

CHAMPIONS ONCOLOGY, INC.

Form 10-Q

December 17, 2018

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 October 31, 2018

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

(State or other jurisdiction of  
incorporation or organization)

52-1401755

(I.R.S. Employer  
Identification No.)

One University Plaza, Suite 307

Hackensack, New Jersey

(Address of principal executive offices)

07601

(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 ☒ 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 ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of Common Shares of the Registrant outstanding as of December 12, 2018 was 11,474,805.

---

DOCUMENTS INCORPORATED BY REFERENCE - None

---

INDEX TO FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2018

PART I - FINANCIAL INFORMATION

|         |   |           |
|---------|---|-----------|
| Item 1. | <u>Financial Statements.</u>  |           |
|         | <u>Condensed Consolidated Balance Sheets as of October 31, 2018 (unaudited) and April 30, 2018</u>                            | <u>4</u>  |
|         | <u>Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended October 31, 2018 and 2017</u> | <u>5</u>  |
|         | <u>Condensed Consolidated Statement of Changes in Stockholders' Equity as of October 31, 2018 (unaudited)</u>                 | <u>6</u>  |
|         | <u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended October 31, 2018 and 2017</u>           | <u>7</u>  |
|         | <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>   | <u>8</u>  |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                  | <u>18</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>22</u> |
| Item 4. | <u>Controls and Procedures</u>  | <u>22</u> |

PART II - OTHER INFORMATION

|          |  |           |
|----------|--|-----------|
| Item 1.  | <u>Legal Proceedings</u>   | <u>23</u> |
| Item 1A. | <u>Risk Factors</u>  | <u>23</u> |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>23</u> |
| Item 3.  | <u>Defaults Upon Senior Securities</u>                             | <u>23</u> |
| Item 4.  | <u>Mine Safety Disclosures</u>                                     | <u>23</u> |
| Item 5.  | <u>Other Information</u>   | <u>23</u> |
| Item 6.  | <u>Exhibits</u>  | <u>24</u> |

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

CHAMPIONS ONCOLOGY, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Dollars in Thousands)

|  | October 31,<br>2018 | April 30,<br>2018<br>(unaudited) |
|--|---------------------|----------------------------------|
| <b>ASSETS</b>  |                     |                                  |
| Current assets:  |                     |                                  |
| Cash   | \$ 1,956            | \$ 856                           |
| Accounts receivable, net   | 4,703               | 3,917                            |
| Prepaid expenses and other current assets  | 262                 | 287                              |
| Total current assets   | 6,921               | 5,060                            |
| Restricted cash  | —                   | 150                              |
| Property and equipment, net  | 2,535               | 2,083                            |
| Other long term assets   | 114                 | 116                              |
| Goodwill   | 669                 | 669                              |
| Total assets   | \$ 10,239           | \$ 8,078                         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                     |                                  |
| Current liabilities:   |                     |                                  |
| Accounts payable   | \$ 2,021            | \$ 2,154                         |
| Accrued liabilities  | 341                 | 569                              |
| Current portion of capital lease   | 142                 | 26                               |
| Deferred revenue   | 4,828               | 4,704                            |
| Total current liabilities  | 7,332               | 7,453                            |
| Deferred rent  | 669                 | 454                              |
| Capital lease, net of current portion  | 95                  | 17                               |
| Other non-current liabilities  | 151                 | 151                              |
| Total liabilities  | \$ 8,247            | \$ 8,075                         |
| Stockholders' equity:  |                     |                                  |
| Common stock, \$.001 par value; 200,000,000 shares authorized; 11,474,805 and 11,277,675 shares issued and 11,474,805 and 11,003,228 shares outstanding as of October 31 2018 and April 30, 2018, respectively | 11                  | 11                               |
| Treasury stock, at cost, nil and 269,685 common shares as of October 31, 2018 and April 30, 2018   | —                   | (1,252 )                         |

|  |           |          |
|--|-----------|----------|
| Additional paid-in capital                 | 72,057    | 72,070   |
| Accumulated deficit                        | (70,076)  | (70,826) |
| Total stockholders' equity                 | 1,992     | 3        |
| Total liabilities and stockholders' equity | \$ 10,239 | \$ 8,078 |

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<br>Ended<br>October 31, |            | Six Months Ended<br>October 31, |            |
|---|--------------------------------------|------------|---------------------------------|------------|
|   | 2018                                 | 2017       | 2018                            | 2017       |
| Operating revenue:                              |                                      |            |                                 |            |
| Total operating revenue                         | \$6,693                              | \$ 5,203   | \$12,919                        | \$ 10,237  |
| Costs and operating expenses:                   |                                      |            |                                 |            |
| Cost of oncology solutions                      | 3,451                                | 2,653      | 6,533                           | 5,294      |
| Research and development                        | 1,193                                | 1,115      | 2,282                           | 2,233      |
| Sales and marketing                             | 740                                  | 551        | 1,259                           | 1,235      |
| General and administrative                      | 1,034                                | 954        | 2,088                           | 2,164      |
| Total costs and operating expenses              | 6,418                                | 5,273      | 12,162                          | 10,926     |
| Income (loss) from operations                   | 275                                  | (70 )      | 757                             | (689 )     |
| Other expense:                                  |                                      |            |                                 |            |
| Other expense                                   | (7 )                                 | (13 )      | (6 )                            | (64 )      |
| Total other expense                             | (7 )                                 | (13 )      | (6 )                            | (64 )      |
| Income (loss) before provision for income taxes | 268                                  | (83 )      | 751                             | (753 )     |
| Provision for income taxes                      | 1                                    | 11         | 1                               | 15         |
| Net income (loss)                               | \$267                                | \$ (94 )   | \$750                           | \$ (768 )  |
| Net income (loss) per common share outstanding  |                                      |            |                                 |            |
| basic   | \$0.02                               | \$ (0.01 ) | \$0.07                          | \$ (0.07 ) |
| and diluted                                     | \$0.02                               | \$ (0.01 ) | \$0.06                          | \$ (0.07 ) |
| Weighted average common shares outstanding      |                                      |            |                                 |            |
| basic   | 11,278,311                           | 10,988,321 | 11,135,358                      | 10,984,703 |
| and diluted                                     | 14,037,090                           | 10,988,321 | 13,491,502                      | 10,984,703 |

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

## CHAMPIONS ONCOLOGY, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Thousands)

|   | Common Stock |        | Treasury Stock |           | Additional         | Accumulated | Total                   |
|---|--------------|--------|----------------|-----------|--------------------|-------------|-------------------------|
|   | Shares       | Amount | Shares         | Amount    | Paid-in<br>Capital | Deficit     | Stockholders'<br>Equity |
| Balance, May 1, 2018  | 11,003,228   | \$ 11  | 269,685        | \$(1,252) | \$ 72,070          | \$(70,826 ) | \$ 3                    |
| Stock-based compensation  | —            | —      | —              | —         | 75                 | —           | 75                      |
| Issuance of common stock for services                                 | 4,762        | —      | —              | —         | —                  | —           | —                       |
| Issuance of common stock on exercise<br>of stock options              | 20,000       | —      | —              | —         | 42                 | —           | 42                      |
| Net income  | —            | —      | —              | —         | —                  | 483         | 483                     |
| Balance, July 31, 2018  | 11,027,990   | \$ 11  | 269,685        | \$(1,252) | \$ 72,187          | \$(70,343 ) | \$ 603                  |
| Stock-based compensation and<br>modification expense                  | —            | —      | —              | —         | 88                 | —           | 88                      |
| Issuance of common stock on exercise<br>of stock options and warrants | 446,815      | —      | (269,685)      | 1,252     | (218 )             | —           | 1,034                   |
| Net income  | —            | —      | —              | —         | —                  | 267         | 267                     |
| Balance, October 31, 2018   | 11,474,805   | \$ 11  | —              | \$—       | \$ 72,057          | \$(70,076 ) | \$ 1,992                |

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)

|  | Six Months<br>Ended<br>October 31,<br>2018      2017 |         |
|--|--|---------|
| Operating activities:  |  |         |
| Net income (loss)  | \$750  | \$(768) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |  |         |
| Stock-based compensation and modification expense  | 163  | 711     |
| Issuance of common stock for services  | 8  | 30      |
| Depreciation and amortization expense  | 269  | 132     |
| Allowance for doubtful accounts  | —  | (41 )   |
| Deferred rent  | 216  | 151     |
| Changes in operating assets and liabilities:   |  |         |
| Accounts receivable  | (786 )   | (263 )  |
| Prepaid expenses and other current assets  | 25   | (3 )    |
| Accounts payable   | (141 )   | (303 )  |
| Accrued liabilities  | (228 )   | (295 )  |
| Deferred revenue   | 124  | (1,031) |
| Net cash provided by (used in) operating activities  | 400  | (1,680) |
| Investing activities:  |  |         |
| Purchase of property and equipment   | (486 )   | (942 )  |
| Net cash used in investing activities  | (486 )   | (942 )  |
| Financing activities:  |  |         |
| Proceeds from exercise of options  | 1,076  | —       |
| Capital lease payments   | (40 )  | (13 )   |
| Net cash provided by (used in) financing activities  | 1,036  | (13 )   |
| Increase/(decrease) in cash and restricted cash  | 950  | (2,635) |
| Cash and restricted cash at beginning of period  | 1,006  | 3,295   |
| Cash and restricted cash at end of period  | \$1,956  | \$660   |
| Non-cash investing activities:   |  |         |
| Purchase equipment under capital lease   | 235  | —       |

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 an end-to-end range of research and development technology solutions and services to improve 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: Translational Oncology Solutions (“TOS”) and Personalized Oncology Solutions (“POS”). 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. 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 has two operating subsidiaries: Champions Oncology (Israel), Limited and Champions Biotechnology U.K., Limited. For the three and six months ended October 31, 2018 and 2017, there were no 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, 2018, 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, 2018.

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. The Company has reclassified prior year amounts to conform to the current year presentation.

Cash, Cash Equivalents and Restricted Cash

The Company considers only those investments which are highly liquid, readily convertible to cash, and that mature within three months from date of purchase to be cash equivalents. At October 31, 2018 and April 30, 2018, cash equivalents were nil. Restricted cash as of October 31, 2018 and April 30, 2018 was nil and \$150,000, respectively, which is classified as a non-current asset on the consolidated balance sheets. This restricted cash served primarily as collateral for corporate credit cards to provide financial assurance that the Company will fulfill its obligations. The cash was held in custody by the issuing bank, was restricted as to withdrawal or use, and was invested in an

interest-bearing Certificate of Deposit (“CD”). The CD matured in October 2018 and the issuing bank determined it was not necessary for the Company to renew. As a result, the \$150,000 is currently included in cash on the Company's October 31, 2018 Condensed Consolidated Balance Sheet.

Cash and restricted cash consists of the following (table in thousands):

|   | October<br>31, 2018<br>(unaudited) | April<br>30,<br>2018 |
|---|------------------------------------|----------------------|
| Cash  | \$ 1,956                           | \$856                |
| Restricted cash   | —                                  | 150                  |
| Total cash and restricted cash shown in the statement of cash flows | \$ 1,956                           | \$1,006              |

## 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 cash, working capital management, proceeds from certain private placements and public offerings of our securities and sales of products and services. For the six months ended October 31, 2018, the Company had net income of approximately \$750,000 and cash flows from operations of \$400,000. As of October 31, 2018, the Company had an accumulated deficit of approximately \$70.1 million, negative working capital of \$411,000 and cash of \$2.0 million. We believe that our cash on hand, together with continued improved cash flows from operations, are adequate to fund operations through at least December 2019. Should the Company be required to raise additional capital, there can be no assurance that management would be successful in raising such capital on terms acceptable to us, if at all.

## Earnings Per Share

Basic net income or loss per share is computed by dividing the net income or loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing the net income 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.

|  | Three Months<br>Ended<br>October 31,<br>2018 |            | Six Months<br>Ended<br>October 31,<br>2018 |            |
|--|--|------------|--|------------|
|  | 2018   | 2017       | 2018                                       | 2017       |
| Basic and diluted net loss per share computation (dollars in thousands): |  |            |  |            |
| Net income (loss) attributable to common stockholders                    | \$267  | \$ (94 )   | \$750                                      | \$ (768 )  |
| Weighted Average common shares – basic                                   | 11,278,321                                   | 11,288,321 | 11,135,351                                 | 11,135,351 |
| Basic net income (loss) per share  | \$0.02                                       | \$ (0.01 ) | \$0.07                                     | \$ (0.07 ) |
| Diluted income (loss) per share computation:                             |  |            |  |            |
| Net income (loss) attributable to common stockholders                    | \$267  | \$ (94 )   | \$750                                      | \$ (768 )  |
| Income (loss) available to common stockholders                           | \$267  | \$ (94 )   | \$750                                      | \$ (768 )  |
| Weighted Average common shares   | 11,278,321                                   | 11,288,321 | 11,135,351                                 | 11,135,351 |
| Incremental shares from assumed exercise of warrants and stock options   | 2,758,778                                    |            | 2,356,144                                  |            |
| Adjusted weighted average share – diluted                                | 14,037,099                                   | 11,288,321 | 13,491,495                                 | 11,135,351 |
| Diluted net income (loss) per share                                      | \$0.02                                       | \$ (0.01 ) | \$0.06                                     | \$ (0.07 ) |

The following table reflects the total potential share-based instruments outstanding at October 31, 2018 and 2017 that could have an effect on the future computation of dilution per common share:

|                                | October 31,<br>2018 |  | 2017      |  |
|--------------------------------|---------------------|--|-----------|--|
| Stock options                  | 2,466,877           |  | 2,494,930 |  |
| Warrants                       | 1,878,219           |  | 2,004,284 |  |
| Total common stock equivalents | 4,345,096           |  | 4,499,214 |  |



## 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. Our ability to utilize net operating losses ("NOL") carryforwards to offset our future taxable income taxes would be limited if we have undergone or were to undergo an "ownership change" within the meaning of Section 382 of the Internal Revenue Code (the "IRC"). The Company is currently in the process of a Section 382 study and believes there are adequate NOL's available to offset any net income generated during the fiscal year ending April 30, 2019. 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 October 31, 2018 and April 30, 2018, 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 \$151,000 of liabilities related to uncertain tax positions relative to one of its foreign operations as of October 31, 2018 and April 30, 2018.

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 October 31, 2018 and April 30, 2018, 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 six months ended October 31, 2018 and 2017 was \$1,000 and \$15,000, respectively.

## Note 2. Significant Accounting Policies Update

Significant accounting policies are detailed in "Note 2: Significant Accounting Policies" of the Annual Report on Form 10-K for the year ended April 30, 2018. Significant changes to the Company's accounting policies as a result of adopting ASC 606 - Revenue from Contracts with Customers and all the related amendments ("New Revenue Standard" or "ASC 606") are discussed below:

### Revenue Recognition

All revenue is generated from contracts with customers. The Company's arrangements are service type contracts that mainly have a duration of less than a year. The Company recognizes revenue when control of these services is

transferred to the customer in an amount, referred to as the transaction price, that reflects the consideration to which the Company is expected to be entitled in exchange for those services. The Company determines revenue recognition utilizing the following five steps: (1) identification of the contract with a customer, (2) identification of the performance obligations in the contract (promised goods or services that are distinct), (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations, and (5) recognition of revenue when, or as, the Company transfers control of the product or service for each performance obligation. The Company records revenues net of any tax assessments by governmental authorities, such as value added taxes, that are imposed on and concurrent with specific revenue generating transactions.



#### Pharmacology Study, POS Services and Other Services

The Company generally enters into contracts with customers to provide oncology services with payments based on fixed-fee arrangements. At contract inception, the Company assesses the services promised in the contracts with customers to identify the performance obligations in the arrangement. The Company's fixed-fee arrangements for oncology services are considered a single performance obligation because the Company provides a highly-integrated service.

The Company recognizes revenue over time using a progress-based input method since there is no single output measure that would fairly depict the transfer of control over the life of the performance obligation. Revenue is recognized for the single performance obligation over time due to the Company's right to payment for work performed to date and the performance does not create an asset with an alternative use. The Company recognizes revenue as portions of the overall performance obligation are completed as this best depicts the progress of the performance obligation.

#### Variable Consideration

In some cases, contracts provide for variable consideration that is contingent upon the occurrence of uncertain future events, such as the success of the initial performance obligation. Variable consideration is estimated at the expected value or at the most likely amount depending on the type of consideration. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The estimate of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of its anticipated performance and all information (historical, current and forecasted) that is reasonably available to the Company.

#### Trade Receivables, Unbilled Services and Deferred Revenue

In general, billings and payments are established by contractual provisions including predetermined payment schedules, which may or may not correspond to the timing of the transfer of control of the Company's services under the contract. In general, the Company's intention in its invoicing (payment terms) is to maintain cash neutrality over the life of the contract. Upfront payments, when they occur, are intended to cover certain expenses the Company incurs at the beginning of the contract. Neither the Company nor its customers view such upfront payments and contracted payment schedules as a means of financing. Unbilled services primarily arise from timing of payment terms and when an input method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer.

Deferred revenue consists of unearned payments received in excess of revenue recognized. As the contracted services are subsequently performed and the associated revenue is recognized, the deferred revenue balance is reduced by the amount of the revenue recognized during the period. Deferred revenue is classified as a current liability on the condensed consolidated balance sheet as the Company expects to recognize the associated revenue in less than one year.

## Note 3. Accounts Receivable, Unbilled Services and Deferred Revenue

Accounts receivable and unbilled services were as follows (in thousands):

|   | October<br>31, 2018 | April<br>30,<br>2018 |
|---|---------------------|----------------------|
|   | (unaudited)         |                      |
| Accounts receivable                             | \$ 3,112            | \$ 1,827             |
| Unbilled services                               | 1,604               | 2,103                |
| Total accounts receivable and unbilled services | 4,716               | 3,930                |
| Less allowance for doubtful accounts            | (13 )               | (13 )                |
| Total accounts receivable, net                  | \$ 4,703            | \$ 3,917             |

Deferred revenue was as follows (in thousands):

|                  | October<br>31, 2018 | April<br>30,<br>2018 |
|------------------|---------------------|----------------------|
|                  | (unaudited)         |                      |
| Deferred revenue | \$ 4,828            | \$ 4,704             |

Deferred revenue is shown as a current liability on the Company's balance sheet.

## Note 4. Revenue from Contracts with Customers

## Oncology Services Revenue

The Company adopted ASC 606 on May 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for the three months ended October 31, 2018 reflect the application of ASC 606, while the reported results for the three months ended October 31, 2017 were prepared under ASC 605 - Revenue Recognition and other authoritative guidance in effect for this period. In accordance with ASC 606, revenue is now recognized when, or as, a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services.

A performance obligation is a promise (or a combination of promises) in a contract to transfer distinct goods or services to a customer and is the unit of accounting under ASC 606 for the purposes of revenue recognition. A contract's transaction price is allocated to each separate performance obligation based upon the standalone selling price and is recognized as revenue, when, or as, the performance obligation is satisfied. The majority of the Company's contracts have a single performance obligation because the promise to transfer individual services is not separately identifiable from other promises in the contracts, and therefore, is not distinct.

The majority of the Company's revenue arrangements are service contracts that are complete within a year or less. There are a few contracts that range in duration between 1 and 3 years. Substantially all of the Company's performance obligations, and associated revenue, are transferred to the customer over time. Most of the Company's contracts can be terminated by the customer without cause. In the event of termination, the Company's contracts provide that the customer pay the Company for services rendered through the termination date. The Company generally receives compensation based on a predetermined invoicing schedule relating to specific milestones for that contract. In addition, in certain instances a customer contract may include forms of variable consideration such as performance increases or other provisions that can increase or decrease the transaction price. This variable

consideration is generally awarded upon achievement of certain performance metrics. For the purposes of revenue recognition, variable consideration is assessed on a contract-by-contract basis and the amount to be recorded is estimated based on the assessment of the Company's anticipated performance and consideration of all information that is reasonably available. Variable consideration is recognized as revenue if and when it is deemed probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved in the future.

Amendments to contracts are common. The Company evaluates each amendment which meets the criteria of a contract modification under ASC 606. Each modification is further evaluated to determine whether the contract modification should be accounted for as a separate contract or as a continuation of the original agreement. Under ASC 606-10-25-12: “An entity shall account for a contract modification as a separate contract if both of the following conditions are present:

- a) The scope of the contract increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 606-10-25-18 through 25-22);

- b) The price of the contract increases by an amount of consideration that reflects the entity’s standalone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract. For example, an entity may adjust the standalone selling price of an additional good or service for a discount that the customer receives, because it is not necessary for the entity to incur the selling-related costs that it would incur when selling a similar good or service to a new customer.”

The Company accounts for amendments as a separate contract as they meet the criteria under ASC 606-10-25-12.

The following tables represents disaggregated revenue for the three and six months ended October 31, 2018 and 2017:

|                                 | Three Months<br>Ended<br>October 31,<br>2018 |         | Six Months<br>Ended<br>October 31,<br>2018 |          |
|---------------------------------|--|---------|--|----------|
|                                 | 2017   |         | 2017                                       |          |
| Pharmacology services           | \$6,236                                      | \$4,673 | \$12,013                                   | \$9,154  |
| Personalized oncology services  | 249  | 378     | 609  | 818      |
| Other                           | 208  | 152     | 297  | 265      |
| Total Oncology services revenue | \$6,693                                      | \$5,203 | \$12,919                                   | \$10,237 |

#### Contract Balances

Contract assets include unbilled amounts typically resulting from revenue recognized in excess of the amounts billed to the customer for which the right to payment is subject to factors other than the passage of time. These amounts may not exceed their net realizable value. Contract assets are classified as current. Contract liabilities consist of customer payments received in advance of performance and billings in excess of revenue recognized, net of revenue recognized from the balance at the beginning of the period. Contract assets and liabilities are presented on the balance sheet on a net contract-by-contract basis at the end of each reporting period.

## Note 5. 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):

|                                  | October 31,<br>2018 | April 30,<br>2018<br>(unaudited) |
|----------------------------------|---------------------|----------------------------------|
| Furniture and fixtures           | \$ 74               | \$ 73                            |
| Computer equipment and software  | 1,020               | 973                              |
| Laboratory equipment             | 3,153               | 2,490                            |
| Assets in progress               | 25                  | 15                               |
| <br>Total property and equipment | <br>4,272           | <br>3,551                        |
| Less: Accumulated depreciation   | (1,737 )            | (1,468 )                         |
| <br>Property and equipment, net  | <br>\$ 2,535        | <br>\$ 2,083                     |

Depreciation and amortization expense, excluding expense recorded under capital lease, was \$115,000 and \$83,000 for the three months ended October 31, 2018 and 2017, respectively, and \$226,000 and \$119,000 for the six months ended October 31, 2018 and 2017. As of October 31, 2018 and April 30, 2018, property, plant and equipment included assets held under capital lease of \$366,000 and \$130,000, respectively. Related depreciation expense was \$36,000 and \$7,000, respectively, for the three months ended October 31, 2018 and 2017, and \$43,000 and \$13,000 for the six months ended October 31, 2018 and 2017.

## 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 in November 2019. The current monthly capital lease payment is approximately \$3,000.

In July 2018, the Company entered into a second capital lease for laboratory equipment. The lease has costs of approximately \$266,000 and matures in July 2020. The current monthly capital lease payment is approximately \$11,000.

The following is a schedule by years of future minimum lease payments under both capital leases together with the present value of the net minimum lease payments as of October 31, 2018 (table in thousands):

|                                    |         |
|------------------------------------|---------|
| For the Years Ended April 30,      | Total   |
| 2019 (remaining)                   | \$ 77   |
| 2020                               | 142     |
| 2021                               | 32      |
| <br>Total minimum payments         | <br>251 |
| Less: amount representing interest | (14 )   |
| Present value of minimum payments  | 237     |
| Less: current portion              | (142)   |

\$95

The present value of minimum future obligations shown above is calculated based on an interest rate of 5% for the November 2014 lease and 7% for the July 2018 lease. The short-term and long-term components of the capital lease obligation are included in accrued liabilities and other non-current liabilities, respectively at October 31, 2018 and April 30, 2018.

## Note 6. 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 \$88,000 and \$148,000 was recognized for the three months ended October 31, 2018 and 2017, respectively. The decrease in 2018 is due to a \$56,529 option modification charge that was included in 2017 stock-based compensation under general and administrative expenses. Stock-based compensation in the amount of \$171,000 and \$741,000 was recognized for the six months ended October 31, 2018 and 2017, respectively. Included in 2018 stock-based compensation expense for the six months ended October 31, 2018 and 2017 under general and administrative line item is \$7,500 and \$30,000 issuance of common stock as compensation for services performed, respectively. Stock-based compensation expense was recognized as follows (table in thousands):

|  | Three Months Ended October 31, |       | Six Months Ended October 31, |       |
|--|--------------------------------|-------|------------------------------|-------|
|  | 2018                           | 2017  | 2018                         | 2017  |
| General and administrative             | \$23                           | \$96  | \$83                         | \$549 |
| Sales and marketing                    | 40                             | 7     | 47                           | 41    |
| Research and development               | 5                              | 42    | 9                            | 122   |
| Cost of oncology solutions             | 20                             | 3     | 32                           | 29    |
| Total stock-based compensation expense | \$88                           | \$148 | \$171                        | \$741 |

On October 31, 2018, there was \$1,244,698 in unrecognized stock based compensation which will be recognized as expense over 4.5 years.

## Stock Option Grants

Black-Scholes assumptions used to calculate the fair value of options granted during the three and six months ended October 31, 2018 and 2017 were as follows:

|                          | Three Months Ended October 31, |      | Six Months Ended October 31, |        |
|--------------------------|--------------------------------|------|------------------------------|--------|
|                          | 2018                           | 2017 | 2018                         | 2017   |
| Expected term in years   | 6                              | —    | 6                            | 6      |
| Risk-free interest rates | 2.78%                          | —%   | 2.78% - 2.82%                | 1.98%  |
| Volatility               | 83.88%                         | —%   | 83.88% - 84.35%              | 87.10% |
| Dividend yield           | —%                             | —%   | —%                           | —%     |





The weighted average fair value of stock options granted during the three months ended October 31, 2018 and 2017 was \$6.17 and \$0.00, respectively, and \$6.16 and \$1.84 was recognized for the six months ended October 31, 2018. The Company's stock options activity for the six months ended October 31, 2018 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, 2018                           | 50,000        | 2,655,845               | 2,705,845  | \$ 2.85                         | 5.9   | \$5,265,000               |
| Granted  | —             | 141,957                 | 141,957    | 8.55                            | 9.8   |                           |
| Exercised  | —             | (380,925 )              | (380,925 ) | 2.16                            | 4.8   | 2,782,000                 |
| Forfeited  | —             | —                       | —          | —                               |   |                           |
| Canceled   | —             | —                       | —          | —                               |   |                           |
| Expired  | —             | —                       | —          | —                               |   |                           |
| Outstanding, October 31, 2018                      | 50,000        | 2,416,877               | 2,466,877  | 3.28                            | 5.9   | \$22,630,000              |
| Vested and expected to vest as of October 31, 2018 | 50,000        | 2,416,877               | 2,466,877  | 3.11                            | 5.9   | \$22,630,000              |
| Exercisable as of October 31, 2018                 | 25,836        | 2,110,961               | 2,136,797  | 2.71                            | 5.4   | \$20,410,000              |

#### Stock Purchase Warrants

As of October 31, 2018 and April 30, 2018, the Company had warrants outstanding for the purchase of 1,878,219 and 2,004,284, respectively, 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, 2018      | 2,004,284        | \$ 5.57                         | 1.8   | \$ —                      |
| Granted                       | —                | —                               | —   | —                         |
| Exercised                     | (126,065 )       | 5.74                            | —   | —                         |
| Expired                       | —                | —                               | —   | —                         |
| Outstanding, October 31, 2018 | 1,878,219        | \$ 5.56                         | 1.27  | \$ —                      |

#### Note 7. 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 each of the six months ended October 31, 2018 and 2017, the Company paid a member of its Board of Directors \$36,000, for consulting services unrelated to his duties as a board member. During the six months ended October 31, 2018 and 2017, the Company paid an affiliate of a board member \$37,261 and \$48,718, respectively, for consulting services unrelated to their duties as board members. As of October 31, 2018, no amounts were due to these related parties.

## Note 8. Commitments and Contingencies

### Operating Leases

The Company currently leases its office facilities. Rent expenses totaled \$375,000 and \$306,000 for the six months ended October 31, 2018 and 2017, 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 \$45,000 and \$45,000 of rental costs relative to this lease for the six months ended October 31, 2018 and 2017, respectively.

855 North Wolfe Street, Suite 619, Baltimore, Maryland 21205, which consists of laboratories and office space where the Company conducted operations related to its primary service offerings. This lease was terminated in October 2017. The Company transitioned its activities from this location to 1330 Piccard Drive, Suite 025, Rockville, MD. The Company recognized nil and \$58,000 of rental costs relative to this lease for the six months ended October 31, 2018 and 2017, respectively.

450 East 29th Street, New York, New York, 10016, which was a laboratory facility. The Company recognized nil and \$52,000 of rental expense for the six months ended October 31, 2018 and 2017, respectively. The lease expired in May 2017 and was not renewed.

1330 Piccard Drive, Suite 025, Rockville, MD 20850, which consists of laboratory and office space where the Company conducts operations related to its primary service offerings. The Company executed this lease on January 11, 2017. The operating commencement date was August 11, 2017. This lease expires in August 2028. The Company recognized \$302,000 and \$151,000 of rental expense for the six months ended October 31, 2018 and 2017, respectively.

910 Clopper Road, Suites 260S and 280S, Gaithersburg, Maryland 20878, which consists of laboratory and office space where the Company conducts operations related to its primary service offerings. The Company executed this lease on April 1, 2018. The operating commencement date was May 1, 2018. This lease expires in August 2028. The Company recognized \$28,000 and nil of rental expense for six months ended October 31, 2018 and 2017, respectively. The Company will transition its activities from this location to the New Location, as defined below, and will terminate this lease seven days after the commencement date of the New Location.

1405 Research Boulevard, Suites 125, Rockville, Maryland 20850 ("New Location"), which consists of laboratory and office space where the Company will conduct operations related to its primary service offerings. The Company executed this lease on November 1, 2018. The operating commencement date is January 15, 2019. This lease expires in January 2024. The Company recognized nil of rental expense for fiscal 2018 and 2017.

Future minimum lease payments due each fiscal year as follows (in thousands):

|                  |        |
|------------------|--------|
| 2019 (remaining) | \$ 327 |
| 2020             | 940    |
| 2021             | 1,024  |
| 2022             | 1,002  |
| 2023             | 964    |
| Thereafter       | 4,087  |

\$8,344

#### 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.

#### Note 9. Lines of Credit

On October 30, 2017, the Company entered into a line of credit agreement with a national bank which provides that the Company may borrow up to \$1.5 million. The revolving line maturity date was October 29, 2018 and the line of credit was not renewed. The Company believes that such line of credit is not currently necessary to fund the Company's working capital needs.

#### Note 10. Recent Accounting Pronouncements

##### Accounting Pronouncements Being Evaluated

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting". This ASU expands the scope of Topic 718, Compensation—Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Under the new guidance, the existing employee guidance will apply to nonemployee sharebased transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. The new accounting guidance will be effective for the Company on May 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The new standard will require most leases to be recognized on the balance sheet which will increase reported assets and liabilities and significant disclosure requirements. Lessor accounting remains substantially similar to current guidance. The new accounting guidance will be effective for the Company on May 1, 2019 and mandates a modified retrospective transition method. We are currently assessing the impact of this update on our consolidated financial statements.

##### Recently Adopted Accounting Pronouncements

In August 2018, the Securities and Exchange Commission issued Release No. 33-10532 that amends and clarifies certain financial reporting requirements. The principal change to the Company's financial reporting is the inclusion of the annual disclosure requirement of changes in stockholders' equity in Rule 3-04 of Regulation S-X to interim periods. The Company has adopted this new rule beginning with its financial reporting for the quarter ended October 31, 2018.

On November 17, 2016, the FASB issued ASU No. 2016-18, "Restricted Cash (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-18"), which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The Company adopted ASU 2016-18 on May 1, 2018. See "Note 1. Organization, Use of Estimates and Basis of Presentation" for additional disclosure.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments". The new standard attempts to reduce diversity in practice in how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 provides guidance on eight specific cash flow issues. The new guidance will be effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company adopted this update on May 1, 2018 and did not have a

material impact on our consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board issued a converged standard on the recognition of revenue from contracts with customers ("ASU 2014-09"). The objective of the new standard is to establish a single comprehensive revenue recognition model that is designed to create greater comparability of financial statements across industries and jurisdictions. Under the new standard, companies will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The Company adopted ASU 2014-09 on May 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption and by recognizing the cumulative effect of applying the standard as an adjustment to the Company's Balance Sheet. The adoption of this update did not have a material measurement impact on our consolidated financial statements. See "Note 9. Revenue from Contracts with Customers" for more information.

## 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, 2018, 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, 2018, 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.



## 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 cash, working capital management, proceeds from certain private placements and public offerings of our securities and sales of products and services. For the six months ended October 31, 2018, the Company had net income of approximately \$750,000 and cash flows from operations of \$400,000. As of October 31, 2018, the Company had an accumulated deficit of approximately \$70.1 million, negative working capital of \$411,000 and cash of \$2.0 million. We believe that our cash on hand, together with continued improved cash flows from operations, are adequate to fund operations through at least December 2019. Should the Company be required to raise additional capital, there can be no assurance that management would be successful in raising such capital on terms acceptable to us, if at all.

## Operating Results

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

|                                    | For the Three Months Ended October 31, |                 |          |                 |             |  |
|------------------------------------|--|-----------------|----------|-----------------|-------------|--|
|                                    | 2018                                   | % of<br>Revenue | 2017     | % of<br>Revenue | %<br>Change |  |
| Operating revenue:                 |  |                 |          |                 |             |  |
| Total operating revenue            | \$6,693                                | 100.0 %         | \$5,203  | 100.0 %         | 28.6 %      |  |
| Costs and operating expenses:      |  |                 |          |                 |             |  |
| Cost of oncology solutions         | 3,451                                  | 51.7            | 2,653    | 51.0            | 30.1        |  |
| Research and development           | 1,193                                  | 17.8            | 1,115    | 21.4            | 7.0         |  |
| Sales and marketing                | 740                                    | 11.1            | 551      | 10.6            | 34.3        |  |
| General and administrative         | 1,034                                  | 15.4            | 954      | 18.3            | 8.4         |  |
| Total costs and operating expenses | 6,418                                  | 96.0            | 5,273    | 101.3           | 21.7        |  |
| Income (loss) from operations      | \$275                                  | 4.0 %           | \$(70 )  | (1.3 )%         | (492.9)%    |  |
|                                    |  |                 |          |                 |             |  |
|                                    | For the Six Months Ended October 31,   |                 |          |                 |             |  |
|                                    | 2018                                   | % of<br>Revenue | 2017     | % of<br>Revenue | %<br>Change |  |
| Operating revenue:                 |  |                 |          |                 |             |  |
| Total operating revenue            | \$12,919                               | 100.0 %         | \$10,237 | 100.0 %         | 26.2 %      |  |
| Costs and operating expenses:      |  |                 |          |                 |             |  |
| Cost of oncology solutions         | 6,533                                  | 50.6            | 5,294    | 51.7            | 23.4        |  |
| Research and development           | 2,282                                  | 17.7            | 2,233    | 21.8            | 2.2         |  |
| Sales and marketing                | 1,259                                  | 9.7             | 1,235    | 12.1            | 1.9         |  |
| General and administrative         | 2,088                                  | 16.2            | 2,164    | 21.1            | (3.5 )      |  |
| Total costs and operating expenses | 12,162                                 | 94.2            | 10,926   | 106.7           | 11.3        |  |
| Income (loss) from operations      | \$757                                  | 5.8 %           | \$(689 ) | (6.7 )%         | (209.9)%    |  |

## Operating Revenues

Operating revenues were \$6.7 million and \$5.2 million for the three months ended October 31, 2018 and 2017, respectively, an increase of \$1.5 million or 28.6%. The increase in TOS revenue is due to increased sales, both in number and size of studies, expanding our customer base, and growth of the platform. Operating revenues were \$12.9 million and \$10.2 million for the six months ended October 31, 2018 and 2017, respectively, an increase of \$2.7 million or 26.2%.

### Cost of Oncology Solutions

Cost of oncology solutions for the three months ended October 31, 2018 and 2017 were \$3.5 million and \$2.7 million, respectively, an increase of \$798,000 or 30.1%. For the three months ended October 31, 2018 and 2017, gross margins were 48.4% and 49.0%, respectively. Cost of oncology solutions for the six months ended October 31, 2018 and 2017 were \$6.5 million and \$5.3 million, respectively, an increase of \$1.2 million or 23.4%. For the six months ended October 31, 2018 and 2017, gross margins were 49.4% and 48.3%, respectively. The increase in cost of sales during the three and six month periods were mainly due to an increase in TOS study volume. Gross margin varies based on timing differences between expense and revenue recognition.

### Research and Development

Research and development expenses for the three months ended October 31, 2018 and 2017 were \$1.2 million and \$1.1 million, respectively, an increase of \$78,000 or 7.0%. Research and development expenses for the six months ended October 31, 2018 and 2017 were \$2.3 million and \$2.2 million, respectively, an increase of \$49,000 or 2.2%.

### Sales and Marketing

Sales and marketing expenses for the three months ended October 31, 2018 and 2017 were \$740,000 and \$551,000, respectively, an increase of \$189,000, or 34.3%. The increase is mainly due to an increase in salary expense. Sales and marketing expenses for the six months ended October 31, 2018 and 2017 was \$1.3 million and \$1.2 million, respectively, an increase of \$24,000 or 1.9%.

### General and Administrative

General and administrative expenses for the three months ended October 31, 2018 and 2017 were \$1.0 million and \$954,000, respectively, an increase of approximately \$80,000, or 8.4%. The increase was mainly due to an increase in recruiting costs. General and administrative expenses for the six months ended October 31, 2018 and 2017 were \$2.1 million and \$2.2 million, respectively, a decrease of approximately \$76,000 or (3.5)%. The decrease was mainly due to a decrease in stock-based 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 provided by operating activities was \$400,000 for the six months ended October 31, 2018 compared to net cash used in operating activities of \$1.7 million for the six months ended October 31, 2017, respectively. The improvement in cash flow is primarily the result of the increased net income associated with revenue growth.

#### Cash Flows from Investing Activities

Net cash used in investing activities was \$486,000 and \$942,000 for the six months ended October 31, 2018 and 2017, respectively. The current capital investment is the result of continued expansion of the Company's product and service

offerings. The prior year cash outflows was due to the purchase of property and equipment relating to the Company's new lab facility in Rockville, Maryland.

#### Cash Flows from Financing Activities

Net cash provided by financing activities was \$1.0 million compared to the net cash used in financing activities of \$13,000 for the six months ended October 31, 2018 and 2017, respectively. The increase in net cash provided by financing activities relates primarily to the exercise of stock options.

### 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 30, 2018.

### Recent Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our condensed consolidated financial statements, see Note 10, "Recent Accounting Pronouncements" in the accompanying Notes to Condensed Consolidated Financial Statements included in Item 1 of this Report on Form 10-Q.

### 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 Chief Financial Officer 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 Chief Financial Officer, have concluded that our disclosure controls and procedures were effective as of October 31, 2018 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 Chief Financial Officer 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 December 2019 without continued improved cash flows from operations, 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 cash, working capital management, proceeds from certain private placements and public offerings of our securities and sales of products and services. For the six months ended October 31, 2018, the Company had a net income of approximately \$750,000 and cash flows from operations of \$400,000. As of October 31, 2018, the Company had an accumulated deficit of approximately \$70.1 million, negative working capital of \$411,000 and cash of \$2.0 million. We believe that our cash on hand, together with continued improved cash flows from operations, are adequate to fund operations through at least December 2019. Should the Company be required to raise additional capital, there can be no assurance that management would be successful in raising such capital on terms acceptable to us, if at all.

### 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

XBRL

101.INS\* Instance  
Document.  
XBRL

101.SCH\* Taxonomy  
Extension  
Schema  
Document.  
XBRL

101.CAL\* Taxonomy  
Extension  
Calculation  
Linkbase  
Document.  
XBRL

101.DEF\* Taxonomy  
Extension  
Definition  
Linkbase  
Document.  
XBRL

101.LAB\* Taxonomy  
Extension  
Label  
Linkbase  
Document.  
XBRL

101.PRE\* 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: December 17, 2018 By: /s/ Ronnie Morris  
Ronnie Morris  
Chief Executive Officer  
(principal executive officer)

Date: December 17, 2018 By: /s/ David Miller  
David Miller  
Chief Financial Officer  
(principal financial and accounting officer)