

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, 2020

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)*

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.001 per share	CSBR	Nasdaq Capital Market

**Securities registered pursuant to Section 12(g) of the Act:**

**None.**

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 every Interactive Data File required to be submitted 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 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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company", and "emerging growth 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 4, 2020 was 13,369,045.

**DOCUMENTS INCORPORATED BY REFERENCE - None**

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FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2020**

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<u>October 31,</u> <u>2020</u>	<u>April 30,</u> <u>2020</u>
	<u>(unaudited)</u>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 8,553	\$ 8,342
Accounts receivable, net	5,960	4,770
Prepaid expenses and other current assets	477	385
<b>Total current assets</b>	<b>14,990</b>	<b>13,497</b>
Operating lease right-of-use assets, net	5,527	2,798
Property and equipment, net	4,872	3,993
Other long-term assets	36	128
Goodwill	335	335
<b>Total assets</b>	<b>\$ 25,760</b>	<b>\$ 20,751</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 3,948	\$ 3,140
Accrued liabilities	1,995	2,502
Current portion of finance lease	18	125
Current portion of operating lease liabilities	605	503
Deferred revenue	6,188	5,815
<b>Total current liabilities</b>	<b>12,754</b>	<b>12,085</b>
Non-current operating lease liabilities	5,932	3,170
Other non-current liabilities	181	178
<b>Total liabilities</b>	<b>\$ 18,867</b>	<b>\$ 15,433</b>
<b>Stockholders' equity:</b>		
Common stock, \$.001 par value; 200,000,000 shares authorized; 13,368,545 and 12,726,728 shares issued and outstanding as of October 31, 2020 and April 30, 2020, respectively	13	13
Additional paid-in capital	79,477	77,978
Accumulated deficit	(72,597)	(72,673)
<b>Total stockholders' equity</b>	<b>6,893</b>	<b>5,318</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 25,760</b>	<b>\$ 20,751</b>

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)

	<b>Three Months Ended October 31,</b>		<b>Six Months Ended October 31,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Oncology services revenue	\$ 10,117	\$ 7,625	\$ 19,664	\$ 14,362
<b>Costs and operating expenses:</b>				
Cost of oncology services	5,644	3,881	10,980	7,633
Research and development	1,650	1,341	3,247	2,644
Sales and marketing	1,348	977	2,556	1,847
General and administrative	1,468	1,135	2,850	2,561
Total costs and operating expenses	10,110	7,334	19,633	14,685
Income (loss) from operations	7	291	31	(323)
Other income	9	27	73	15
Income (loss) before provision for income taxes	16	318	104	(308)
Provision for income taxes	15	11	28	26
Net income (loss)	<u>\$ 1</u>	<u>\$ 307</u>	<u>\$ 76</u>	<u>\$ (334)</u>
Net income (loss) per common share outstanding				
basic	<u>\$ —</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>
and diluted	<u>\$ —</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>
Weighted average common shares outstanding				
basic	<u>13,064,191</u>	<u>11,619,686</u>	<u>12,811,921</u>	<u>11,619,569</u>
and diluted	<u>15,062,103</u>	<u>12,964,792</u>	<u>14,563,060</u>	<u>11,619,569</u>

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

**CHAMPIONS ONCOLOGY, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Dollars in Thousands)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
<b>Balance April 30, 2020</b>	12,726,728	13	\$ 77,978	\$ (72,673)	\$ 5,318
Stock-based compensation	—	—	120	\$ —	\$ 120
Issuance of common stock on exercise of stock options	1,160	—	—	\$ —	\$ —
Net income	—	—	—	75	75
<b>Balance July 31, 2020</b>	<u>12,727,888</u>	<u>13</u>	<u>\$ 78,098</u>	<u>\$ (72,598)</u>	<u>\$ 5,513</u>
Stock-based compensation	—	—	85	\$ —	\$ 85
Issuance of common stock on exercise of stock options	640,657	—	1,294	\$ —	\$ 1,294
Net income	—	—	—	1	1
<b>Balance October 31, 2020</b>	<u>13,368,545</u>	<u>13</u>	<u>79,477</u>	<u>(72,597)</u>	<u>6,893</u>

  

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
<b>Balance April 30, 2019</b>	11,619,538	12	\$ 72,924	\$ (70,698)	\$ 2,238
Stock-based compensation	—	—	131	—	131
Net loss	—	—	—	(641)	(641)
<b>Balance July 31, 2019</b>	<u>11,619,538</u>	<u>12</u>	<u>\$ 73,055</u>	<u>\$ (71,339)</u>	<u>\$ 1,728</u>
Stock-based compensation	—	—	77	—	77
Issuance of common stock on exercise of stock options and warrants	625	—	2	—	2
Net income	—	—	—	307	307
<b>Balance October 31, 2019</b>	<u>11,620,163</u>	<u>12</u>	<u>73,134</u>	<u>(71,032)</u>	<u>2,114</u>

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,	
	2020	2019
<b>Operating activities:</b>		
Net income (loss)	\$ 76	\$ (334)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	205	208
Depreciation and amortization expense	584	360
Gain on disposal of equipment	—	(52)
Gain on termination of operating lease	(75)	—
Operating lease right-of use assets	79	198
Provision for doubtful accounts	49	34
Changes in operating assets and liabilities:		
Accounts receivable	(1,237)	425
Prepaid expenses and other current assets	(92)	(55)
Accounts payable	568	(341)
Accrued liabilities	(507)	(339)
Other non-current liabilities	3	—
Operating lease liabilities	138	(147)
Deferred revenue	373	124
Net cash provided by operating activities	<u>164</u>	<u>81</u>
<b>Investing activities:</b>		
Purchase of property and equipment	(1,224)	(522)
Refund of security deposit	92	—
Net cash used in investing activities	<u>(1,132)</u>	<u>(522)</u>
<b>Financing activities:</b>		
Proceeds from exercise of options and warrants	1,294	2
Finance lease payments	(115)	(14)
Net cash provided by (used in) financing activities	<u>1,179</u>	<u>(12)</u>
Increase (decrease) in cash	211	(453)
Cash at beginning of period	<u>8,342</u>	<u>3,237</u>
Cash at end of period	<u>\$ 8,553</u>	<u>\$ 2,784</u>
<b>Non-cash investing activities:</b>		
Right-of-use assets obtained in exchange for operating lease liabilities	3,872	3,205
Unpaid portion of property and equipment purchase	240	321
Credit received on purchase of equipment	\$ —	\$ 160

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 provides 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. Utilizing the TumorGraft Technology Platform (the "Platform"), a comprehensive Bank of unique, well characterized "Patient Derived XenoGrafts" (PDX) models, the Company offers multiple 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.

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, 2020 and 2019, 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, 2020, 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, 2020. The results of operations for the interim periods are not necessarily indicative of the results of operations for a full fiscal year.

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.

## **Note 2. Significant Accounting Policies**

### ***Cash and Cash Equivalents***

The Company considers only those investments which are highly liquid, readily convertible to cash, and with original maturities of three months or less to be cash equivalents. As of October 31, 2020 and April 30, 2020 the Company had no cash equivalents.

### ***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, 2020, the Company had net income of approximately \$76,000 and cash provided by operations of \$164,000. As of October 31, 2020, the Company had an accumulated deficit of approximately \$72.6 million, working capital of \$2.2 million and cash of \$8.6 million. We believe that our cash on hand, together with expected net positive cash provided by operations for fiscal year 2021, are adequate to fund operations through at least 12 months from the filing of this 10-Q. However, should our revenue expectations not materialize, we believe we have cost reduction strategies that could be implemented without disrupting the business or restructuring the Company. 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.

### ***Leases***

Effective May 1, 2019, the Company accounts for its leases under Accounting Standards Codification ("ASC") Topic 842, Leases. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the consolidated balance sheet as both a right-of-use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease, if applicable, or the Company's incremental borrowing rate. As the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease liabilities are increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line rent expense over the lease term.

### ***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 or 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 Ended October 31,		Six Months Ended October 31,	
	2020	2019	2020	2019
Basic and diluted net income (loss) per share computation (dollars in thousands):				
Net income (loss) attributable to common stockholders	\$ 1	\$ 307	\$ 76	\$ (334)
Weighted Average common shares – basic	13,064,191	11,619,686	12,811,921	11,619,569
Basic net income (loss) per share	<u>\$ —</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>
Diluted income (loss) per share computation:				
Net income (loss) attributable to common stockholders	\$ 1	\$ 307	\$ 76	\$ (334)
Net income (loss) available to common stockholders	\$ 1	\$ 307	\$ 76	\$ (334)
Weighted Average common shares	13,064,191	11,619,686	12,811,921	11,619,569
Incremental shares from assumed exercise of stock options	1,997,912	1,345,106	1,751,139	—
Adjusted weighted average share – diluted	<u>15,062,103</u>	<u>12,964,792</u>	<u>14,563,060</u>	<u>11,619,569</u>
Diluted net income (loss) per share	<u>\$ —</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>

The following table reflects the total potential share-based instruments outstanding at October 31, 2020 and 2019 that could have an effect on the future computation of dilution per common share, had their effect not been anti-dilutive:

	October 31,	
	2020	2019
Stock options	1,651,478	2,453,874
Warrants	—	1,669,773
Total common stock equivalents	<u>1,651,478</u>	<u>4,123,647</u>

### 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 earnings history, a valuation allowance is established. Our ability to utilize net operating losses (“NOL”) carryforwards to offset our future taxable income 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 adjusts the valuation allowance in the period management determines it is more likely than not that 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, 2020 and April 30, 2020, 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 the Company 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 recorded \$180,000 and \$178,000 of liabilities related to uncertain tax positions relative to one of its foreign operations as of October 31, 2020 and April 30, 2020, respectively.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on the Company's balance sheets at October 31, 2020 and April 30, 2020, 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 provision for income taxes for the three months ended October 31, 2020 and 2019 was \$15,000 and \$11,000, respectively, and for the six months ended October 31, 2020 and 2019 was \$28,000 and \$26,000, respectively. These amounts are mainly attributable to taxable income earned in Israel.

### ***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 the 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.

### ***Accounting Pronouncements Being Evaluated***

In October 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-10, Codification Improvements. The purpose of the ASU is to clarify, correct errors in, or make minor improvements to a variety of ASC topics. The changes in ASU 2020-03 are not expected to have a significant effect on the Company's current accounting practices. The ASU improves various topics in the Codification to increase stakeholder awareness of the amendments and to expedite the improvement process by making the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The ASU is effective for fiscal years beginning after December 15, 2020 with early application permitted. We are currently assessing the impact of this update on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes. The ASU enhances and simplifies various aspects of the income tax accounting guidance in ASC Topic 740 and removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years with early adoption permitted. We are currently assessing the impact of this update on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses". This update requires immediate recognition of management's estimates of current expected credit losses ("CECL"). Under the prior model, losses were recognized only as they were incurred. The new model is applicable to all financial instruments that are not accounted for at fair value through net income. The standard is effective for fiscal years beginning after December 15, 2022 for public entities qualifying as small reporting companies. Early adoption is permitted. We are currently assessing the impact of this update on our consolidated financial statements.

### ***Recently Adopted Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, "Leases", (Topic 842), which required the Company to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous U.S. GAAP) on its consolidated balance sheet for all leases in excess of one year in duration. The ASU was effective for the Company on May 1, 2019. The Company elected to adopt ASU 2016-02 using the modified retrospective method and, therefore, have not recast comparative periods presented in its unaudited consolidated financial statements. As permitted under ASU 2016-02, the Company elected to account for the non-lease components together with the lease components as a single lease component. The Company recorded an operating lease right-of-use ("ROU") asset of \$3.2 million, net of deferred rent of \$900,000 and an operating lease liability of \$4.1 million as of May 1, 2019. See Note 8 of this Form 10-Q for additional information and required disclosures. Under Topic 842, the Company determined if an arrangement is a lease at inception. ROU assets and liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. As the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

In August 2018, the FASB issued ASU 2018-15, which amends ASC 350-40, Intangibles—Goodwill and Other—Internal-Use Software, to address a customer's accounting for implementation costs incurred in a cloud computing arrangement ("CCA") that is a service contract. This update aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. This ASU was effective for and adopted by the Company on May 1, 2020. The adoption had no material impact on our consolidated financial statements.

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 share

based 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 was effective for the Company on May 1, 2019. The Company adopted this new rule beginning with its financial reporting for the quarter ended January 31, 2019. The adoption had no material impact on our consolidated financial statements.

On November 11, 2019, the FASB issued ASU 2019-08 which clarifies the accounting for share-based payments issued as consideration payable to a customer in accordance with ASC 606. Under the ASU, entities apply the guidance in ASC 718 to measure and classify share-based payments issued to a customer that are not in exchange for a distinct good or service (i.e., share-based sales incentives). The ASU was effective for the Company on May 1, 2020 and the adoption had no material impact on our consolidated financial statements.

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

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

	<b>October 31, 2020</b>	<b>April 30, 2020</b>
Accounts receivable	\$ 3,249	\$ 2,655
Unbilled services	3,049	2,404
Total accounts receivable and unbilled services	6,298	5,059
Less allowance for doubtful accounts	(338)	(289)
Total accounts receivable, net	<u>\$ 5,960</u>	<u>\$ 4,770</u>

Deferred revenue was as follows (in thousands):

	<b>October 31, 2020</b>	<b>April 30, 2020</b>
Deferred revenue	\$ 6,188	\$ 5,815

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

### Note 4. Revenue from Contracts with Customers

#### *Oncology Services Revenue*

The Company recognizes revenue under ASC 606, Revenue Recognition - Revenue from Customers ("ASC 606"). In accordance with ASC 606, revenue is 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. The Company accounts for amendments as a separate contract if they meet the criteria under ASC 606-10-25-12.

Other revenue represents services provided to the pharmaceutical and biotechnology companies. The Company does not consider these services part of their core product offerings.

The following tables represents disaggregated revenue for the three and six months ended October 31, 2020 and 2019:

	<b>Three Months Ended October 31,</b>		<b>Six Months Ended October 31,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Pharmacology services	\$ 10,041	\$ 7,358	\$ 19,454	\$ 13,888
Personalized oncology services	37	232	150	412
Other	39	35	60	62
Total oncology services revenue	<u>\$ 10,117</u>	<u>\$ 7,625</u>	<u>\$ 19,664</u>	<u>\$ 14,362</u>

### ***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. There were no material contract assets or liabilities recorded on the condensed consolidated balance sheets as of October 31, 2020 and April 30, 2020.

### **Note 5. Property and Equipment**

Property and equipment is recorded at cost and primarily consists of laboratory equipment, 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 nine years. Property and equipment consisted of the following (table in thousands):

	<b>October 31, 2020</b>	<b>April 30, 2020</b>
Furniture and fixtures	\$ 238	\$ 180
Computer equipment and software	1,758	1,209
Laboratory equipment	5,787	4,818
Assets in progress	441	554
Leasehold improvements	4	4
<b>Total property and equipment</b>	<b>8,228</b>	<b>6,765</b>
Less: Accumulated depreciation	<u>(3,356)</u>	<u>(2,772)</u>
<b>Property and equipment, net</b>	<b><u>\$ 4,872</u></b>	<b><u>\$ 3,993</u></b>

Depreciation and amortization expense, excluding expense recorded under the finance lease, was \$254,000 and \$162,000 for the three months ended October 31, 2020 and 2019, respectively. Depreciation and amortization expense, excluding expense recorded under the finance lease, was \$478,000 and \$307,000 for the six months ended October 31, 2020 and 2019, respectively.

As of October 31, 2020 and April 30, 2020, property, plant and equipment included gross assets held under finance leases of \$343,000 and \$366,000, respectively. Related depreciation expense was approximately \$53,000 and \$16,000 for the three months ended October 31, 2020 and 2019 and \$106,000 and \$53,000 for the six months ended October 31, 2020 and 2019, respectively.

#### ***Finance Lease***

In November 2014, the Company entered into a finance lease for laboratory equipment. The lease had costs of approximately \$149,000, at inception, through November 2019. The final lease payment under this finance lease of \$2,000 was paid during the three months ended January 31, 2020. As of October 31, 2020 the asset has been fully depreciated and book value is nil.

In July 2018, the Company entered into a second finance lease for laboratory equipment. The lease had costs of approximately \$266,000, inclusive of interest and taxes, with a monthly payment of approximately \$11,000. Although the lease was originally due to mature in July 2020, the Company decided to pay the outstanding balance on February 1, 2019. As a result, the entire outstanding balance of the lease was nil for periods subsequent to that date.

In December 2019, the Company entered into a finance lease for laboratory equipment. The lease had costs of approximately \$231,000, at inception, through November 2020. This lease expires December 2020. The current monthly finance lease payment is approximately \$19,000. The future minimum lease payments remaining under this finance lease are approximately \$19,000. The present value of minimum future obligations is calculated based on interest rate of 4.75%. Depreciation and amortization expense related to this finance lease was \$53,100 and nil for the three months ended October 31, 2020 and 2019, respectively, and \$106,000 and nil for the six months ended October 31, 2020 and 2019, respectively.

#### **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 expense was recognized as follows (table in thousands):



	Three Months Ended October 31,		Six Months Ended October 31,	
	2020	2019	2020	2019
General and administrative	\$ 10	\$ 39	\$ 57	\$ 171
Sales and marketing	49	27	97	49
Research and development	5	2	9	5
Cost of oncology services	21	9	42	(17)
Total stock-based compensation expense	<u>\$ 85</u>	<u>\$ 77</u>	<u>\$ 205</u>	<u>\$ 208</u>

### Stock Option Grants

Black-Scholes assumptions used to calculate the fair value of options granted during the three and six months ended October 31, 2020 and 2019 were as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2020	2019	2020	2019
Expected term in years	6	6	6	6
Risk-free interest rates	0.27%	1.57%	0.27%-0.39%	1.57%
Volatility	72.83%	71.11%	72.64%-72.83%	71.11%
Dividend yield	—%	—%	—%	—%

The weighted average fair value of stock options granted during the three months ended October 31, 2020 and 2019 was \$7.05 and \$3.32, respectively, and \$7.29 and \$3.32 for the six months ended October 31, 2020 and 2019, respectively.

The Company's stock options activity for the six months ended October 31, 2020 was as follows:

	Directors and Employees	Non- Employees	Total	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, April 30, 2020	2,228,326	43,332	2,271,658	\$ 3.23	5.0	\$ 10,663,000
Granted	60,000	—	60,000	7.29	9.84	
Exercised	(640,657)	(1,160)	(641,817)	2.24		
Forfeited	(5,500)	—	(5,500)	6.76		
Canceled	(26,106)	(923)	(27,029)	4.00		
Expired	—	(5,834)	(5,834)	10.80		
Outstanding, October 31, 2020	<u>1,616,063</u>	<u>35,415</u>	<u>1,651,478</u>	3.71	5.83	\$ 8,641,000
Vested and expected to vest as of October 31, 2020	<u>1,616,063</u>	<u>35,415</u>	<u>1,651,478</u>	3.71	5.83	\$ 8,641,000
Exercisable as of October 31, 2020	<u>1,303,396</u>	<u>9,584</u>	<u>1,312,980</u>	3.15	5.12	\$ 7,660,000

### Note 7. Leases

The Company accounts for its leases under ASU 2016-02, "Leases", Topic 842.

### **Operating Leases**

The Company currently leases certain office equipment and its office and laboratory facilities under non-cancelable operating leases. Rent expense for operating leases is recognized on a straight-line basis over the lease term from the lease commencement date through the scheduled expiration date. Rent expenses totaled \$629,000 and \$477,000 for the six months ended October 31, 2020 and 2019, respectively. For the three months ended October 31, 2020 and 2019, rent expenses totaled \$314,000 and \$239,000, respectively. The Company considers its facilities adequate for its current operational needs.

The Company leases the following facilities:

- 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 \$44,000 and \$47,000 of rental costs relative to this lease for the six months ended October 31, 2020 and 2019, respectively, and \$24,000 for each the three months ended October 31, 2020 and 2019.
- 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 originally expired in August 2028.
  - On March 30, 2020, the Company executed the first amendment to this lease to expand the existing premises at 1330 Piccard Drive, Suite 025 ("Expansion Premises") to add on Suites 050 and 104. This amendment also extended the current lease term by six months. The Expansion Premises operating lease commencement date was June 1, 2020 and, under the amendment, both leases expire February 28, 2029.
  - In accordance with ASC 842, "Leases", the Company evaluated the first amendment and also performed a reassessment of the existing lease for Suite 025 to determine the impact of the six-month term extension. As a result of this assessment, the Company recognized an additional operating ROU asset and related operating lease liability for Suite 025 of \$118,000 and \$125,000, respectively, as well as an incremental net rent expense of \$8,000 during the three months ended July 31, 2020. The Company did not recognize the incremental rental expense under this amendment during fiscal 2020 as the Expansion Premises lease commencement date was during fiscal 2021.
  - Upon the Expansion Premises operating lease commencement date (June 1, 2020), the Company recognized an operating ROU asset and related operating lease liability for Suites 050 and 104 of \$3.8 million, each, respectively.
  - For the leases related to Piccard Drive, the Company recognized \$534,000 and \$302,000 of rental expense for the six months ended October 31, 2020 and 2019, and \$290,000 and \$151,000 for the three months ended October 31, 2020 and 2019, respectively.
- 1405 Research Boulevard, Suite 125, Rockville, Maryland 20850 ("New Location"), which consists of laboratory and office space where the Company conducted operations related to its primary service offerings. The Company executed this lease on November 1, 2018. The operating commencement date was January 17, 2019. This lease was set to expire in April 2024. The Company terminated this lease on June 30, 2020 and transitioned its activities from this location to the Expansion Premises, as defined above, during the first quarter of fiscal 2021. Upon lease termination, the Company recognized a decrease in the related operating ROU asset and operating lease liability of approximately \$850,000 and \$926,000, respectively, as well as a gain on lease termination of \$76,000. The Company also recognized \$43,000 and \$128,000 of rental expense for the six months ended October 31, 2020 and 2019, and zero and \$64,000 for the three months ended October 31, 2020 and 2019, respectively.

ROU assets and lease liabilities related to our current operating leases are as follows (in thousands):

	<b>October 31, 2020</b>	<b>April 30, 2020</b>
Operating lease right-of-use assets, net	\$ 5,527	\$ 2,798
Current portion of operating lease liabilities	605	503
Non-current portion of operating lease liabilities	5,932	3,170

As of October 31, 2020, the weighted average remaining operating lease term and the weighted average discount rate were 8.20 years and 6.08%, respectively.

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

Remainder of 2021	\$	850
2022		1,851
2023		1,818
2024		1,844
2025		1,867
Thereafter		7,268
Total	\$	<u>15,498</u>

Refer to Note 5, Property and Equipment, for more information on financing leases.

## **Note 8. 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 three months ended October 31, 2020 and 2019, the Company paid an affiliate of a board member \$15,000 and \$18,000, respectively, for consulting services unrelated to his duty as a board member. During the three months ended October 31, 2020 and 2019, the Company paid an affiliate of another board member \$3,900 and \$14,000, respectively, for consulting services unrelated to their duties as a board member.

During the six months ended October 31, 2020 and 2019, the Company paid an affiliate of a board member \$33,000 and \$36,000 for consulting services unrelated to his duty as a board member. During the six months ended October 31, 2020 and 2019, the Company paid an affiliate of another board member \$9,500 and \$29,000, respectively, for consulting services unrelated to their duties as a board member. As of October 31, 2020, \$4,000 was due to these related parties.

## **Note 9. Commitments and Contingencies**

### ***Risks and uncertainties related to Covid-19***

In December 2019, a novel strain of coronavirus, COVID-19, was first identified in Wuhan, China. This virus continues to spread globally and, as of December 2020, has spread to over 200 countries, including the United States. The spread of COVID-19 from China to other countries has resulted in the World Health Organization declaring the outbreak of COVID-19 as a “pandemic,” or a worldwide spread of a new disease, on March 11, 2020. Many countries around the world have imposed quarantines and restrictions on travel and mass gatherings to slow the spread of the virus. Employers are also required to increase, as much as possible, the capacity and arrangement for employees to work remotely. In addition, on March 11, 2020, the President of the United States issued a proclamation to restrict travel to the United States from foreign nationals who have recently been in certain European and Latin American countries. Although, to date, these restrictions have not impacted our operations, the effect on our business, from the spread of COVID-19 and the actions implemented by the governments of the United States and elsewhere across the globe, may worsen over time. We continue to monitor our operations and applicable government recommendations and requirements.

Any outbreak of contagious diseases, or other adverse public health developments, could have a material and adverse effect on our business operations. These could include disruptions or restrictions on our ability to travel, pursue partnerships and other business transactions, receive shipments of biologic materials, as well as be impacted by the temporary closure of the facilities of suppliers. The spread of an infectious disease, including COVID-19, may also result in the inability of our suppliers to deliver supplies to us on a timely basis. In addition, health professionals may reduce staffing and reduce or postpone meetings with clients in response to the spread of an infectious disease. Though we have not yet experienced such events, if they would occur, they could result in a period of business disruption, and in reduced operations, any of which could materially affect our business, financial condition and results of operations. However, as of the date of this Form 10-Q, we have not experienced a material adverse effect on our business nor the need for reduction in our work force; and, currently, and we do

not expect any material impact on our long-term activity. The extent to which COVID-19 impacts our business will depend on future developments which are highly uncertain and cannot be predicted, including, but not limited to, new information which may emerge concerning the increased severity of COVID-19, the actions to contain COVID-19, or treat its impact.

### **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.

## **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, 2020, 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, 2020, 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, if any. 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 to personalize the development and use of oncology drugs. Utilizing our TumorGraft Technology Platform (the "Platform"), a comprehensive Bank of unique, well characterized PDX models, 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. We believe it costs 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 clinical trials. 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. We have previously disclosed that our POS program would not be the focus of our growth moving forward and this plan remains unchanged.

In December 2019, a novel strain of coronavirus, COVID-19, was first identified in Wuhan, China. This virus continues to spread globally and, as of December 2020, has spread to over 200 countries, including the United States. The spread of COVID-19 from China to other countries has resulted in the World Health Organization declaring the outbreak of COVID-19 as a “pandemic,” or a worldwide spread of a new disease, on March 11, 2020. Many countries around the world imposed quarantines and restrictions on travel and mass gatherings to slow the spread of the virus. Employers are also required to increase, as much as possible, the capacity and arrangement for employees to work remotely. In addition, on March 11, 2020, the President of the United States issued a proclamation to restrict travel to the United States from foreign nationals who have recently been in certain European and Latin American countries. Although, to date, these restrictions have not impacted our operations, the effect on our business, from the spread of COVID-19 and the actions implemented by the governments of the United States and elsewhere across the globe, may worsen over time. We continue to monitor our operations and applicable government recommendations and requirements.

Any outbreak of contagious diseases, or other adverse public health developments, could have a material and adverse effect on our business operations. These could include disruptions or restrictions on our ability to travel, pursue partnerships and other business transactions, receive shipments of biologic materials, as well as be impacted by the temporary closure of the facilities of suppliers. The spread of an infectious disease, including COVID-19, may also result in the inability of our suppliers to deliver supplies to us on a timely basis. In addition, health professionals may reduce staffing and reduce or postpone meetings with clients in response to the spread of an infectious disease. Though we have not yet experienced such events, if they would occur, they could result in a period of business disruption, and in reduced operations, any of which could materially affect our business, financial condition and results of operations. However, as of the date of this Form 10-Q, we have not experienced a material adverse effect on our business nor the need for reduction in our work force; and, currently, and we do not expect any material impact on our long-term activity. The extent to which COVID-19 impacts our business will depend on future developments which are highly uncertain and cannot be predicted, including, but not limited to, new information which may emerge concerning the increased severity of COVID-19, the actions to contain COVID-19, or treat its impact.

## **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, 2020, the Company had net income of approximately \$76,000 and cash provided by operations of \$164,000. As of October 31, 2020, the Company had an accumulated deficit of approximately \$72.6 million, working capital of \$2.2 million, and cash of \$8.6 million. We believe that our cash on hand, together with expected positive cash flows from operations for fiscal year 2021, are adequate to fund operations through at least 12 months from the filing of this 10-Q. However, should our revenue expectations not materialize, we believe we have cost reduction strategies that could be implemented without disrupting the business or restructuring the Company. 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):

	<b>For the Three Months Ended October 31,</b>				
	<b>2020</b>	<b>% of Revenue</b>	<b>2019</b>	<b>% of Revenue</b>	<b>% Change</b>
Oncology services revenue	\$ 10,117	100.0 %	\$ 7,625	100.0 %	32.7 %
<b>Costs and operating expenses:</b>					
Cost of oncology services	5,644	55.8	3,881	50.9	45.4
Research and development	1,650	16.3	1,341	17.6	23.0
Sales and marketing	1,348	13.3	977	12.8	38.0
General and administrative	1,468	14.5	1,135	14.9	29.3
Total costs and operating expenses	10,110	99.9	7,334	96.2	37.9
Income from operations	<u>\$ 7</u>	<u>0.1 %</u>	<u>\$ 291</u>	<u>3.8 %</u>	<u>97.6 %</u>
	<b>For the Six months ended October 31,</b>				
	<b>2020</b>	<b>% of Revenue</b>	<b>2019</b>	<b>% of Revenue</b>	<b>% Change</b>
Oncology services revenue	\$ 19,664	100.0 %	\$ 14,362	100.0 %	36.9 %
<b>Costs and operating expenses:</b>					
Cost of oncology services	10,980	55.8	7,633	53.1	43.8
Research and development	3,247	16.5	2,644	18.4	22.8
Sales and marketing	2,556	13.0	1,847	12.9	38.4
General and administrative	2,850	14.5	2,561	17.8	11.3
Total costs and operating expenses	19,633	99.8	14,685	102.2	33.7
Income (loss) from operations	<u>\$ 31</u>	<u>0.2</u>	<u>\$ (323)</u>	<u>(2.2)%</u>	<u>(109.6)%</u>

### ***Oncology Services Revenue***

Oncology services revenue was \$10.1 million and \$7.6 million for the three months ended October 31, 2020 and 2019, respectively, an increase of \$2.5 million or 32.7%. Oncology services revenue was \$19.7 million and \$14.4 million for the six months ended October 31, 2020 and 2019, respectively, an increase of \$5.3 million or 36.9%. The increase in revenue for both the three and six month periods is due to increased sales, both in number and size of studies, and the expansion of both our platform and product lines. Additionally, customers are seeking more complex study designs and end point analysis testing, leading to larger contracts, which contributed to revenue growth.

### ***Cost of Oncology Services***

Cost of oncology services for the three months ended October 31, 2020 and 2019 were \$5.6 million and \$3.9 million, respectively, an increase of \$1.8 million or 45.4%. For the three months ended October 31, 2020 and 2019, gross margins were 44.2% and 49.1%, respectively. Cost of oncology services for the six months ended October 31, 2020 and 2019 were \$11.0 million and \$7.6 million, respectively, an increase of \$3.3 million or 43.8%. For the six months ended October 31, 2020 and 2019, gross margins were 44.2% and 46.9%, respectively. The increase in cost of oncology services for the three and six month periods was mainly due to an increase in compensation, lab supply, and outsourced lab service expenses. With the exception of outsourced lab services, the overall expense increase is generally in line with the expected contribution based on the growth in revenue, study volume, and expansion into new services. Gross margin varies based on timing differences between expense and revenue recognition and was driven lower by the increase in costs on growing study volume in advance of revenue recognition. The cost of outsourced lab services amplified this impact.

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

Research and development expenses for the three months ended October 31, 2020 and 2019 were \$1.7 million and \$1.3 million, respectively, an increase of approximately \$308,000 or 23.0%. Research and development expenses for the six months ended October 31, 2020 and 2019 were \$3.2 million and \$2.6 million, respectively, an increase of approximately \$603,000 or 22.8%. The increase for the three and six month periods is mainly due to increased compensation and lab supply expense as we continued to develop new service capabilities and endpoint testing analysis. Additionally, we incurred sequencing costs as our investment in characterizing our TumorBank continues, adding valuable data to our platform.

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

Sales and marketing expenses for the three months ended October 31, 2020 and 2019 were \$1.3 million and \$977,000, respectively, an increase of \$371,000, or 38.0%. Sales and marketing expenses for the six months ended October 31, 2020 and 2019 were \$2.6 million and \$1.8 million, respectively, an increase of \$709,000, or 38.4%. The increase for the three and six month periods is mainly due to compensation expense driven by the continued investment in expanding our business development team.

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

General and administrative expenses for the three months ended October 31, 2020 and 2019 were \$1.5 million and \$1.1 million, an increase of \$333,000, or 29.3%. General and administrative expenses for the six months ended October 31, 2020 and 2019 were \$2.9 million and \$2.6 million, respectively, an increase of \$289,000, or 11.3%. General and administrative expenses are primarily comprised of compensation, insurance, accounting fees, and depreciation expenses and have increased to support the overall infrastructure growth of the company.

### ***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 \$164,000 and \$81,000 for the six months ended October 31, 2020 and 2019. The increase in cash from operating activities during the current period was primarily due to changes in current balance sheet accounts in the ordinary course of business, including an increase in net accounts receivable offset by an increase in accounts payable and accrued liabilities.

#### ***Cash Flows from Investing Activities***

Net cash used in investing activities was \$1.1 million and \$522,000 for the six months ended October 31, 2020 and 2019, respectively. Cash used in investing activities was primarily related to the purchase of lab equipment and the development of software required for the Company's new products and services.

#### ***Cash Flows from Financing Activities***

Net cash provided by financing activities was \$1.2 million for the six months ended October 31, 2020 compared to the net cash used in financing activities of \$12,000 for the six months ended October 31, 2019, respectively. Cash provided in financing activities resulted from an increase in option exercises during the current period.

### **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, 2020.

### ***Recent Accounting Pronouncements***

For detailed information regarding recently issued accounting pronouncements and the expected impact on our condensed consolidated financial statements, see Note 2, "Significant Accounting Policies" 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, 2020 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**

As a smaller reporting company, we are not required to provide the information required by this Item; however, the discussion of our business and operations should be read together with the Risk Factors set forth in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on July 28, 2020. Such risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flow, strategies or prospects in a material and adverse manner.

### **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

<u>No.</u>	<u>Exhibit</u>
31.1*	<a href="#">Section 302 Certification of Principal Executive Officer</a>
31.2*	<a href="#">Section 302 Certification of Principal Financial Officer</a>
32.1**	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
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 14, 2020

By: /s/ Ronnie Morris

Ronnie Morris

Chief Executive Officer

*(principal executive officer)*

Date: December 14, 2020

By: /s/ David Miller

David Miller

Chief Financial Officer

*(principal financial and accounting officer)*