CHAMPIONS ONCOLOGY, INC.
Form 10-Q
December 15, 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 October 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 (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 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
Non-accelerated filer o Emerging growth company o

(Do not check if a smaller reporting 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. o

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 December 9, 2017 was 10,988,347.

DOCUMENTS INCORPORATED BY REFERENCE - None

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CHAMPIONS ONCOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands except for shares)

	October 31, 2017 (unaudited)	April 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 660	$ 3,295
Accounts receivable, net	2,578	2,274
Prepaid expenses and other current assets	303	300
Total current assets	3,541	5,869
Restricted cash	150	150
Property and equipment, net	2,026	1,216
Other Long Term Assets	107	107
Goodwill	669	669
Total assets	$ 6,493	$ 8,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,549	$ 1,852
Accrued liabilities	390	685
Deferred revenue	3,879	4,910
Total current liabilities	5,818	7,447
Other non-current liabilities	302	164
Total liabilities	6,120	7,611
Stockholders' equity:		
Common stock, $.001 par value; 200,000,000 shares authorized; 11,265,175 and 11,251,844 shares issued and 10,988,347 and 10,982,159 shares outstanding as of October 31, 2017 and April 30, 2017, respectively	11	11
Treasury stock, at cost, 269,685 common shares as of October 31, 2017 and April 30, 2017	(1,252)	(1,252)
Additional paid-in capital	71,732	70,991
Accumulated deficit	(70,118)	(69,350)
Total stockholders' equity	373	400
Total liabilities and stockholders' equity	$ 6,493	$ 8,011

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 October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
Operating revenue:				
Personalized oncology solutions	$378	$ 497	$818	$ 1,007
Translational oncology solutions	4,825	3,960	9,419	7,119
Total operating revenue	5,203	4,457	10,237	8,126
Costs and operating expenses:				
Cost of personalized oncology solutions	259	374	646	847
Cost of translational oncology solutions	2,394	1,829	4,648	3,879
Research and development	1,115	1,008	2,233	2,219
Sales and marketing	551	717	1,235	1,643
General and administrative	954	1,022	2,164	2,555
Total costs and operating expenses	5,273	4,950	10,926	11,143
Loss from operations	(70)	(493)	(689)	(3,017)
Other (expense):				
Other (expense)	(13)	(16)	(64)	(25)
Total other (expense)	(13)	(16)	(64)	(25)
Loss before provision for income taxes	(83)	(509)	(753)	(3,042)
Provision for (Benefit from) income taxes	11	(5)	15	9
Net loss	$(94)	$ (504)	$(768)	$ (3,051)
Net loss per common share outstanding basic and diluted	$(0.01)	$ (0.05)	$(0.07)	$ (0.32)
Weighted average common shares outstanding basic and diluted	10,988,321	10,967,491	10,984,793	9,560,088

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 Ended October 31,	
	2017	2016
Operating activities:		
Net loss	$(768)	$(3,051)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	711	1,664
Depreciation expense	132	87
Reversal of allowance for doubtful accounts	(41)	(2)
Issuance of common stock for services	30	15
Changes in operating assets and liabilities:		
Accounts receivable	(263)	(577)
Prepaid expenses and other current assets	(3)	(3)
Accounts payable	(303)	(744)
Accrued liabilities	(295)	31
Other non-current liability	151	20
Deferred revenue	(1,031)	5
Net cash used in operating activities	(1,680)	(2,555)
Investing activities:		
Purchase of property and equipment	(942)	(30)
Net cash used in investing activities	(942)	(30)
Financing activities:		
Proceeds from June 2016 Public Offering, net of financing costs of $742	—	4,340
Capital lease payments	(13)	(12)
Net cash (used in)/provided by financing activities	(13)	4,328
(Decrease)/Increase in cash and cash equivalents.	(2,635)	1,743
Cash and cash equivalents, beginning of period	3,295	2,585
Cash and cash equivalents, end of period	$660	$4,328

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. For the three and six months ended October 31, 2017 and 2016, 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, 2017, 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, 2017.

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 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 six months ended October 31, 2017, we had a net loss of $768,000 and net operating cash outflows of $1.7 million. In addition, as of October 31, 2017, we had negative working capital of $2.3 million and cash and cash equivalents on hand of $660,000. The reduction of cash from year-end was mainly due to the $910,000 investment in equipment for our new lab facility along with the timing of

accounts receivable collections and expense payments in the normal course of business. Additionally, we incurred approximately $100,000 of non-capitalized, non-recurring costs related to the new lab set-up. Finally, we closed on a line of credit ("LOC") agreement which provides that the Company may borrow up to $1.5 million. The Company does not plan to utilize the LOC as we believe that our cash and cash equivalents on hand at October 31, 2017 and future revenue are adequate to fund our operations through at least December 2018.

However, in order for us to continue our operations beyond December 2018, we need to continue to increase revenues while managing increases in expense levels. If we are unable to maintain our operating levels, we may need to obtain capital from external sources. If we could not 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.

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 six months ended October 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 October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
Basic and diluted net loss per share computation:				
Net loss attributable to common stockholders	$(94,318)	$(504,000)	$(768,475)	$(3,051,000)
Weighted Average common shares – basic	10,988,321	10,967,491	10,984,703	9,560,088
Basic and diluted net loss per share	$(0.01)	$(0.05)	$(0.07)	$(0.32)

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

	October 31,	
	2017	2016
Stock options	2,494,930	2,449,753
Warrants	2,004,284	2,109,840
Total common stock equivalents	4,499,214	4,559,593

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 October 31, 2017 and April 30, 2017, the Company provided a valuation allowance for all net deferred tax assets, as recovery is 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 $121,000 of liabilities related to uncertain tax positions relative to one of its foreign operations as of October 31, 2017 and April 30, 2017.

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, 2017 and April 30, 2017, 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, 2017 and 2016 was $15,000 and $9,000, 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):

	October 31, 2017 (unaudited)	April 30, 2017
Furniture and fixtures	$ 73	$ 74
Computer equipment and software	956	872
Laboratory equipment	2,232	918
Assets in progress	19	472
Leasehold improvements	—	2
Total property and equipment	3,280	2,338
Less: Accumulated depreciation	(1,254)	(1,122)
Property and equipment, net	$ 2,026	$ 1,216

Depreciation and amortization expense, excluding expense recorded under capital lease, was $97,000 and $34,000 for the three months ended October 31, 2017 and 2016, respectively, and $119,000 and $74,000 for the six months ended October 31, 2017 and 2016, respectively. As of October 31, 2017 and April 30, 2017, property, plant and equipment included assets held under capital lease of $124,000. Related depreciation expense was $7,000 and $6,000, respectively, for the three months ended October 31, 2017 and 2016, and $13,000 and $12,000 for the six months ended October 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 October 31, 2017 (table in thousands):

For the Years Ended April 30,	Total
2018 (remaining)	$ 14
2019	28
2020	16
Total minimum payments	58
Less: amount representing interest	(3)
Present value of minimum payments	55
Less: current portion	(26)

	$29

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 October 31, 2017 and April 30, 2017.

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 $148,000 and $535,000 was recognized for the three months ended October 31, 2017 and 2016, respectively, and $711,000 and $1.7 million was recognized for the six months ended October 31, 2017 and 2016, respectively. Included in stock-based compensation expense for the the six months ended October 31, 2017 under general and administrative line item is an option modification charge of $56,529.
Stock-based compensation expense was recognized as follows (table in thousands):

	Three Months Ended October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
General and administrative	$96	$469	$519	$1,298
Sales and marketing	7	18	41	187
Research and development	42	45	122	130
TOS cost of sales	3	3	28	47
POS cost of sales	—	—	1	2
Total stock-based compensation expense	$148	$535	$711	$1,664

On October 31, 2017, there was $160,365 in unrecognized stock based compensation which will be recognized as expense over 2.5 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, 2017 and 2016 were as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2017	2016	2017	2016
Expected term in years	6	6	6	2.6 - 6
Risk-free interest rates	1.98%	1.48%	1.98%	0.75% - 1.48%
Volatility	87.1%	87.32%	87.1%	73.2% - 95.6%
Dividend yield	—%	—%	—%	—%

The weighted average fair value of stock options granted during the three months ended October 31, 2017 and 2016 was $0.00 and $1.16, respectively, and $1.84 and $1.73 was recognized for the six months ended October 31, 2017 and 2016, respectively. The Company's stock options activity for the six months ended October 31, 2017 was as follows:

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	Non-Employees	Directors and Employees	Total	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, May 1, 2017	50,000	2,258,704	2,308,704	$ 2.86	6.1	$1,282,000
Granted	—	194,977	194,977	2.51	9.7	
Exercised	—	—	—	—		
Forfeited	—	(6,042)	(6,042)	7.58		
Canceled	—	—	—	—		
Expired	—	(2,709)	(2,709)	8.44		
Outstanding, October 31, 2017	50,000	2,444,930	2,494,930	2.82	5.9	$2,512,000
Vested and expected to vest as of October 31, 2017	50,000	2,444,930	2,494,930	2.82	5.9	$2,512,000
Exercisable as of October 31, 2017	33,336	2,391,889	2,425,225	2.81	5.9	$2,484,000

Stock Purchase Warrants

As of October 31, 2017 and April 30, 2017, the Company had warrants outstanding for the purchase of 2,004,284 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, 2017	2,004,284	$ 5.57	2.8	$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
Outstanding, October 31, 2017	2,004,284	$ 5.57	2.3	$ —

Note 4. 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 six months ended October 31, 2017 and 2016, the Company paid a member of its Board of Directors $36,000 and $36,000, respectively, for consulting services unrelated to his duties as a board member. During the six months ended October 31, 2017 and 2016, the Company paid an affiliate of a board member $48,718 and $0, respectively, for consulting services unrelated to their duties as board members. As of October 31, 2017, no amounts

were due to these related parties.

Note 5. Commitments and Contingencies

Operating Leases

The Company currently leases its office facilities. Rent expenses totaled $306,000 and $198,000 for the six months ended October 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 $45,000 and $43,000 of rental costs relative to this lease for the six months ended October 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 $58,000 and $52,000 of rental costs relative to this lease for the six months ended October 31, 2017 and 2016, respectively.

- 450 East 29th Street, New York, New York, 10016, which is a laboratory facility. The Company recognized $52,000 and $103,000 of rental expense for the six months ended October 31, 2017 and 2016, 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 will conduct 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 $151,000 and nil of rental expense for the six months ended October 31, 2017 and 2016, respectively.

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, 2017. 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 6. 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, 2017, 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):

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Three months ended October 31, 2017	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 378	$ 4,825	$ —	$ 5,203
Direct cost of services	(259)	(2,392)	—	(2,651)
Sales and marketing costs	(85)	(459)	—	(544)
Other operating expenses	—	(1,073)	(857)	(1,930)
Stock- based compensation expense (1)	—	—	(148)	(148)
Segment profit (loss)	$ 34	$ 901	$ (1,005)	$ (70)

Three months ended October 31, 2016	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 497	$ 3,960	$ —	$ 4,457
Direct cost of services	(374)	(1,826)	—	(2,200)
Sales and marketing costs	(128)	(571)	—	(699)
Other operating expenses	—	(964)	(552)	(1,516)
Stock- based compensation expense (1)	—	—	(535)	(535)
Segment profit (loss)	$ (5)	$ 599	$ (1,087)	$ (493)

Six Months Ended October 31, 2017	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 818	$ 9,419	$ —	$ 10,237
Direct cost of services	(645)	(4,620)	—	(5,265)
Sales and marketing costs	(171)	(1,023)	—	(1,194)
Other operating expenses	—	(2,111)	(1,645)	(3,756)
Stock- based compensation expense (1)	—	—	(711)	(711)
Segment profit (loss)	$ 2	$ 1,665	$ (2,356)	$ (689)

Six Months Ended October 31, 2016	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 1,007	$ 7,119	$ —	$ 8,126
Direct cost of services	(845)	(3,832)	—	(4,677)
Sales and marketing costs	(269)	(1,187)	—	(1,456)
Other operating expenses	—	(2,090)	(1,256)	(3,346)
Stock- based compensation expense (1)	—	—	(1,664)	(1,664)
Segment profit (loss)	$ (107)	$ 10	$ (2,920)	$ (3,017)

(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.

Note 7. 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. Borrowings under the line bear interest payable monthly at the Wall Street Journal Prime Rate plus 1.5% to 2.0% and are secured by all assets of the Company. The balances payable under this arrangement are due on demand. As of October 31, 2017, there were no outstanding borrowings. The revolving line maturity date is October 29, 2018.

Note 8. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers", on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. As amended by ASU No. 2015-14 issued in August 2015, this ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. We do not intend to early adopt and are currently assessing the impact of this update, but preliminarily believe that its adoption will not have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". The amendments in this update state that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The amendments in this update are effective for the annual reporting period beginning after December 15, 2016 and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this update did not have a material impact on our consolidated financial statements.

In February 2016, the FASB 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. Lessor accounting remains substantially similar to current guidance. The new standard is effective for annual and interim periods in fiscal years beginning after December 15, 2018, which for us is the first quarter of fiscal 2019 and mandates a modified retrospective transition method. We are currently assessing the impact of this update on our consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting". The new standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for financial statements that have not already been issued. The adoption of this update did not have a material impact on our consolidated financial statements.

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. Early adoption is permitted including adoption in an interim period. We do not intend to early adopt and we are currently assessing the impact of adoption of this update will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): “Simplifying the Test for Goodwill Impairment”. The update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. It affects public entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. A public entity that is a U.S. Securities and Exchange Commission ("SEC") filer should adopt the amendments in this update for its annual or any interim

goodwill impairment tests in fiscal years beginning after December 15, 2019. For the Company, the amendments are effective January 1, 2020. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

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, 2017, 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, 2017, 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 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 six months ended October 31, 2017, we had a net loss of $768,000 and net operating cash outflows of $1.7 million. In addition, as of October 31, 2017, we had negative working capital of $2.3 million and cash and cash equivalents on hand of $660,000. The reduction of cash from year-end was mainly due to the $910,000 investment in equipment for our new lab facility along with the timing of accounts receivable collections and expense payments in the normal course of business. Additionally, we incurred approximately $100,000 of non-capitalized, non-recurring costs related to the new lab set-up. Finally, we closed on a line of credit ("LOC") agreement which provides that the Company may borrow up to $1.5 million. The Company does not plan to utilize the LOC as we believe that our cash and cash equivalents on hand at October 31, 2017 and future revenue are adequate to fund our operations through at least December 2018.

However, in order for us to continue our operations beyond December 2018, we need to continue to increase revenues while managing increases in expense levels. If we are unable to maintain our operating levels, we may need to obtain capital from external sources. If we could not 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 October 31,				
	2017	% of Revenue	2016	% of Revenue	% Change
Operating revenue:					
Personalized oncology solutions	$378	7.3 %	$497	11.2 %	(23.9)%
Translational oncology solutions	4,825	92.7	3,960	88.8	21.8 %
Total operating revenue	5,203	100.0	4,457	100.0	16.7
Costs and operating expenses:					
Cost of personalized oncology solutions	259	5.0	374	8.4	(30.7)
Cost of translational oncology solutions	2,394	46.0	1,829	41.0	30.9
Research and development	1,115	21.4	1,008	22.6	10.6
Sales and marketing	551	10.6	717	16.1	(23.2)
General and administrative	954	18.3	1,022	22.9	(6.7)
Total costs and operating expenses	5,273	101.3	4,950	111.0	6.5
Loss from operations	$(70)	(1.3)%	$(493)	(11.0)%	(85.8)%

	For the Six Months Ended October 31,				
	2017	% of Revenue	2016	% of Revenue	% Change
Operating revenue:					
Personalized oncology solutions	$818	8.0 %	$1,007	12.4 %	(18.8)%
Translational oncology solutions	9,419	92.0	7,119	87.6	32.3
Total operating revenue	10,237	100.0	8,126	100.0	26.0
Costs and operating expenses:					
Cost of personalized oncology solutions	646	6.3	847	10.4	(23.7)
Cost of translational oncology solutions	4,648	45.4	3,879	47.7	19.8
Research and development	2,233	21.8	2,219	27.3	0.6
Sales and marketing	1,235	12.1	1,643	20.2	(24.8)
General and administrative	2,164	21.1	2,555	31.4	(15.3)
Total costs and operating expenses	10,926	106.7	11,143	137.0	(1.9)
Loss from operations	$(689)	(6.7)%	$(3,017)	(37.0)%	(77.2)%

Operating Revenues

Operating revenues were $5.2 million and $4.5 million for the three months ended October 31, 2017 and 2016, respectively, an increase of $700,000 or 16.7%. Operating revenues were $10.2 million and $8.1 million for the six months ended October 31, 2017 and 2016, respectively, an increase of $2.1 million or 26.0%

POS revenues were $378,000 and $497,000 for the three months ended October 31, 2017 and 2016, respectively, a decrease of $119,000, or (23.9%). The decrease is due mainly to a decrease in implant and drug study revenue. POS revenues were $818,000 and $1 million for the six months ended October 31, 2017 and 2016, respectively, a decrease of $182,000 or (18.8%).

TOS revenues were $4.8 million and $4.0 million for the three months ended October 31, 2017 and 2016, respectively, an increase of $800,000, or 21.8%. TOS revenues were $9.4 million and $7.1 million for the six months ended October 31, 2017 and 2016, respectively, an increase of $2.3 million, or 32.3%.

Cost of Personalized Oncology Solutions

Cost of POS for the three months ended October 31, 2017 and 2016 were $259,000 and $374,000, respectively, a decrease of $115,000, or (30.7%). Cost of POS for the six months ended October 31, 2017 and 2016 were $646,000 and $847,000, respectively, a decrease of $201,000 or (23.7%). For the three months ended October 31, 2017 and 2016, gross margins for POS were 31.5% and 24.8%, respectively. The improvement is attributed to the increase in higher margin sequencing revenue. For the six months ended October 31, 2017 and 2016, gross margins for POS were 21.0% and 15.9%, respectively.

Cost of Translational Oncology Solutions

Cost of TOS for the three months ended October 31, 2017 and 2016 were $2.4 million and $1.8 million, respectively, an increase of $600,000, or 30.9%. Cost of TOS for the six months ended October 31, 2017 and 2016 was $4.6 million and $3.9 million, respectively, an increase of $700,000, or 19.8%. For the three months ended October 31, 2017 and 2016, gross margins for TOS were 50.4% and 53.8%, respectively. The increase in TOS cost of sales was due to an

increase in the number and size of TOS studies. The gross margin often fluctuates quarter to quarter, resulting from timing differences between revenue and expense recognition. For the six months ended October 31, 2017 and 2016, gross margins for TOS were 50.7% and 45.5%, respectively.

Research and Development

Research and development expenses for the three months ended October 31, 2017 and 2016 were $1.1 million and $1.0 million, respectively, an increase of $100,000, or 10.6%. Research and development expenses for both the six months ended October 31, 2017 and 2016 was $2.2 million.

Sales and Marketing

Sales and marketing expenses for the three months ended October 31, 2017 and 2016 were $551,000 and $717,000, respectively, a decrease of $166,000, or (23.2%). The decrease is mainly due to a reduction of marketing resources for the POS division. Sales and marketing expenses for the six months ended October 31, 2017 and 2016 was $1.2 million and $1.6 million, respectively, a decrease of $400,000 or (24.8%).

General and Administrative

General and administrative expenses for both the three months ended October 31, 2017 and 2016 were $1 million. General and administrative expenses for the six months ended October 31, 2017 and 2016 were $2.2 million and $2.6 million, respectively, a decrease of $400,000 or (15.3%).

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 $1.7 million and $2.6 million for the six months ended October 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 $942,000 and $30,000 for the six months ended October 31, 2017 and 2016, respectively. These current cash outflows were primarily 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 (used in)/provided by financing activities was ($13,000) and $4.3 million for the six months ended October 31, 2017 and 2016, respectively. The net cash used in financing activities relates to our capital lease.

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 28, 2017.

Recent Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our condensed consolidated financial statements, see Note 8, "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, 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 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 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 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 six months ended October 31, 2017, we had a net loss of $768,000 and net operating cash outflows of $1.7 million. In addition, as of October 31, 2017, we had negative working capital of $2.3 million and cash and cash equivalents on hand of $660,000. The reduction of cash from year-end was mainly due to the $910,000 investment in equipment for our new lab facility along with the timing of accounts receivable collections and expense payments in the normal course of business. Additionally, we incurred approximately $100,000 of non-capitalized, non-recurring costs related to the new lab set-up. Finally, we closed on a line of credit ("LOC") agreement which provides that the Company may borrow up to $1.5 million. The Company does not plan to utilize the LOC as we believe that our cash and cash equivalents on hand at October 31, 2017 and future revenue are adequate to fund our operations through at least December 2018.

However, in order for us to continue our operations beyond December 2018, we need to continue to increase revenues while managing increases in expense levels. If we are unable to maintain our operating levels, we may need to obtain capital from external sources. If we could not 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: December 15, 2017 By: /s/ Ronnie Morris
Ronnie Morris
Chief Executive Officer
(principal executive officer)

Date: December 15, 2017 By: /s/ David Miller
David Miller
Chief Financial Officer
(principal financial and accounting officer)