

CHAMPIONS ONCOLOGY, INC.
Form 10-Q
September 12, 2014

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 July 31, 2014

Or

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

For the transition period from _____ to _____

Commission file number 0-17263

CHAMPIONS ONCOLOGY, INC.

(Exact name of registrant as defined in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of Common Shares of the Registrant outstanding as of August 31, 2014 was 66,885,741.

DOCUMENTS INCORPORATED BY REFERENCE - None

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FOR THE QUARTERLY PERIOD ENDED JULY 31, 2014

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

	July 31, 2014 (unaudited)	April 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,052	\$5,891
Accounts receivable, net	925	1,325
Prepaid expenses and other current assets	456	383
Total current assets	4,433	7,599
Restricted cash	165	165
Property and equipment, net	411	434
Goodwill	669	669
Total assets	\$ 5,678	\$8,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,328	\$981
Accrued liabilities	390	587
Deferred revenue	1,665	2,091
Total current liabilities	3,383	3,659
Warrant liability	1,856	2,011
Total liabilities	5,239	5,670
Common stock, \$001 par value; 125,000,000 shares authorized; 70,121,741 shares issued and 66,885,741 shares outstanding as of July 31, 2014 and April 30, 2014	70	70
Treasury stock, at cost, 3,236,000 common shares as of July 31, 2014 and April 30, 2014	(1,252)	(1,252)
Additional paid-in capital	44,067	43,259

Accumulated deficit	(42,446)	(38,880)
Total stockholders' equity	439	3,197
Total liabilities and stockholders' equity	\$ 5,678	\$8,867

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

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

	Three Months Ended July 31,	
	2014	2013
Operating revenue:		
Personalized oncology solutions	\$ 341	\$ 622
Translational oncology solutions	1,571	2,398
Total operating revenue	1,912	3,020
Costs and operating expenses:		
Cost of personalized oncology solutions	757	793
Cost of translational oncology solutions	965	878
Research and development	1,423	402
Sales and marketing	1,034	642
General and administrative	1,462	1,071
Total costs and operating expenses	5,641	3,786
Loss from operations	(3,729) (766
Other income (expense):		
Change in fair value of warrant liability	155	(1,462
Other income (expense)	31	(1
Total other income (expense)	186	(1,463
Loss before provision for income taxes	(3,543) (2,229
Provision for income taxes	5	3
Net loss	\$ (3,548) \$ (2,232
Net loss per common share outstanding, basic and diluted	\$ (0.05) \$ (0.03
Weighted average common shares outstanding, basic and diluted	66,885,864	66,852,100

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Dollars in Thousand)

Net loss	\$ (3,548) \$ (2,232
Foreign currency translation adjustment	-	(11

Comprehensive loss	\$ (3,548)	\$ (2,243)
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Three Months Ended July 31,	
	2014	2013
Operating activities:		
Net loss	\$ (3,548)	\$ (2,232)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	808	552
Depreciation expense	56	50
Change in fair value of warrant liability	(155)	1,462
Changes in operating assets and liabilities:		
Accounts receivable	400	(1,284)
Prepaid expenses, deposits and other	(73)	59
Accounts payable	347	(227)
Accrued liabilities	(196)	(270)
Deferred revenue	(427)	(254)
Net cash used in operating activities	(2,788)	(2,144)
Investing activities:		
Purchase of property and equipment	(33)	(40)
Net cash used in investing activities	(33)	(40)
Financing activities:		
Proceeds from financing activities	-	-
Net cash used in financing activities	-	-
Exchange rate effect on cash and cash equivalents	(18)	(12)
Decrease in cash and cash equivalents	(2,839)	(2,196)
Cash and cash equivalents, beginning of period	5,891	9,561
Cash and cash equivalents, end of period	\$ 3,052	\$ 7,365

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

CHAMPIONS ONCOLOGY, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Company has three operating subsidiaries: Champions Oncology (Israel), Limited, Champions Biotechnology U.K., Limited and Champions Oncology Singapore, PTE LTD. For the three months ended July 31, 2014 and 2013, there were no material revenues earned by these subsidiaries.

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

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

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

Basic loss per share is calculated by dividing loss available to common shareholders by the weighted average number of common shares (including redeemable common stock) outstanding for the period. Diluted loss per share is calculated based on the weighted average number of common shares (including redeemable common stock) outstanding for the period, plus the dilutive effect of common stock purchase warrants, stock options and restricted stock units using the treasury stock method. Contingently issuable shares are included in the calculation of basic earnings per share when all contingencies surrounding the issuance of the shares are met and the shares are issued or issuable. Contingently issuable shares are included in the calculation of dilutive earnings per share as of the beginning of the reporting period if, at the end of the reporting period, all contingencies surrounding the issuance of the shares are satisfied or would be satisfied if the end of the reporting period were the end of the contingency period. Due to the net losses for the three months ended July 31, 2014 and 2013, basic and diluted loss per share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

CHAMPIONS ONCOLOGY, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table reflects the total potential share-based instruments outstanding at July 31, 2014 and 2013 that could have an effect on the future computation of dilution per common share:

	Three Months Ended July 31,	
	2014	2013
Stock options	23,382,287	14,161,455
Warrants	3,276,667	3,276,667
Restricted stock	-	25,000
Total common stock equivalents	26,658,954	17,463,122

Liquidity

Our liquidity needs have typically arisen from the funding of our research and development programs and the launch of new products, working capital requirements, and other strategic initiatives. In the past, we have met these cash requirements through our sales of products and services, cash and cash equivalents, working capital management, and proceeds from certain private placements of our securities. As of July 31, 2014, we had working capital of \$1.1 million and cash and cash equivalents on hand of \$3.1 million. We believe that our cash and cash equivalents on hand at July 31, 2014 are adequate to fund our operations through at least December 31, 2014. However, in order for us to continue as a going concern beyond this point, we need to obtain capital from external sources. If we are unable to 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 restrict our ability to operate our business.

Note 2. Property and Equipment

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

	July 31, 2014 (unaudited)	April 30, 2014
Furniture and fixtures	\$ 70	\$ 69
Computer equipment and software	669	655
Laboratory equipment	314	296
Leasehold improvements	2	2
Total property and equipment	1,055	1,022
Less: Accumulated depreciation	(644)	(588)
Property and equipment, net	\$ 411	\$ 434

Depreciation expense was \$56,000 and \$50,000 for the three months ended July 31, 2014 and 2013, respectively.

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 \$808,000 and \$552,000 was recognized for the three months ended July 31, 2014 and 2013, respectively. Stock-based compensation expense was recognized as follows (in thousands):

	Three Months Ended July 31,	
	2014	2013
General and administrative	543	419
Sales and marketing	154	63
Research and development	105	13
TOS cost of sales	2	8
POS cost of sales	4	49
Total stock-based compensation expense	808	552

CHAMPIONS ONCOLOGY, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Stock Option Grants

Black-Scholes assumptions used to calculate the fair value of options granted during the three months ended July 31, 2014 and 2013 were as follows (in thousands):

	Three Months Ended July 31,	
	2014	2013
Expected term in years	2.5 - 6	6.0
Risk-free interest rates	0.95% to 2.24%	1.38% to 1.91%
Volatility	94.08% to 102.5%	96.4% to 100.6%
Dividend yield	0%	0%

The weighted average fair value of stock options granted during the three months ended July 31, 2014 and 2013 was \$0.69 and \$0.40, respectively. The Company's stock options activity for the three months ended July 31, 2014 is as follows:

	Non- Employees	Directors and Employees	Total	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, May 1, 2014	765,000	22,586,037	23,351,037	\$ 1.01	7.5	\$985,000
Granted	80,000	135,000	215,000	1.01		
Forfeited	-	(11,250)	(11,250)	0.49		
Expired	(150,000)	(22,500)	(172,500)	1.12		
Outstanding, July 31, 2014	695,000	22,687,287	23,382,287	1.01	7.3	\$739,000
Vested and expected to vest as of July 31, 2014	695,000	22,687,287	23,382,287	1.01	7.3	\$739,000
Exercisable as of July 31, 2014	396,042	14,299,785	14,695,827	0.88	6.2	\$701,000

Included in the balances outstanding in the table above are 3,000,000 options granted to the Company's Chief Executive Officer and President which vest based on service criteria and 3,000,000 options granted to the Company's Chief Executive Officer and President which vest based on performance criteria. The service-based conditions of these options provide for vesting to occur monthly over a period of three years. Since the straight-line method is not available for performance or market-based share-base