April 2011 Private Placement and January 2013 Private Placement. These rights include the requirement of the Company to file certain registration statements within a specified time period and to have these registration statements declared effective within a specified time period. If the Company is not able to comply with these registration requirements, the Company will be required to pay cash penalties equal to 1.0% of the aggregate Purchase Price paid by the investors for each 30-day period in which a Registration Default, as defined in the Securities Purchase Agreement, exists. These penalties are subject to a 10% limit of the aggregate Purchase Price paid by the investors. The Company may become subject to these penalty provisions if it fails to have a registration statement for the common shares declared effective, or to maintain the effectiveness of such registration statement. The total amount of potential penalties under this registration payment arrangement ranges from \$50 to \$130 for each 30-day period in which a registration default exists; however, as of

January 31, 2015 and April 30, 2014, and through the date of this filing, the Company does not believe these penalties to be probable and accordingly, has not established an accrual for such registration payment arrangements.

#### **Note 5. Related Party Transactions**

Related party transactions include transactions between the Company and its shareholders, management, or affiliates. The following transactions were in the normal course of operations and were measured and recorded at the exchange amount, which is the amount of consideration established and agreed to by the parties.

##### *Consulting Services*

During the nine months ended January 31, 2015 and 2014, the Company paid a member of its Board of Directors \$75 and \$115, respectively, for consulting services unrelated to his duties as a board member. All of the amounts paid to this related party have been recognized and expensed in the period the services were performed.

### *Notes Payable*

On December 1, 2014, the Company entered into note purchase agreements with and issued convertible promissory notes in the principal amount of \$1 million each to Joel Ackerman, the Company's Chief Executive Officer, and Dr. Ronnie Morris, the Company's President, to finance the operations of the Company. The transaction was approved by the Company's audit committee.

The notes bear interest at 12% per annum and have a term of 90 days. The notes, including any accrued but unpaid interest, are convertible at the option of each noteholder: (a) upon the closing of any equity financing that occurs during the term of the notes, into the securities offered in the financing to other investors at a 5% discount to the price per share paid by other investors in the financing; and (b) upon the maturity date of the notes, into the Company's common stock at the volume weighted average closing price of the common stock for the five trading days prior to such conversion.

On February 28, 2015, the Company entered into amendments to the convertible promissory notes issued on December 1, 2014. The amendments extended the maturity dates of the convertible promissory notes to April 1, 2015. The amendments were approved by the Company's audit committee.

On May 11, 2015, the convertible promissory notes were converted into equity as part of the 2015 Securities Purchase Agreement. See Note 10 for further details.

### **Note 6. Commitments and Contingencies**

#### *Operating Leases*

As of January 31, 2015, we lease the following facilities under non-cancelable operating lease agreements:

One University Plaza, Suite 307, Hackensack, New Jersey 07601, which, since November 2011, serves as the Company's corporate headquarters. The lease expires in November 2016. The Company recognized \$64 and \$53 of rental costs relative to this lease for the nine months ended January 31, 2015 and 2014, respectively.



855 North Wolfe Street, Suite 619, Baltimore, Maryland 21205, which consists of laboratories and office space where the Company conducts operations related to its primary service offerings. This lease expires June 2016. The Company recognized \$65 and \$64 of rental costs relative to this lease for nine months ended January 31, 2015 and 2014, respectively.

17 Hatidhar Street, Ra'anana, Israel, which served as office headquarters for Champions Oncology, Israel. This lease expired in July 2013 and was not renewed. The Company recognized nil and \$6 of rental costs relative to this lease for the nine months ended January 31, 2015 and 2014, respectively.

57 Mohamed Sultan Road, Singapore, which serves as office headquarters for Champions Oncology, Singapore. The lease expired in January 2015. The Company has not renewed this lease. We incurred \$4 of rental expense for both the nine months ended January 31, 2015 and 2014, respectively.

450 East 29<sup>th</sup> Street, New York, New York, 10016, which is a laboratory at which we implant tumors. We incurred \$35 of rental expense for the nine months ended January 31, 2015. The lease began in March 2014. The lease expires in September 2015 and can be renewed by the Company for subsequent one year terms.

### ***Legal Matters***

The Company is not currently party to any legal matters to its knowledge. The Company is not aware of any other matters that would have a material impact on the Company's financial position or results of operations.

### ***Registration Payment Arrangements***

The Company has entered into an Amended and Restated Registration Rights Agreement in connection with the April 2011 Private Placement and January 2013 Private Placement and is discussed more fully in Note 4. This Amended and Restated Registration Rights Agreement contains provisions that may call for the Company to pay penalties in certain circumstances. This registration payment arrangement primarily relates to the Company's ability to file a registration statement within a particular time period, have a registration statement declared effective within a particular time period and to maintain the effectiveness of the registration statement for a particular time period. The Company does not believe it is probable that penalty payments will be made for the Amended and Restated Registration Rights Agreement discussed in Note 4 and, accordingly, has not accrued for such potential penalties as of January 31, 2015 and April 30, 2014.

### Note 7. Teva Agreement

On July 30, 2013, the Company entered into an agreement with Teva Pharmaceutical Industries Ltd., pursuant to which the Company agreed to conduct TumorGraft studies on multiple proprietary chemical compounds provided by Teva to determine the activity or response of these compounds in potential clinical indications. Under the agreement, Teva agreed to pay an upfront payment and, under certain conditions, pay the Company various amounts upon achieving certain milestones, based on the performance of the compounds in preclinical testing and dependent upon testing the compound in clinical settings and obtaining FDA approval. In addition, Teva agreed to pay the Company royalties on any commercialized products developed under the agreement. This agreement terminated a prior collaborative agreement between Cephalon, Inc. a wholly-owned subsidiary of Teva, and the Company. Revenue recognized related to this agreement for the three months ended January 31, 2015 and 2014, was \$94 and nil, respectively. Revenue recognized related to this agreement for the nine months ended January 31, 2015 and 2014, was \$574 and \$194, respectively.

### Note 8. Fair Value

The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses, deposits and other receivables, accounts payable, and accrued liabilities approximate their fair value based on the liquidity or the short-term maturities of these instruments. The fair value hierarchy promulgated by GAAP consists of three levels:

- *Level one* — Quoted market prices in active markets for identical assets or liabilities;
- *Level two* — Inputs other than level one inputs that are either directly or indirectly observable; and
- *Level three* — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. The Company has one liability measured at fair value on a recurring basis, which are warrants that were issued in connection with private placements of the Company's securities that are discussed more fully in Note 4. As of January 31, 2015 and April 30, 2014, these warrants had an estimated fair value of \$0.6 million and \$2.01 million, respectively, which was calculated by the Monte Carlo simulation valuation method using level three inputs. The Company has no assets that are measured at fair value on a recurring basis and there were no assets or liabilities measured at fair value on a non-recurring basis during the nine months ended January 31, 2015 and 2014.

The following table presents information about our warrants liability, which was our only financial instrument measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of January 31, 2015 and April 30, 2014 (in thousands):

|   |           |
|---|-----------|
| Balance, May 1, 2014                      | \$(2,011) |
| Transfers to (from) Level 3               | -         |
| Total (gains) losses included in earnings | 1,401     |
| Purchases, issuances and settlements, net | -         |
| Balance, January 31, 2015                 | \$(610 )  |

**Note 9. Segment Information**

The Company operates in two reportable segments, POS and TOS. The accounting policies of the Company’s segments are the same as those described in Note 2 of the Company’s annual financial statements for the year ended April 30, 2014, as filed on Form 10-K. The Company evaluates performance of its segments based on profit or loss from operations before stock compensation expense, depreciation and amortization, interest expense, interest income, gain on sale of assets, special charges or benefits, and income taxes (“segment profit”). Management uses segment profit information for internal reporting and control purposes and considers it important in making decisions regarding the allocation of capital and other resources, risk assessment, and employee compensation, among other matters. The following tables summarize, for the periods indicated, operating results by reportable segment (in thousands):

Edgar Filing: CHAMPIONS ONCOLOGY, INC. - Form 10-Q

| Three Months Ended January 31, 2015   | Personalized<br>Oncology<br>Solutions<br>(POS) | Translational<br>Oncology<br>Solutions<br>(TOS) | Unallocated<br>Corporate<br>Overhead | Consolidated |
|---------------------------------------|--|---|--------------------------------------|--------------|
| Net revenue                           | \$ 453   | \$ 1,376  | \$ -                                 | \$ 1,829     |
| Direct cost of services               | (672 )   | (1,300 )  | -                                    | (1,972 )     |
| Sales and marketing costs             | (366 )   | (613 )  | -                                    | (979 )       |
| Other operating expenses              | -  | (1,028 )  | (612 )                               | (1,640 )     |
| Stock- based compensation expense (1) | -  | -   | (657 )                               | (657 )       |
| Segment profit (loss)                 | \$ (585 )                                      | \$ (1,565 )                                     | \$ (1,269 )                          | \$ (3,419 )  |

| Three Months Ended January 31, 2014   | Personalized<br>Oncology<br>Solutions<br>(POS) | Translational<br>Oncology<br>Solutions<br>(TOS) | Unallocated<br>Corporate<br>Overhead | Consolidated |
|---------------------------------------|--|---|--------------------------------------|--------------|
| Net revenue                           | \$ 590   | \$ 3,100  | \$ -                                 | \$ 3,690     |
| Direct cost of services               | (608 )   | (1,007 )  | -                                    | (1,615 )     |
| Sales and marketing costs             | (405 )   | (352 )  | -                                    | (757 )       |
| Other operating expenses              | -  | (531 )  | (1,254 )                             | (1,785 )     |
| Stock- based compensation expense (1) | -  | -   | (941 )                               | (941 )       |
| Segment profit (loss)                 | \$ (423 )                                      | \$ 1,210  | \$ (2,195 )                          | \$ (1,408 )  |

| Nine Months Ended January 31, 2015    | Personalized<br>Oncology<br>Solutions<br>(POS) | Translational<br>Oncology<br>Solutions<br>(TOS) | Unallocated<br>Corporate<br>Overhead | Consolidated |
|---------------------------------------|--|---|--------------------------------------|--------------|
| Net revenue                           | \$ 1,245                                       | \$ 4,377  | \$ -                                 | \$ 5,622     |
| Direct cost of services               | (2,171 )                                       | (3,205 )  | -                                    | (5,376 )     |
| Sales and marketing costs             | (1,243 )                                       | (1,650 )  | -                                    | (2,893 )     |
| Other operating expenses              | -  | (3,490 )  | (2,413 )                             | (5,903 )     |
| Stock- based compensation expense (1) | -  | -   | (2,284 )                             | (2,284 )     |
| Segment profit (loss)                 | \$ (2,169 )                                    | \$ (3,968 )                                     | \$ (4,697 )                          | \$ (10,834 ) |

| Nine Months Ended January 31, 2014    | Personalized<br>Oncology<br>Solutions<br>(POS) | Translational<br>Oncology<br>Solutions<br>(TOS) | Unallocated<br>Corporate<br>Overhead | Consolidated |
|---------------------------------------|--|---|--------------------------------------|--------------|
| Net revenue                           | \$ 1,834                                       | \$ 7,258  | \$ -                                 | \$ 9,092     |
| Direct cost of services               | (2,078 )                                       | (2,572 )  | -                                    | (4,650 )     |
| Sales and marketing costs             | (1,159 )                                       | (812 )  | -                                    | (1,971 )     |
| Other operating expenses              | -  | (1,595 )  | (2,790 )                             | (4,385 )     |
| Stock- based compensation expense (1) | -  | -   | (1,968 )                             | (1,968 )     |

|                       |           |            |           |             |   |
|-----------------------|-----------|------------|-----------|-------------|---|
| Segment profit (loss) | \$ (1,403 | ) \$ 2,279 | \$ (4,758 | ) \$ (3,882 | ) |
|-----------------------|-----------|------------|-----------|-------------|---|

(1) Stock compensation expense is shown separately and is excluded from direct costs of services, sales and marketing costs, and other operating expenses, as it is managed on a consolidated basis and is not used by management to evaluate the performance of its segments.

All of the Company's revenue is recorded in the United States and substantially all of its long-lived assets are in the United States.

#### **Note 10. Subsequent Events**

On February 28, 2015, the Company entered into amendments to the convertible promissory notes issued on December 1, 2014. The amendments extended the maturity dates of the convertible promissory notes to April 1, 2015 (see Note 5).

On March 11, 2015, the Company entered into a 2015 Securities Purchase Agreement (the "2015 Securities Purchase Agreement") with Battery Ventures IX, L.P. and Battery Investment Partners IX, LLC (collectively, "Battery"), New Enterprise Associates 14, Limited Partnership ("NEA"), Joel Ackerman, Chief Executive Officer and a director of the Company ("Ackerman"), Dr. Ronnie Morris, President and a director of the Company ("Morris"), Daniel Mendelson, a director of the Company ("Mendelson") and certain other investors (collectively with Battery, NEA, Ackerman, Morris and Mendelson, the "Investors"), for the sale to the Investors of units, each unit consisting of one share of the Company's Common Stock, par value \$0.001 per share (the "Common Stock") and a warrant to buy 0.55 shares of Common Stock at \$0.48 per share (the "Warrants"), at a purchase price of \$0.40 per unit, for an aggregate of \$14,000,000. The Warrants expire five years after the closing date. Ackerman and Morris converted convertible promissory notes dated December 1, 2014 in the principal amounts of \$1 million each, plus accrued interest, into the units at a 5% discount, pursuant to the terms of the convertible promissory notes.

The Investors have the right to require the Company to repurchase the purchased shares (the "Put Option") for cash for \$0.40 per share upon a change of control or sale or exclusive license of substantially all of the Company's assets only if approved by the Company's board of directors. The Put Option will terminate upon the achievement of certain financial and other milestones.

The Investors have certain participation rights with respect to future financings of the Company. The Company covenanted to register the resale of the shares of Common Stock to be issued to the Investors and the shares of Common Stock issuable upon exercise of the Warrants pursuant to a 2015 Amended and Restated Registration Rights Agreement, to pay certain liquidated damages if the Company fails to file such registration statement by a certain deadline, and to have it declared effective by a certain deadline or keep it effective for a certain period of time.

The issuance of the shares of Common Stock resulted in the Company issuing an additional 1,865,853 shares of Common Stock to investors who purchased shares of Common Stock pursuant to a Securities Purchase Agreement dated as of March 24, 2011 (the "2011 Securities Purchase Agreement") due to contractual antidilution provisions in that 2011 Securities Purchase Agreement. The Company also amended and restated the 2011 Securities Purchase

Agreement to eliminate these antidilution provisions going forward, and conform aspects of the put option in that 2011 Securities Purchase Agreement to terms of the Put Option in the 2015 Securities Purchase Agreement. The Company also issued an additional 1,583,335 warrants to its investors under the 2011 Warrant Agreements under the Securities Purchase Agreement and had its investors agree on certain amendments of the warrants to eliminate the antidilution rights for future transactions, by extending the term of the warrants by one year, and revising the exercise price to \$0.40.

The Company and its investors have amended and restated its Securities Purchase Agreement dated January 28, 2013 (the "2013 Securities Purchase Agreement") to conform aspects of the put option in that 2013 Securities Purchase Agreement to the Put Option in the 2015 Securities Purchase Agreement. The Company issued an additional 1,209,001 warrants to investors under the 2013 Warrant Agreements under the Securities Purchase Agreement and had its investors agree on certain amendments of these warrants issued in connection with the 2013 Securities Purchase Agreement to eliminate the antidilution rights for future transactions, by extending the term of the warrant by one year, revising the exercise price to \$0.40.

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

*The following discussion of our historical results of operations and our liquidity and capital resources should be read in conjunction with the condensed consolidated financial statements and related notes that appear elsewhere in this report and our most recent annual report for the year ended April 30, 2014, as filed on Form 10-K.*

### Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain "forward-looking statements," which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation, and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; expectations that regulatory developments or other matters will not have a material adverse effect on our financial position, results of operations, or liquidity; statements concerning projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, and future economic performance; and statements of management's goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements.

Forward-looking statements speak only as of the date the statements are made. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended April 30, 2014, as updated in our subsequent reports filed with the SEC, including any updates found in Part II, Item 1A of this or other reports on Form 10-Q. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.



## Overview and Recent Developments

Champions Oncology, Inc. is engaged in the development and sale of advanced technology solutions and products to personalize the development and use of oncology drugs. The Company's TumorGraft Technology Platform is a novel approach to personalizing cancer care, based upon the implantation of human tumors in immune-deficient mice. The Company uses this technology, in conjunction with related products, to offer solutions for two customer groups:

Our Personalized Oncology Solutions, or POS, business, which provides services to physicians and patients looking for information to help guide the development of personalized treatment plans.

Our Translational Oncology Solutions, or TOS, business, which provides services to pharmaceutical and biotechnology companies seeking personalized approaches to drug development that will lower costs and increase the speed of developing new drugs, as well as increase the adoption of existing drugs.

We plan to continue our efforts to expand our TumorGraft Technology Platform in order to expand our POS and TOS programs.

## Operating Results

The following table summarizes our operating results for the periods presented below (dollars in thousands):

|  | For the Three Months Ended January 31, |                 |           |                 |             |
|--|--|-----------------|-----------|-----------------|-------------|
|  | 2015                                   | % of<br>Revenue | 2014      | % of<br>Revenue | %<br>Change |
| Operating revenue:                       |  |                 |           |                 |             |
| Personalized oncology solutions          | \$453                                  | 24.8            | % \$590   | 16.0            | % (23.2 )%  |
| Translational oncology solutions         | 1,376                                  | 75.2            | 3,100     | 84.0            | (55.6 )     |
| Total operating revenue                  | 1,829                                  | 100.0           | 3,690     | 100.0           | (50.4 )     |
| Costs and operating expenses:            |  |                 |           |                 |             |
| Cost of personalized oncology solutions  | 674                                    | 36.9            | 614       | 16.6            | 9.8         |
| Cost of translational oncology solutions | 1,301                                  | 71.1            | 1,008     | 27.3            | 29.1        |
| Research and development                 | 1,093                                  | 59.8            | 535       | 14.5            | 104.3       |
| Sales and marketing                      | 1,094                                  | 59.8            | 821       | 22.2            | 33.3        |
| General and administrative               | 1,086                                  | 59.4            | 2,120     | 57.5            | (48.8 )     |
| Total costs and operating expenses       | 5,248                                  | 286.9           | 5,098     | 138.2           | 2.9         |
| Operating loss                           | \$(3,419)                              | (186.9 )%       | \$(1,408) | (38.2 )%        | 142.8       |

|  | For the Nine Months Ended January 31, |                 |           |                 |             |
|--|---------------------------------------|-----------------|-----------|-----------------|-------------|
|  | 2015                                  | % of<br>Revenue | 2014      | % of<br>Revenue | %<br>Change |
| Operating revenue:                       |                                       |                 |           |                 |             |
| Personalized oncology solutions          | \$1,245                               | 22.1            | % \$1,834 | 20.2            | % (32.1 )%  |
| Translational oncology solutions         | 4,377                                 | 77.9            | 7,258     | 79.8            | (39.7 )     |
| Total operating revenue                  | 5,622                                 | 100.0           | 9,092     | 100.0           | (38.2 )     |
| Costs and operating expenses:            |                                       |                 |           |                 |             |
| Cost of personalized oncology solutions  | 2,190                                 | 39.0            | 2,139     | 23.5            | 2.4         |
| Cost of translational oncology solutions | 3,225                                 | 57.4            | 2,585     | 28.4            | 24.8        |
| Research and development                 | 3,757                                 | 66.8            | 1,614     | 17.8            | 132.8       |
| Sales and marketing                      | 3,340                                 | 59.4            | 2,160     | 23.8            | 54.6        |
| General and administrative               | 3,944                                 | 70.2            | 4,476     | 49.3            | (11.9 )     |
| Total costs and operating expenses       | 16,456                                | 292.7           | 12,974    | 142.7           | 26.8        |
| Operating loss                           | \$(10,834)                            | (192.7 )%       | (3,882 )  | (42.7 )%        | 179.1       |

### ***Operating Revenues***

Operating revenues were \$1.8 million and \$3.7 million for the three months ended January 31, 2015 and 2014, respectively, a decrease of \$1.9 million or (50.4)%. Operating revenues were \$5.6 million and \$9.1 million for the

nine months ended January 31, 2015 and 2014, respectively, a decrease of \$3.5 million or (38.2)%.

POS revenues were \$0.5 million and \$0.6 million for the three months ended January 31, 2015 and 2014, respectively, a decrease of \$0.1 million, or (23.2%). Core revenue from its TumorGraft platform decreased \$20,000 or (5%). This decrease is due to a 26% decline in implant revenue resulting from a 26% decline in commercial implant volume. The decline in implant revenue was offset by a 3% increase in panel revenue. Non-core revenue decreased \$116,000 or (63%). POS revenues were \$1.2 million and \$1.8 million for the nine months ended January 31, 2015 and 2014, respectively, a decrease of \$0.6 million, or (32.1%).

TOS revenues were \$1.4 million and \$3.1 million for the three months ended January 31, 2015 and 2014, respectively, a decrease of \$1.7 million, or (55.6%). The decline is largely due to a \$1.9 million licensing agreement signed in the third quarter of 2014 and immediate revenue recognition of \$1.4 million.

TOS revenues were \$4.4 million and \$7.3 million for the nine months ended January 31, 2015 and 2014, respectively, a decrease of \$2.9 million, or (39.7%).

### ***Cost of Personalized Oncology Solutions***

Cost of POS for the three months ended January 31, 2015 and 2014 was \$0.67 million and \$0.61 million, respectively, an increase of \$0.06 million, or 9.8%. Cost of POS for the nine months ended January 31, 2015 and 2014 was \$2.2 million and \$2.1 million, respectively, an increase of \$0.1 million, or 2.4%. For the three months ended January 31, 2015 and 2014, gross margins for POS were (48.8%) and (4.1%), respectively. The decline in gross margin is attributed to the decline in POS revenue and a large fixed cost component to the cost of sales. For the nine months ended January 31, 2015 and 2014, gross margins for POS were (75.9%) and (16.6%), respectively.

### ***Cost of Translational Oncology Solutions***

Cost of TOS for the three months ended January 31, 2015 and 2014 was \$1.3 million and \$1.0 million, respectively, an increase of \$0.3 million, or 29.1%. Cost of TOS for the nine months ended January 31, 2015 and 2014 was \$3.2 million and \$2.6 million, respectively, an increase of \$0.6 million, or 24.8%. For the three months ended January 31, 2015 and 2014, gross margins for TOS were 5.5% and 67.5%, respectively. Gross margin was below usual levels because of an increase in new TOS studies whose revenues will be recognized upon study completion.

For the nine months ended January 31, 2015 and 2014, gross margins for TOS were 26.3% and 64.4%, respectively.

### ***Research and Development***

Research and development expenses for the three months ended January 31, 2015 and 2014 was \$1.1 million and \$0.5 million, respectively, an increase of \$0.6 million, or 104.3%. This increase reflects the Company's commitment to continued investment in expanding and genomic characterizing our TumorBank. Research and development expenses for the nine months ended January 31, 2015 and 2014 was \$3.8 million and \$1.6 million, respectively, an increase of

\$2.2 million, or 132.8%.

### ***Sales and Marketing***

Sales and marketing expenses for the three months ended January 31, 2015 and 2014 were \$1.1 million and \$0.8 million, respectively, an increase of \$0.3 million, or 33%. Sales and marketing expenses for the nine months ended January 31, 2015 and 2014 were \$3.3 million and \$2.2 million, respectively, an increase of \$1.1 million, or 54.5%. The increase is due to the expansion of our TOS business development team.

### ***General and Administrative***

General and administrative expenses for the three months ended January 31, 2015 and 2014 were \$1.1 million and \$2.1 million, respectively, a decrease of \$1.0 million, or (48.9%). The decline is due to the implementation of cost saving measures to reduce the Company's cash burn. Additionally, a one-time charge in stock based compensation expense was taken in the third quarter of 2014. General and administrative expenses for the nine months ended January 31, 2015 and 2014 were \$3.9 million and \$4.5 million, respectively, a decrease of \$0.6 million, or (12%).

### ***Other Income (Expense)***

Other income (expense) for the three months ended January 31, 2015 and 2014 was \$0.6 million and \$0.8 million, a decrease in income of \$0.2 million. Other income (expense) for the nine months ended January 31, 2015 and 2014 was \$1.3 million and (\$1.2) million, a decrease in expense of \$2.5 million. During the three months ended January 31, 2015 and 2014, the Company recognized income of \$0.6 million and \$0.8 million for the change in fair value of warrants that are accounted for as liabilities and are described further below and in Note 8 to our unaudited condensed consolidated financial statements. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise of the warrants, or expiration of the warrants. This change in fair value of warrant liability was a result of revaluing the warrant liability based on the Monte Carlo simulation valuation model, impacted primarily by the quoted price of the Company's common stock. The revaluation of the warrant liability has no impact on our cash balances.

### ***Inflation***

Inflation does not have a meaningful impact on the results of our operations.

### **Liquidity and Capital Resources**

Our liquidity needs have typically arisen from the funding of our research and development programs and the launch of new products, working capital requirements, and other strategic initiatives. In the past, we have met these cash requirements through our sales of products and services, cash and cash equivalents, working capital management, and proceeds from certain private placements of our securities. As of January 31, 2015, we had negative working capital of \$4.7 million and cash and cash equivalents on hand of \$0.2 million.

Our liquidity needs have typically arisen from the funding of our research and development programs and the launch of new products, working capital requirements, and other strategic initiatives. In the past, we have met these cash requirements through our sales of products and services, cash and cash equivalents, working capital management, and proceeds from certain private placements of our securities. As of January 31, 2015, we had negative working capital of \$4.7 million and cash and cash equivalents on hand of \$0.2 million.

On March 11, 2015, (the Company entered into a 2015 Securities Purchase Agreement (the "2015 Securities Purchase Agreement") with related party and non-related party investors for the sale to the investors of units, each unit consisting of one share of the Company's Common Stock, par value \$0.001 per share (the "Common Stock") and a warrant to buy 0.55 shares of Common Stock at \$0.48 per share (the "Warrants"), at a purchase price of \$0.40 per unit, for an aggregate of \$14,000,000. See Note 10 for more detail.

As of March 17, 2015, Management believes that the Company has sufficient cash on hand to continue as a going concern for at least the next 12 months.

### ***Cash Flows***

The following discussion relates to the major components of our cash flows:

*Cash Flows from Operating Activities*

Net cash used in operating activities was \$7.6 million and \$2.5 million for the nine months ended January 31, 2015 and 2014, respectively, an increase of \$5.1 million. These cash flows primarily relate to investment in new senior management personnel, TumorBank development to promote business expansion, stock compensation and gain on fair value of warrants.

*Cash Flows from Investing Activities*

Net cash used in investing activities was \$83 and \$76 for the nine months ended January 31, 2015 and 2014, respectively. These cash flows primarily relate to the purchase of property and equipment.

### *Cash Flows from Financing Activities*

Net cash provided by financing activities was \$2 million and \$9,000 for the nine months ended January 31, 2015 and 2014, respectively. These cash flows primarily relate to the proceeds of note financing.

### **Critical Accounting Estimates and Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to apply methodologies and make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates of the Company include, among other things, accounts receivable realization, revenue recognition (replacement of licensed tumors), valuation allowance for deferred tax assets, valuation of goodwill, and stock compensation and warrant assumptions. Actual results could differ from those estimates. The Company's critical accounting policies are summarized in the Company's Annual Report on Form 10-K, filed with the SEC on July 28, 2014.

### *Off-Balance Sheet Financing*

We have no off-balance sheet debt or similar obligations. We have no transactions or obligations with related parties that are not disclosed, consolidated into or reflected in our reported results of operations or financial position. We do not guarantee any third-party debt.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**



It is management's responsibility to establish and maintain "disclosure controls and procedures" as such term is defined in Rule 13a-15 under the Securities Exchange Act of 1934. Our management, with the participation of our Chief Executive Officer and our Vice President, Finance, have reviewed and evaluated the effectiveness of our disclosure controls and procedures as of a date within ninety (90) days of the filing date of this Form 10-Q quarterly report. Based on that evaluation, our management, including our Chief Executive Officer and our Vice President, Finance, have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Form 10-Q at the reasonable assurance level in ensuring that information required to be disclosed in the reports that we file or submit under the Securities Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and our Vice President, Finance, as appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q 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**

None.

### **Item 1A. Risk Factors**

None.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

No. Exhibit

31.1 8650 Section 302 Certification of Chief Executive Officer

31.2 8650 Section 302 Certification of Vice President, Finance

32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 2015 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets, January 31, 2015 and April 30, 2014, (ii) Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended January 31, 2015 and 2013, (iii) Consolidated Statements of Cash Flows for the nine months ended January 31, 2015 and 2014, and (v)

Notes to Unaudited Condensed Consolidated Financial Statements

**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.

**CHAMPIONS ONCOLOGY,  
INC.**

(Registrant)

Date: March 17, 2015 By: /s/ Joel Ackerman  
Joel Ackerman  
Chief Executive Officer

*(principal executive officer)*

By: /s/ David Miller  
David Miller  
Vice President, Finance

*(principal financial officer)*