CHAMPIONS ONCOLOGY, INC.
Form 10-Q
March 17, 2017

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2017
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 001-11504
CHAMPIONS ONCOLOGY, INC.
(Exact name of registrant as defined in its charter)

Delaware	52-1401755
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One University Plaza, Suite 307 Hackensack, New Jersey	07601
(Address of principal executive offices)	(Zip Code)

(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 þ 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 þ 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 þ
(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 þ

The number of Common Shares of the Registrant outstanding as of March 17, 2017 was 10,978,352.

DOCUMENTS INCORPORATED BY REFERENCE - None

INDEX TO FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2017

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CHAMPIONS ONCOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)

	January 31, 2017 (unaudited)	April 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,488	$ 2,585
Accounts receivable, net	2,026	1,312
Prepaid expenses and other current assets	541	443
Total current assets	6,055	4,340
Restricted cash	150	150
Property and equipment, net	672	618
Goodwill	669	669
Total assets	$ 7,546	$ 5,777
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,324	$ 1,896
Accrued liabilities	327	271
Deferred revenue	3,621	3,139
Total current liabilities	5,272	5,306
Other non-current liabilities	234	233
Total liabilities	5,506	5,539
Stockholders' equity:		
Common stock, $.001 par value; 200,000,000 shares authorized; 11,240,423 and 8,974,531shares issued and 10,970,738 and 8,704,846 shares outstanding as of January 31, 2017 and April 30, 2016, respectively	11	9
Treasury stock, at cost, 269,685 common shares as of January 31, 2017 and April 30, 2016	(1,252)	(1,252)
Additional paid-in capital	70,206	63,947
Accumulated deficit	(66,925)	(62,466)
Total stockholders' equity	2,040	238
Total liabilities and stockholders' equity	$ 7,546	$ 5,777

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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 January 31,		Nine Months Ended January 31,	
	2017	2016	2017	2016
Operating revenue:				
Personalized oncology solutions	$ 347	$ 416	$ 1,354	$ 1,387
Translational oncology solutions	3,218	2,136	10,337	6,958
Total operating revenue	3,565	2,552	11,691	8,345
Costs and operating expenses:				
Cost of personalized oncology solutions	320	479	1,167	1,661
Cost of translational oncology solutions	2,086	1,627	5,965	4,683
Research and development	998	999	3,217	3,018
Sales and marketing	726	779	2,369	2,688
General and administrative	836	1,041	3,393	4,062
Total costs and operating expenses	4,966	4,925	16,111	16,112
Loss from operations	(1,401)	(2,373)	(4,420)	(7,767)
Other (expense):				
Other (expense)	(8)	(8)	(33)	(29)
Total other (expense)	(8)	(8)	(33)	(29)
Loss before provision for income taxes	(1,409)	(2,381)	(4,453)	(7,796)
Provision for income taxes	—	31	7	76
Net loss	$ (1,409)	$ (2,412)	$ (4,460)	$ (7,872)
Net loss per common share outstanding basic and diluted	$ (0.13)	$ (0.28)	$ (0.44)	$ (0.90)
Weighted average common shares outstanding basic and diluted	10,967,738	8,702,237	10,130,460	8,702,237

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

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

	Nine Months Ended January 31,	
	2017	2016
Operating activities:		
Net loss	$(4,460)	$(7,872)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	1,901	2,090
Depreciation expense	127	114
Provision for bad debts	—	33
Issuance of common stock for services	20	—
Changes in operating assets and liabilities:		
Accounts receivable	(714)	(1,078)
Prepaid expenses and other current assets	(98)	(68)
Restricted cash	—	13
Accounts payable	(572)	101
Accrued liabilities	55	(116)
Other non-current liability	20	64
Deferred revenue	483	866
Net cash used in operating activities	(3,238)	(5,853)
Investing activities:		
Purchase of property and equipment	(181)	(176)
Net cash used in investing activities	(181)	(176)
Financing activities:		
Proceeds from June 2016 Public Offering, net of financing costs of $742	4,340	—
Payment of issuance costs related to March 2015 Private Placement	—	(18)
Capital lease payments	(18)	(17)
Net cash provided by/(used in) financing activities	4,322	(35)
Increase/(Decrease) in cash and cash equivalents.	903	(6,064)
Cash and cash equivalents, beginning of period	2,585	9,357
Cash and cash equivalents, end of period	$3,488	$3,293

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 two operating subsidiaries: Champions Oncology (Israel), Limited and Champions Biotechnology U.K., Limited. Champions Oncology Singapore, PTE LTD was closed on November 7, 2016 and had no material operations during the nine months ended January 31, 2017 and year ended April 30, 2016. For the three and nine months ended January 31, 2017 and 2016, 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. 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, 2016, 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, 2016.

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.

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, working capital management, and proceeds from certain private and public offerings of our securities. For the nine months ended January 31, 2017, we had a net loss of $4.5 million and net operating cash outflows of $3.2 million. In addition, as of January 31, 2017, we had positive working capital of $783,000 and cash and cash equivalents on hand of $3.5 million. We have grown our revenues while undertaking significant cost reductions beginning in the fourth quarter of fiscal year 2016, which has reduced our net loss and use of cash in operations for the nine months ended January 31, 2017 compared to the same period in the prior year by $3.4 million and $2.6 million, respectively. For the three months ended January 31, 2017, our net loss and use of cash in operations was approximately $1.4 million and $684,000, respectively. We believe that our cash and cash equivalents on hand at January 31, 2017 are adequate to fund our operations through at least March 2018.

However, in order for us to continue our operations beyond March 2018, we need to continue to increase revenues and generate cost savings from operations. In addition, we may need to obtain capital from external sources. If we are unable to maintain our operating levels and cannot obtain additional financing, we may be required to reduce the scope of, or delay or eliminate, some of our research and development and other activities, which could harm our financial condition and operating results. Financing may not be available on acceptable terms or at all, and our failure to raise capital when needed could negatively impact our growth plans and our financial condition and results of operations.

Reverse Stock Split

On October 15, 2013, the shareholders of the Company authorized our Board of Directors to effect a reverse stock split of all outstanding shares of common stock, warrants and options. The Board of Directors subsequently approved the implementation of a reverse stock split at a ratio of one-for-twelve shares, which became effective on August 12, 2015. All share and per share data relating to January 31, 2016 in these condensed consolidated financial statements and related notes hereto have been adjusted to account for the effect of the reverse stock split.

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 common stock purchase warrants and stock options. For the three and nine months ended January 31, 2017 and 2016, basic and dilutive loss per share were the same, as the potentially dilutive securities did not have a dilutive effect.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2017	2016	2017	2016
Basic and diluted net loss per share computation:				
Net loss attributable to common stockholders	$(1,408,904)	$(2,412,381)	$(4,459,773)	$(7,872,115)
Weighted Average common shares – basic	10,967,738	8,702,237	10,130,460	8,702,237
Basic and diluted net loss per share	$(0.13)	$(0.28)	$(0.44)	$(0.90)

The following table reflects the total potential share-based instruments outstanding at January 31, 2017 and 2016 that could have an effect on the future computation of dilution per common share:

	January 31,	
	2017	2016
Stock options	2,308,704	2,212,571
Warrants	2,109,840	2,109,840
Total common stock equivalents	4,418,544	4,322,411

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. In assessing the realizability of deferred tax assets, the Company assesses the likelihood that deferred tax assets will be recovered through tax planning strategies or from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, a valuation allowance is established. The Company adjusts the valuation allowance in the period management determines it is more likely than not that net deferred tax assets will or will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. As of January 31, 2017 and 2016, the Company provided a valuation allowance for all net deferred tax assets, as recovery is not more likely than not based on an insufficient history of earnings.

Tax positions are positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the consolidated financial statements. Tax positions include, but are not limited to, the following:

- An allocation or shift of income between taxing jurisdictions;
- The characterization of income or a decision to exclude reportable taxable income in a tax return; or
- A decision to classify a transaction, entity or other position in a tax return as tax exempt.

The Company reflects tax benefits only if it is more likely than not that we will be able to sustain the tax position, based on its technical merits. If a tax benefit meets this criterion, it is measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. The Company has recorded $185,000 and $165,000 of liabilities related to uncertain tax positions relative to one of its foreign operations as of January 31, 2017 and April 30, 2016, respectively.

The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on the Company’s balance sheets at January 31, 2017 and April 30, 2016, and has not recognized interest and/or penalties in the statement of operations for either period. We do not anticipate any significant unrecognized tax benefits will be recorded during the next 12 months.

The income tax provision for the nine months ended January 31, 2017 and 2016 was $7,000 and $76,000, respectively.

Note 2. Property and Equipment

Property and equipment is recorded at cost and primarily consists of laboratory equipment, leasehold improvements, furniture and fixtures, and computer equipment and software. Depreciation and amortization 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 (table in thousands):

	January 31, 2017 (unaudited)	April 30, 2016
Furniture and fixtures	$ 74	$ 73
Computer equipment and software	857	715
Laboratory equipment	820	782
Leasehold improvements	2	2
Total property and equipment	1,753	1,572
Less: Accumulated depreciation	(1,081)	(954)
Property and equipment, net	$ 672	$ 618

Depreciation and amortization expense, excluding expense recorded under capital lease, was $34,000 and $31,000 for the three months ended January 31, 2017 and 2016, respectively, and $108,000 and $95,000 for the nine months ended January 31, 2017 and 2016, respectively. As of January 31, 2017 and April 30, 2016, property, plant and equipment included assets held under capital lease of $124,000. Related depreciation expense was $6,000 and $6,000, respectively, for the three months ended January 31, 2017 and 2016, and $19,000 and $19,000 for the nine months ended January 31, 2017 and 2016, respectively.

Capital Lease

In November 2014, the Company entered into a capital lease for laboratory equipment. The lease has costs of approximately $149,000 and matures on November 2019. The current monthly capital lease payment is approximately $3,000.

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, 2017 (table in thousands):

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For the Years Ended April 30,	Total
2017 (remaining)	$6
2018	25
2019	27
2020	16
Total minimum payments	74
Less: amount representing interest	(6)
Present value of minimum payments	68
Less: current portion	(25)
	$43

The present value of minimum future obligations shown above is calculated based on an interest rate of 5%. The short-term and long-term components of the capital lease obligation are included in accrued liabilities and other non-current liabilities, respectively at January 31, 2017 and April 30, 2016.

Note 3. 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 $237,000 and $567,000 was recognized for the three months ended January 31, 2017 and 2016, respectively, and $1.9 million and $2.1 million for the nine months ended January 31, 2017 and 2016, respectively. Stock-based compensation expense was recognized as follows (table in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2017	2016	2017	2016
General and administrative	$184	$488	$1,482	$1,600
Sales and marketing	7	27	194	173
Research and development	44	49	174	262
TOS cost of sales	2	2	49	28
POS cost of sales	—	1	2	27
Total stock-based compensation expense	$237	$567	$1,901	$2,090

Stock Option Grants

Black-Scholes assumptions used to calculate the fair value of options granted during the three and nine months ended January 31, 2017 and 2016 were as follows:

	Three Months Ended January 31,	Nine Months Ended January 31,

	2017	2016	2017	2016
Expected term in years	3	2.5 - 6	3 - 6	2.5 - 6
Risk-free interest rates	0.59% - 1.90%	0.995% - 1.75%	0.59% - 1.90%	0.995% - 1.77%
Volatility	72.12% - 87.96%	82.72% - 91.98%	72.12% - 87.96%	82.72% - 92.32%
Dividend yield	—%	—%	—%	—%

The weighted average fair value of stock options granted during the three months ended January 31, 2017 and 2016 was $1.35 and $3.12, respectively. The weighted average fair value of stock options granted during the nine months ended January 31, 2017 and 2016 was $1.71 and $3.6, respectively. The Company’s stock options activity for the nine months ended January 31, 2017 was as follows:

	Non-Employees	Directors and Employees	Total	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, May 1, 2016	51,250	2,161,507	2,212,757	$ 5.58	6.1	$10,000
Granted	—	2,420,681	2,420,681	1.99	7.0	6,688,000
Exercised	—	—	—	—		
Forfeited	—	(421,487)	(421,487)	2.03		
Canceled	—	(1,793,779)	(1,793,779)	4.92		
Expired	(1,250)	(108,218)	(109,468)	7.86		
Outstanding, January 31, 2017	50,000	2,258,704	2,308,704	2.76	6.6	$6,201,000
Vested and expected to vest as of January 31, 2017	50,000	2,258,704	2,308,704	2.76	6.6	$6,201,000
Exercisable as of January 31, 2017	33,336	1,954,383	1,987,719	2.97	6.0	$4,672,000

Included in the forfeited balance in the table above are 203,043 options (which vest based on performance criteria) granted to each of the Company’s Chief Executive Officer and its President as of November 5, 2013 as part of their employment agreements. Performance-based options are expensed on an accelerated basis once the Company determines it is probable that the performance-based conditions will be met. It was determined the performance conditions will not be set and as such the 203,043 options have been forfeited. Additionally, included in the forfeited balance in the table above are 209,383 options which were granted to the previous CEO as part of his yearly compensation beginning in November 2016. The CEO has transitioned to Chairman of the Board of Directors as of January 31, 2017.

On July 21, 2016, the Company and certain members of its senior management team agreed to exchange existing options to purchase shares of the Company's common stock with new options. The new options have a lower exercise price for fewer shares and have the same vesting schedules and the same termination expiration dates as the existing options. The Company used the Black Scholes valuation method to determine if the modification created additional stock option expense. As a result of the option exchange, an aggregate of 1,793,781 existing options with exercise prices ranging from $4.55 to $6.96 per share were exchanged for an aggregate of 1,568,191 new options with exercise prices of $2.10 per share. Due to the modification the Company had an additional stock option expense of $414,756, $330,945 of which was recognized in the first quarter ended July 31, 2016, 38,590 which was recognized in the second quarter ended October 31, 2016, $3,289 which was recognized in the third quarter ended January 31, 2017 and $41,932 of which will be recognized over the next year and a half as the options continue to vest.

Stock Purchase Warrants

As of January 31, 2017 and April 30, 2016, the Company had warrants outstanding for the purchase of 2,109,840 shares of its common stock, all of which were exercisable. Activity related to these warrants, which expire at various dates through March 2020, is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, May 1, 2016	2,109,840	$ 5.54	3.6	$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
Outstanding, January 31, 2017	2,109,840	$ 5.54	2.9	$ —

Note 4. Common Stock

On June 15, 2016, the Company closed a public offering ("The June 2016 Public Offering") of 2,000,000 registered shares of its common stock, par value $0.001 per share, at an offering price of $2.25 per share. In addition, the underwriter exercised a partial exercise of the over-allotment option granted to the underwriter to purchase an additional 258,749 shares of its common stock at the public offering price. All of the shares have been offered by the Company.

The net proceeds from The June 2016 Public Offering, including the partial exercise of the over-allotment option, was $4.3 million, after deducting the underwriting discount and offering-related expenses of $742,000. The Company intends to use the net proceeds of this offering for research and development to grow the TumorGraft platform, and the balance of the net proceeds for working capital and general corporate purposes.

The Company issued 3,247 shares valued at $11,852 on January 24, 2017 and 3,896 shares valued at $8,688 on July 6, 2016 of common stock in relation to consulting services.

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, 2017 and 2016, the Company paid a member of its Board of Directors $54,000 and $54,000, respectively, for consulting services unrelated to his duties as a board member. During the nine months ended January 31, 2017 and 2016, the Company paid an affiliate of a board member $22,000 and $8,800, respectively, for consulting services unrelated to their duties as board members. In addition, the Company issued 45,000 stock options to a member of its Board of Directors with a fair value of $94,132 for consulting services unrelated to his duties as a board member. All of the amounts paid to these related parties have been recognized and expensed in the period the services were performed. As of January 31, 2017, no amounts were due to these related parties.

Note 6. Commitments and Contingencies

Operating Leases

The Company currently leases its office facilities. Rent expenses totaled $297,000 and $216,000 for the nine months ended January 31, 2017 and 2016, respectively. The Company considers its facilities adequate for our current operational needs.

The Company leases 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 2021. The Company recognized $64,000 of rental costs relative to this lease for each of the nine months ended January 31, 2017 and 2016, 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 December 2017. The Company recognized $78,000 and $65,000 of rental costs relative to this lease for the nine months ended January 31, 2017 and 2016, respectively.

- 450 East 29th Street, New York, New York, 10016, which is a laboratory at which we implant tumors. The Company recognized $155,000 and $87,000 of rental expense for the nine months ended January 31, 2017 and 2016, respectively. The lease expires in May 2017 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 March 2015 Private Placement and is discussed more fully in Note 7 in the Company's Form 10-K for the fiscal year ended April 30, 2016. 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 has not accrued any liquidated damages associated with the Amended and Restated Registration Right Agreement as the Company has filed the required registration statement and anticipates continued compliance with the agreement.

Note 7. Teva Agreement

On July 30, 2013, the Company entered into an agreement with Teva Pharmaceutical Industries Ltd. ("Teva"), 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 nine months ended January 31, 2017 and 2016, was $42,000 and $48,000, respectively. This agreement has been terminated and all work relating to the upfront payment has been completed.

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 currently has no assets or liabilities measured at fair value on a recurring basis.

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, 2016, 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 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 (table in thousands):

Three months ended January 31, 2017	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 347	$ 3,218	$ —	$ 3,565
Direct cost of services	(320)	(2,084)	—	(2,404)
Sales and marketing costs	(128)	(591)	—	(719)
Other operating expenses	—	(953)	(653)	(1,606)
Stock- based compensation expense (1)	—	—	(237)	(237)
Segment profit (loss)	$ (101)	$ (410)	$ (890)	$ (1,401)

Three months ended January 31, 2016	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 416	$ 2,136	$ —	$ 2,552
Direct cost of services	(479)	(1,624)	—	(2,103)
Sales and marketing costs	(183)	(569)	—	(752)
Other operating expenses	—	(950)	(553)	(1,503)
Stock- based compensation expense (1)	—	—	(567)	(567)
Segment profit (loss)	$ (246)	$ (1,007)	$ (1,120)	$ (2,373)

Nine Months Ended January 31, 2017	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 1,354	$ 10,337	$ —	$ 11,691
Direct cost of services	(1,165)	(5,916)	—	(7,081)
Sales and marketing costs	(397)	(1,778)	—	(2,175)
Other operating expenses	—	(3,043)	(1,911)	(4,954)
Stock- based compensation expense (1)	—	—	(1,901)	(1,901)
Segment profit (loss)	$ (208)	$ (400)	$ (3,812)	$ (4,420)

Nine Months Ended January 31, 2016	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 1,387	$ 6,958	$ —	$ 8,345
Direct cost of services	(1,634)	(4,654)	—	(6,288)
Sales and marketing costs	(716)	(1,800)	—	(2,516)
Other operating expenses	—	(2,755)	(2,463)	(5,218)
Stock- based compensation expense (1)	—	—	(2,090)	(2,090)
Segment profit (loss)	$ (963)	$ (2,251)	$ (4,553)	$ (7,767)

(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. See Note 3 for the allocation of stock compensation expense relative to the individual line items as it is reported on the Company's Consolidated Statements of Operations.

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.

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, 2016, as filed on Form 10-K.

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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," "future," "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, 2016, 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

We are engaged in the development and sale of advanced technology solutions and products utilized in the development and use of oncology drugs. Utilizing our TumorGraft Technology Platform, we provide select services to pharmaceutical and biotechnology companies seeking personalized approaches to drug development. By performing studies to predict the efficacy of oncology drugs, our Platform facilitates drug discovery with lower costs and increased speed of drug development as well as increased adoption of existing drugs.

Our platform provides a novel approach to simulating the results of human clinical trials used in developing oncology drugs. According to a 2013 study conducted by Cutting Edge Information, it can cost up to $100,000 per patient in oncology clinical trials and the typical cost for each phase of development per year increases from approximately $3 million in the pre-clinical setting to approximately $150 million in phase III. Simulating trials before executing them provides benefits to both pharmaceutical companies and patients. Pharmaceutical companies can lower the risk of spending resources on drugs that do not show significant anti-cancer activities and increase the chance that the clinical development path they pursue will be focused on an appropriate patient population and a successful combination with other drugs.

We plan to continue our efforts to expand our TumorGraft Technology Platform in order to expand our TOS program. Our POS program will not be the focus of our growth moving forward.

On June 15, 2016, the Company closed a public offering of 2,000,000 registered shares of its common stock, par value $0.001 per share, at an offering price of $2.25 per share. In addition, the underwriter exercised a partial exercise of the over-allotment option granted to the underwriter to purchase an additional 258,749 shares of its common stock at the public offering price. The net proceeds of the offering, including the partial exercise of the over-allotment option, was $4.3 million, after deducting the underwriting discount and offering-related expenses of $742,000.

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, working capital management, and proceeds from certain private and public offerings of our securities. For the nine months ended January 31, 2017, we had a net loss of $4.5 million and net operating cash outflows of $3.2 million. In addition, as of January 31, 2017, we had positive working capital of $783,000 and cash and cash equivalents on hand of $3.5 million. We have grown our revenues while undertaking significant cost reductions beginning in the fourth quarter of fiscal year 2016, which has reduced our net loss and use of cash in operations for the nine months ended January 31, 2017 compared to the same period in the prior year by $3.4 million and $2.6 million, respectively. For the three months ended January 31, 2017, our net loss and use of cash in operations was approximately $1.4 million and $684,000, respectively. We believe that our cash and cash equivalents on hand at January 31, 2017 are adequate to fund our operations through at least March 2018.

However, in order for us to continue our operations beyond March 2018, we need to continue to increase revenues and generate cost savings from operations. In addition, we may need to obtain capital from external sources. If we are unable to maintain our operating levels and cannot obtain additional financing, we may be required to reduce the scope of, or delay or eliminate, some of our research and development and other activities, which could harm our financial condition and operating results. Financing may not be available on acceptable terms or at all, and our failure to raise capital when needed could negatively impact our growth plans and our financial condition and results of operations. Additional equity financing may be dilutive to the holders of our common stock and debt financing, if available, may involve significant cash payment obligations and covenants and/or financial ratios that could restrict our ability to operate our business.

Operating Results

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

	For the Three Months Ended January 31,				
	2017	% of Revenue	2016	% of Revenue	% Change
Operating revenue:					
Personalized oncology solutions	$347	9.7 %	$416	16.3 %	(16.6)%
Translational oncology solutions	3,218	90.3	2,136	83.7	50.7
Total operating revenue	3,565	100.0	2,552	100.0	39.7
Costs and operating expenses:					
Cost of personalized oncology solutions	320	9.0	479	18.8	(33.2)
Cost of translational oncology solutions	2,086	58.5	1,627	63.8	28.2
Research and development	998	28.0	999	39.1	(0.1)
Sales and marketing	726	20.4	779	30.5	(6.8)
General and administrative	836	23.5	1,041	40.8	(19.7)
Total costs and operating expenses	4,966	139.4	4,925	193.0	0.8
Loss from operations	$(1,401)	(39.4)%	$(2,373)	(93.0)%	(41.0)%

	For the Nine Months Ended January 31,				
	2017	% of Revenue	2016	% of Revenue	% Change
Operating revenue:					
Personalized oncology solutions	$1,354	11.6 %	$1,387	16.6 %	(2.4)%
Translational oncology solutions	10,337	88.4	6,958	83.4	48.6
Total operating revenue	11,691	100.0	8,345	100.0	40.1
Costs and operating expenses:					
Cost of personalized oncology solutions	1,167	10.0	1,661	19.9	(29.7)
Cost of translational oncology solutions	5,965	51.0	4,683	56.1	27.4
Research and development	3,217	27.5	3,018	36.2	6.6
Sales and marketing	2,369	20.3	2,688	32.2	(11.9)
General and administrative	3,393	29.0	4,062	48.7	(16.5)
Total costs and operating expenses	16,111	137.8	16,112	193.1	—
Loss from operations	$(4,420)	(37.8)%	$(7,767)	(93.1)%	(43.1)%

Operating Revenues

Operating revenues were $3.6 million and $2.6 million for the three months ended January 31, 2017 and 2016, respectively, an increase of $1.0 million or 39.7%. Operating revenues were $11.7 million and $8.3 million for the nine months ended January 31, 2017 and 2016, respectively, an increase of $3.4 million or 40.1%.

POS revenues were $347,000 and $416,000 for the three months ended January 31, 2017 and 2016, respectively, a decrease of $69,000, or (16.6%). POS revenues were $1.35 million and $1.39 million for the nine months ended January 31, 2017 and 2016, respectively, a decrease of $40,000 or (2.4%). The decrease is due mainly to a decrease in sequencing revenue of $63,000.

TOS revenues were $3.2 million and $2.1 million for the three months ended January 31, 2017 and 2016, respectively, an increase of $1.1 million, or 50.7%. TOS revenues were $10.3 million and $7.0 million for the nine months ended January 31, 2017 and 2016, respectively, an increase of $3.3 million or 48.6%. The increase is due to bookings growth in prior quarters, both in number and size of the studies.

Cost of Personalized Oncology Solutions

Cost of POS for the three months ended January 31, 2017 and 2016 were $320,000 and $479,000, respectively, a decrease of $159,000, or (33.2%). Cost of POS for the nine months ended January 31, 2017 and 2016 was $1.2 million and $1.7 million, respectively, a decrease of $500,000 or (29.7%). For the three months ended January 31, 2017 and 2016, gross margins for POS were 7.8% and (15.1%), respectively. For the nine months ended January 31, 2017 and 2016, gross margins for POS were 13.8% and (19.8%), respectively. The improvement in gross margin is attributed to the increase in higher margin sequencing revenue and aggressively managing our lab costs.

Cost of Translational Oncology Solutions

Cost of TOS for the three months ended January 31, 2017 and 2016 were $2.1 million and $1.6 million, respectively, an increase of $500,000, or 28.2%. Cost of TOS for the nine months ended January 31, 2017 and 2016 was $6.0 million and $4.7 million, respectively, an increase of $1.3 million, or 27.4%. The increase in cost was due to an increase in the number of TOS studies. For the three months ended January 31, 2017 and 2016, gross margins for TOS were 35.2% and 23.8%, respectively. For the nine months ended January 31, 2017 and 2016, gross margins for TOS were 42.3% and 32.7%, respectively. Gross margins vary quarterly based on timing differences between expense and revenue recognition. The improvement in gross margin was due to higher TOS revenue leveraged off the fixed cost component of the lab and effective management of the variable lab costs.

Research and Development

Research and development expenses for both the three months ended January 31, 2017 and 2016 were $1 million. Research and development expenses for the nine months ended January 31, 2017 and 2016 was $3.2 million and $3.0 million, respectively, an increase of $200,000 or 6.6%. The increase is primarily due to an increase in salary expense. Research and development is focused on the development and expansion of our TumorGraft Technology Platform. We build our platform primarily through research collaborations and relationships with medical centers and academic institutions.

Sales and Marketing

Sales and marketing expenses for the three months ended January 31, 2017 and 2016 were $726,000 and $779,000, respectively, a decrease of $53,000, or (6.8%). Sales and marketing expenses for the nine months ended January 31, 2017 and 2016 was $2.4 million and $2.7 million, respectively, a decrease of $300,000 or (11.9%). The decrease is due to the consolidation of the sales and marketing resources of the POS and TOS division, including combining both under one commercial business leader.

General and Administrative

General and administrative expenses for the three months ended January 31, 2017 and 2016 were $836,000 and $1 million, respectively, a decrease of $164,000, or (19.7%). General and administrative expenses for the nine months ended January 31, 2017 and 2016 were $3.4 million and $4.1 million, respectively, a decrease of $700,000 or (16.5%). The decrease in both the three and nine months ended January 31, 2017 is primarily due to a decrease in stock compensation expense.

Inflation

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

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 $3.2 million and $5.9 million for the nine months ended January 31, 2017 and 2016, respectively. The reduction in cash burn is the result of revenue growth and aggressive expense management.

Cash Flows from Investing Activities

Net cash used in investing activities was $181,000 and $176,000 for the nine months ended January 31, 2017 and 2016, respectively. These cash outflows primarily relate to the purchase of property and equipment.

Cash Flows from Financing Activities

Net cash provided by/(used in) financing activities was $4.3 million and ($35,000) for the nine months ended January 31, 2017 and 2016, respectively. The cash inflows in 2016 relate to The June 2016 Public Offering discussed in Note 4 above.

Critical Accounting Estimates and Policies

The preparation of these condensed consolidated 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 29, 2016.

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 to smaller reporting companies.

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(e) 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 the end of the period covered by this 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 January 31, 2017 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) 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

We may not be able to meet our cash requirements beyond March 2018 without reducing the scope of our activities or obtaining additional capital from external sources, and if we are unable to do so, we may not be able to continue as a going concern.

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, working capital management, and proceeds from certain private and public offerings of our securities. For the nine months ended January 31, 2017, we had a net loss of $4.5 million and net operating cash outflows of $3.2 million. In addition, as of January 31, 2017, we had positive working capital of $783,000 and cash and cash equivalents on hand of $3.5 million. We have grown our revenues while undertaking significant cost reductions beginning in the fourth quarter of fiscal year 2016, which has reduced our net loss and use of cash in operations for the nine months ended January 31, 2017 compared to the same period in the prior year by $3.4 million and $2.6 million, respectively. For the three months ended January 31, 2017, our net loss and use of cash in operations was approximately $1.4 million and $684,000, respectively. We believe that our cash and cash equivalents on hand at January 31, 2017 are adequate to fund our operations through at least March 2018.

However, in order for us to continue our operations beyond March 2018, we need to continue to increase revenues and generate cost savings from operations. In addition, we may need to obtain capital from external sources. If we are unable to maintain our operating levels and cannot obtain additional financing, we may be required to reduce the scope of, or delay or eliminate, some of our research and development and other activities, which could harm our financial condition and operating results. Financing may not be available on acceptable terms or at all, and our failure to raise capital when needed could negatively impact our growth plans and our financial condition and results of operations. Additional equity financing may be dilutive to the holders of our common stock and debt financing, if available, may involve significant cash payment obligations and covenants and/or financial ratios that could restrict our ability to operate our business.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

No.	Exhibit
31.1*	8650 Section 302 Certification of Principal Executive Officer
31.2*	8650 Section 302 Certification of Principal Financial Officer
32.1**	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* filed herewith
** furnished 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.

CHAMPIONS ONCOLOGY, INC.
(Registrant)

Date: March 17, 2017 By: /s/ Ronnie Morris
Ronnie Morris
Chief Executive Officer
(principal executive officer)

Date: March 17, 2017 By: /s/ David Miller
David Miller
Vice President, Finance
(principal financial and accounting officer)