

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 January 31, 2023

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	The Nasdaq Stock Market LLC

**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 March 15, 2023 was 13,558,650.

**DOCUMENTS INCORPORATED BY REFERENCE - None**

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FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2023**

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<u>January 31, 2023</u>	<u>April 30, 2022</u>
	<u>(unaudited)</u>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 11,645	\$ 9,007
Accounts receivable, net	8,053	9,513
Prepaid expenses and other current assets	661	1,144
<b>Total current assets</b>	<b>20,359</b>	<b>19,664</b>
Operating lease right-of-use assets, net	7,590	8,230
Property and equipment, net	7,852	7,134
Other long-term assets	15	15
Goodwill	335	335
<b>Total assets</b>	<b>\$ 36,151</b>	<b>\$ 35,378</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 4,298	\$ 2,868
Accrued liabilities	2,031	2,414
Current portion of operating lease liabilities	1,166	1,054
Other current liability	144	72
Deferred revenue	13,158	11,071
<b>Total current liabilities</b>	<b>20,797</b>	<b>17,479</b>
Non-current operating lease liabilities	7,702	8,412
Other non-current liabilities	588	391
<b>Total liabilities</b>	<b>\$ 29,087</b>	<b>\$ 26,282</b>
<b>Stockholders' equity:</b>		
Common stock, \$.001 par value; 200,000,000 shares authorized; 13,558,650 shares issued and outstanding as of January 31, 2023 and April 30, 2022, respectively	14	14
Additional paid-in capital	81,806	81,064
Accumulated deficit	(74,756)	(71,982)
<b>Total stockholders' equity</b>	<b>7,064</b>	<b>9,096</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 36,151</b>	<b>\$ 35,378</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 January 31,</b>		<b>Nine Months Ended January 31,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Oncology services revenue	\$ 12,773	\$ 13,193	\$ 40,799	\$ 36,232
<b>Costs and operating expenses:</b>				
Cost of oncology services	7,699	6,406	22,194	17,411
Research and development	3,202	2,181	8,693	6,783
Sales and marketing	1,761	1,549	5,153	4,764
General and administrative	2,569	2,227	7,494	6,356
Total costs and operating expenses	15,231	12,363	43,534	35,314
Income (loss) from operations	(2,458)	830	(2,735)	918
Other income (loss)	36	(32)	9	11
Income (loss) before provision for income taxes	(2,422)	798	(2,726)	929
Provision for income taxes	17	11	48	37
Net income (loss)	<u>\$ (2,439)</u>	<u>\$ 787</u>	<u>\$ (2,774)</u>	<u>\$ 892</u>
Net income (loss) per common share outstanding				
basic	<u>\$ (0.18)</u>	<u>\$ 0.06</u>	<u>\$ (0.20)</u>	<u>\$ 0.07</u>
and diluted	<u>\$ (0.18)</u>	<u>\$ 0.05</u>	<u>\$ (0.20)</u>	<u>\$ 0.06</u>
Weighted average common shares outstanding				
basic	<u>13,558,642</u>	<u>13,500,444</u>	<u>13,532,990</u>	<u>13,170,880</u>
and diluted	<u>13,558,642</u>	<u>14,387,009</u>	<u>13,532,990</u>	<u>14,178,082</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, 2022</b>	13,522,441	\$ 14	\$ 81,064	\$ (71,982)	\$ 9,096
Stock-based compensation	—	—	206	—	206
Net loss	—	—	—	(319)	(319)
<b>Balance July 31, 2022</b>	<u>13,522,441</u>	<u>\$ 14</u>	<u>\$ 81,270</u>	<u>\$ (72,301)</u>	<u>\$ 8,983</u>
Stock-based compensation	—	—	119	—	119
Issuance of common stock on exercise of stock options	36,209	—	86	—	86
Net loss	—	—	—	(16)	(16)
<b>Balance October 31, 2022</b>	<u>13,558,650</u>	<u>\$ 14</u>	<u>\$ 81,475</u>	<u>\$ (72,317)</u>	<u>\$ 9,172</u>
Stock-based compensation	—	—	331	—	331
Net loss	—	—	—	(2,439)	(2,439)
<b>Balance January 31, 2023</b>	<u>13,558,650</u>	<u>\$ 14</u>	<u>\$ 81,806</u>	<u>\$ (74,756)</u>	<u>\$ 7,064</u>

  

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
<b>Balance April 30, 2021</b>	13,414,066	\$ 13	\$ 79,945	\$ (72,530)	\$ 7,428
Stock-based compensation	—	—	280	—	280
Issuance of common stock on exercise of stock options	1,000	—	2	—	2
Net loss	—	—	—	(172)	(172)
<b>Balance July 31, 2021</b>	<u>13,415,066</u>	<u>\$ 13</u>	<u>\$ 80,227</u>	<u>\$ (72,702)</u>	<u>\$ 7,538</u>
Stock-based compensation	—	—	134	—	134
Issuance of common stock on exercise of stock options	81,078	1	121	—	122
Net income	—	—	—	277	277
<b>Balance October 31, 2021</b>	<u>13,496,144</u>	<u>\$ 14</u>	<u>\$ 80,482</u>	<u>\$ (72,425)</u>	<u>\$ 8,071</u>
Stock-based compensation	—	—	310	—	310
Issuance of common stock on exercise of stock options	21,797	—	68	—	68
Net income	—	—	—	787	787
<b>Balance January 31, 2022</b>	<u>13,517,941</u>	<u>\$ 14</u>	<u>\$ 80,860</u>	<u>\$ (71,638)</u>	<u>\$ 9,236</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)

	Nine Months Ended January 31,	
	2023	2022
<b>Operating activities:</b>		
Net income (loss)	\$ (2,774)	\$ 892
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	656	724
Depreciation and amortization expense	1,663	1,059
Net gain on disposal of equipment	—	(4)
Operating lease right-of use assets	817	535
Provision for doubtful accounts	83	117
Changes in operating assets and liabilities:		
Accounts receivable	1,377	(1,693)
Prepaid expenses and other current assets	482	397
Accounts payable	1,430	1,772
Accrued liabilities	(383)	(205)
Other current liabilities	—	15
Other non-current liabilities	—	50
Operating lease liabilities	(775)	(403)
Deferred revenue	2,088	2,445
Net cash provided by operating activities	<u>4,664</u>	<u>5,701</u>
<b>Investing activities:</b>		
Purchase of property and equipment	<u>(2,112)</u>	<u>(1,878)</u>
Net cash used in investing activities	<u>(2,112)</u>	<u>(1,878)</u>
<b>Financing activities:</b>		
Proceeds from exercise of options	<u>86</u>	<u>191</u>
Net cash provided by financing activities	<u>86</u>	<u>191</u>
Increase in cash	2,638	4,014
Cash at beginning of period	<u>9,007</u>	<u>4,687</u>
Cash at end of period	<u>\$ 11,645</u>	<u>\$ 8,701</u>

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. is a technology-enabled research organization engaged in creating transformative technology solutions to be utilized in drug discovery and development. The Company's research center operates in both regulatory and non-regulatory environments and consists of a comprehensive set of computational and experimental research platforms. Its pharmacology, biomarker, and data platforms are designed to facilitate drug discovery and development at lower costs and increased speeds.

The Company has three operating subsidiaries: Champions Oncology (Israel), Limited, Champions Biotechnology U.K., Limited, and Champions Oncology, S.R.L. (Italy). For the three and nine months ended January 31, 2023 and 2022, 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, 2022, 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, 2022. 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 January 31, 2023 and April 30, 2022 the Company had no cash equivalents.

The Company is subject to a concentration of credit risk in the form of its cash deposits held at multiple banking institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. As of January 31, 2023 and April 30, 2022, the Company had \$10.9 million and \$8.3 million in excess of the FDIC insured limit, respectively.

### ***Liquidity***

The Company's 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. Recently, the Company has met these cash requirements through cash on hand, working capital management, and sales of products and services. In the past, the Company has also received proceeds from certain private placements and public offerings of our securities. For the nine months ended January 31, 2023, the Company had a net loss of approximately \$2.8 million and cash provided by operations of \$4.7 million. As of January 31, 2023, the Company had an accumulated deficit of approximately \$74.8 million and cash on hand of \$11.6 million. The Company believes that cash on hand, together with expected cash provided from operations for fiscal year 2023, are adequate to fund operations through at least 12 months from the filing of this 10-Q. However, should the Company's revenue expectations not materialize, the Company believes it has 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***

The Company accounts for its leases under Financial Accounting Standards Board ("FASB") 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 ("ROU") 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 the lease 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 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 options.

(Dollars in Thousands)	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Basic net income (loss) per share computation:				
Net income (loss) attributable to common stockholders	\$ (2,439)	\$ 787	\$ (2,774)	\$ 892
Weighted Average common shares – basic	13,558,642	13,500,444	13,532,990	13,170,880
Basic net income (loss) per share	<u>\$ (0.18)</u>	<u>\$ 0.06</u>	<u>\$ (0.20)</u>	<u>\$ 0.07</u>
Diluted net income (loss) per share computation:				
Net income (loss) attributable to common stockholders	\$ (2,439)	\$ 787	\$ (2,774)	\$ 892
Weighted Average common shares	13,558,642	13,500,444	13,532,990	13,170,880
Incremental shares from assumed exercise of stock options	—	886,565	—	1,007,202
Adjusted weighted average share – diluted	13,558,642	14,387,009	13,532,990	14,178,082
Diluted net income (loss) per share	<u>\$ (0.18)</u>	<u>\$ 0.05</u>	<u>\$ (0.20)</u>	<u>\$ 0.06</u>

The following table reflects the total potential share-based instruments outstanding at January 31, 2023 and 2022 including those that could have an effect on the future computation of dilution per common share, had their effect not been anti-dilutive:

	January 31,	
	2023	2022
Total common stock equivalents	<u>1,779,167</u>	<u>1,681,448</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. The Company's ability to utilize net operating losses ("NOL") carryforwards to offset future taxable income would be limited if the Company had 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 January 31, 2023 and April 30, 2022, the Company provided a valuation allowance for all net deferred tax assets as it is more likely than not that the assets will not be recovered based on an insufficient history of earnings.

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 \$181,000 of liabilities related to uncertain tax positions relative to one of its foreign operations as of January 31, 2023 and April 30, 2022.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company did not recognize interest or penalties on its consolidated statements of operations during the three or nine-month periods ended January 31, 2023 and 2022. The Company does not anticipate unrecognized tax benefits will be recorded during the next 12 months.

The provision for income taxes for the three months ended January 31, 2023 and 2022 was \$17,000 and \$11,000, respectively. The provision for income taxes for the nine months ended January 31, 2023 and 2022 was \$48,000 and \$37,000, respectively. The provision is attributable to taxable income earned in Israel and/or Italy relating to transfer pricing.

### ***Revenue Recognition***

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers. The objective of the standard is to establish a single comprehensive revenue recognition model that is designed to create greater comparability of financial statements across industries and jurisdictions. Under this standard, companies recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services.

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.

The majority of the Company's revenue arrangements are service contracts that are completed 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.

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 as they meet the criteria under ASC 606-10-25-12.

#### Pharmacology Study 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.

#### ***Incremental Costs of Obtaining a Contract (Sales Commissions)***

Under ASC 606, the costs of obtaining a contract can be expensed immediately, rather than capitalized and amortized, if the amortization period is one year or shorter. Sales commissions for the Company represent contract costs with a term of one year or less. Therefore, under ASC 606, the Company elected the practical expedient to expense these costs as incurred.

#### ***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 when the revenue recognized exceeds the amount billed to the customer. Such situations occur due to divergences between revenue recognition and the invoicing milestones which are based on predetermined payment terms.

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 June 2016, the FASB issued Accounting Standards Update ("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, including accounts receivable. The standard is effective for the fiscal year beginning May 1, 2023 for the Company. The Company is currently assessing the impact of this update on our consolidated financial statements and does not anticipate a significant impact.

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

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

	<b>January 31, 2023</b>	<b>April 30, 2022</b>
Accounts receivable	\$ 5,051	\$ 6,037
Unbilled services	3,715	4,106
Total accounts receivable and unbilled services	8,766	10,143
Less allowance for doubtful accounts	(713)	(630)
Total accounts receivable, net	<u>\$ 8,053</u>	<u>\$ 9,513</u>

Deferred revenue was as follows (in thousands):

	<b>January 31, 2023</b>	<b>April 30, 2022</b>
Deferred revenue	\$ 13,158	\$ 11,071

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

### **Note 4. Revenue from Contracts with Customers**

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

The following tables represents disaggregated revenue for the three and nine months ended January 31, 2023 and 2022:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Pharmacology services	\$ 12,119	\$ 12,622	\$ 38,355	\$ 34,468
Other TOS revenue	648	546	2,328	1,715
Personalized oncology services	6	25	116	49
Total oncology services revenue	<u>\$ 12,773</u>	<u>\$ 13,193</u>	<u>\$ 40,799</u>	<u>\$ 36,232</u>

Other Translational Oncology Solutions ("TOS") revenue represents additional services provided to the Company's pharmaceutical and biotechnology customers, specifically flow cytometry services and software-as-a-service ("SaaS") provided via our Lumin Bioinformatics software ("Lumin").

### **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 and included in accounts receivable. 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 and included in deferred revenue. Contract assets and liabilities are presented on the balance sheet on a net contract-by-contract basis at the end of each reporting period.

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

Property and equipment is recorded at cost and primarily consists of laboratory equipment, computer equipment and software, capitalized software development costs, and furniture and fixtures. 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):

	January 31, 2023	April 30, 2022
Furniture and fixtures	\$ 246	\$ 246
Computer equipment and software	1,990	1,667
Capitalized software development costs	1,888	1,888
Laboratory equipment	10,257	8,618
Assets in progress	600	181
Leasehold improvements	111	111
Total property and equipment	15,092	12,711
Less: Accumulated depreciation and amortization	(7,240)	(5,577)
Property and equipment, net	<u>\$ 7,852</u>	<u>\$ 7,134</u>

Depreciation and amortization expense was \$575,000 and \$396,000 for the three months ended January 31, 2023 and 2022, respectively. Depreciation and amortization expense, excluding expense recorded under finance leases, was \$540,000 and \$396,000 for the three months ended January 31, 2023 and 2022, respectively. Depreciation and amortization expense was \$1.7 million and \$1.1 million for the nine months ended January 31, 2023 and 2022, respectively. Depreciation and amortization expense, excluding expense recorded under finance leases, was \$1.6 million and \$1.1 million for the nine months ended January 31, 2023 and 2022, respectively.

As of January 31, 2023 and April 30, 2022, property, plant and equipment included gross assets held under finance leases of \$1.1 million and \$713,000, respectively. Related depreciation expense was approximately \$35,000 and \$0 for the three months ended January 31, 2023 and 2022, respectively, and approximately \$99,000 and \$0 for the nine months ended January 31, 2023 and 2022, respectively.

### ***Capitalized software development costs under a hosting arrangement***

The Company accounts for the cost of computer software obtained or developed for internal use as well as the software development and implementation costs associated with a hosting arrangement ("internal-use software") that is a service contract in accordance with ASC 350, Intangibles - Goodwill and Other ("ASC-350"). We capitalize certain costs in the development of our internal-use software when the preliminary project stage is completed and it is probable that the project itself will be completed and the software will perform as intended. These capitalized costs include personnel and related expenses for employees and costs of third-party consultants who are directly associated with and who devote time to these internal-use software projects. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for significant upgrades, increased functionality, and enhancements to the Company's internal-use software solutions are also capitalized. Costs incurred for training, maintenance, and minor modifications are expensed as incurred. Capitalized software development costs are amortized using the straight-line method over an estimated useful economic life of three years.

The Company has capitalized development and implementation costs in accordance with accounting guidance for its Lumin platform. Lumin is the Company's oncology data-driven software program and data tool which operates as SaaS. These capitalized costs represent salaries, including direct payroll-related costs, certain software development consultant expenses and molecular sequencing programming costs incurred in the engineering and coding of the software development. Capitalized costs are classified as assets in progress during the development process until development is complete and the asset is available for sale. The initial version of the Lumin platform was launched during fiscal year 2021, at which time initial capitalization ceased and amortization commenced.

The Company continued to develop increased functionality, expand product design and usability, and add enhancements to the Lumin platform. In accordance with accounting guidance, these costs were capitalized. This developmental work did not render the initial released version to be obsolete or diminished in value but, rather, added to the base functionality of the existing platform. During the third quarter of fiscal year 2022, these capitalized costs were placed into service as the enhanced version was launched and made available for sale. The total cost of the Lumin asset placed into service and available for sale was \$1.9 million. As of January 31, 2023, the carrying value of the asset net of accumulated amortization was \$965,000. Amortization expense related to this asset was \$157,000 and \$79,000 for the three months ended January 31, 2023 and 2022, respectively, and \$471,000 and \$160,000 for the nine months ended January 31, 2023 and 2022, respectively.

### ***Finance Lease***

During the first quarter of fiscal year 2023, the Company recognized a finance lease for laboratory equipment. This equipment was obtained as the result of a laboratory supplies purchase commitment with costs of approximately \$368,000 at inception through June 2027. Cash payments for this lease are in the form of consideration for purchasing lab supplies under a purchase commitment agreement. The present value of the minimum future obligations of \$368,000 was calculated based on an interest rate of 3.5%. Depreciation and amortization expense related to this finance lease was \$17,100 and zero for the three months ended January 31, 2023 and 2022, respectively, and \$45,100 and zero for the nine months ended January 31, 2023 and 2022, respectively.

During fiscal year 2022, the Company recognized a finance lease for laboratory equipment. This equipment was obtained as the result of a laboratory supplies purchase commitment with costs of approximately \$370,000 at inception through December 2025. Cash payments for this lease are in the form of consideration for purchasing lab supplies under a purchase commitment agreement. At the commencement of the commitment, the present value of the minimum future obligations of \$370,000 was calculated based on an interest rate of 3.25%. Depreciation and amortization expense related to this finance lease was \$18,000 and zero for the three months ended January 31, 2023 and 2022, respectively, and \$54,000 and zero for the nine months ended January 31, 2023 and 2022, respectively.

### **Note 6. Share-Based Payments**

Stock-based compensation expense was recognized as follows (table in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
General and administrative	\$ 235	\$ 223	\$ 380	\$ 442
Sales and marketing	50	53	148	149
Research and development	6	3	13	17
Cost of oncology services	40	31	115	116
Total stock-based compensation expense	<u>\$ 331</u>	<u>\$ 310</u>	<u>\$ 656</u>	<u>\$ 724</u>

The Company has in place a 2021 Equity Incentive Plan and 2010 Equity Incentive Plan ("the Plans"). In general, these plans provide for stock-based compensation 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.

### ***2021 Equity Incentive Plan***

As part of the 2021 Annual Shareholders Meeting, shareholders approved the adoption of the 2021 Equity Incentive Plan ("2021 Equity Plan"). The purpose of the 2021 Equity Plan is to grant (i) Non-statutory Stock Options; (ii) Incentive Stock Options; (iii) Restricted Stock Awards; and/or (iv) Stock Appreciation Rights (collectively, stock-based compensation) to its employees, directors and non-employees. Total stock awards under the 2021 Equity Plan shall not exceed 2 million shares of common stock. Options and Stock Appreciation Rights expire no later than ten years from the date of grant and the awards vest as determined by the Board of Directors. Options and Stock Appreciation Rights have a strike price not less than 100% of the fair market value of the common stock subject to the option or right at the date of grant. As of January 31, 2023, approximately 1.7 million shares were left to issue under this plan.

### ***2010 Equity Incentive Plan***

On February 18, 2011, shareholders owning a majority of the issued and outstanding shares of the Company executed a written consent approving the 2010 Equity Incentive Plan ("2010 Equity Plan"). The purpose of the 2010 Equity Plan is to grant (i) Non-statutory Stock Options; (ii) Restricted Stock Awards; and (iii) Stock Appreciation Rights (collectively, stock-based compensation) to its employees, directors and non-employees. Total stock awards under the 2010 Equity Plan shall not exceed 30 million shares of common stock. Options and Stock Appreciation Rights expire no later than ten years from the date of grant and the awards vest as determined by the Board of Directors. Options and Stock Appreciation Rights have a strike price not less than 100% of the fair market value of the common stock subject to the option or right at the date of grant. After February 2021, no more shares were available to be issued from this plan.

### ***Stock Option Grants***

Black-Scholes assumptions used to calculate the fair value of options granted during the three and nine months ended January 31, 2023 and 2022 were as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Expected term in years	6	6	6	6
Risk-free interest rates	3.70%	1.11% - 1.20%	2.87% - 3.70%	0.82% - 1.20%
Volatility	61.88%	64.37% - 64.62%	61.88% - 62.58%	64.37%-66.21%
Dividend yield	—%	—%	—%	—%

The weighted average fair value of stock options granted during the three months ended January 31, 2023 and 2022 was \$4.20 and \$5.80, respectively, and the nine months ended January 31, 2023 and 2022 was \$4.33 and \$5.56, respectively.

The Company's stock options activity for the nine months ended January 31, 2023 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, 2022	1,617,324	40,915	1,658,239	\$ 4.51	4.9	\$ 6,131,000
Granted	184,720	—	184,720	7.25	9.6	
Exercised	(36,209)	—	(36,209)	3.21		
Forfeited	(9,125)	—	(9,125)	7.94		
Canceled	(13,874)	—	(13,874)	3.93		
Expired	—	(4,584)	(4,584)	5.40		
Outstanding, January 31, 2023	<u>1,742,836</u>	<u>36,331</u>	<u>1,779,167</u>	4.81	4.8	\$ 1,896,000
Vested and expected to vest as of January 31, 2023	<u>1,742,836</u>	<u>36,331</u>	<u>1,779,167</u>	4.81	4.8	\$ 1,896,000
Exercisable as of January 31, 2023	<u>1,389,002</u>	<u>1,875</u>	<u>1,390,877</u>	4.24	3.9	\$ 1,896,000

## Note 7. Leases

### 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 expense totaled \$475,000 and \$469,000 for the three months ended January 31, 2023 and 2022, respectively, and \$1.4 million for both the nine months ended January 31, 2023 and 2022. 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 was renewed during fiscal year 2022 and expires in November 2026. The Company recognized \$20,000 and \$24,000 of rent expense relative to this lease for the three months ended January 31, 2023 and 2022, respectively, and \$62,000 and \$70,000 for the nine months ended January 31, 2023 and 2022, respectively.
- 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 (the "Original Premises") on January 11, 2017. The operating commencement date was August 11, 2017. This lease was originally set to expire 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 related to fiscal year 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.



- On December 22, 2020, the Company executed the second amendment to this lease to expand the existing premises at 1330 Piccard Drive, Suites 025, 050, and 104 ("Additional Expansion Premises") and add on Suite 201. The Additional Expansion Premises operating lease commencement date is April 1, 2021 and, under the second amendment, reaffirms that all three leases expire February 28, 2029. Upon the Additional Expansion Premises operating lease commencement date (April 1, 2021), the Company also recognized an operating ROU asset and related operating lease liability for Suite 201 of \$3.3 million, each, respectively.
- For the leases related to the premises at Piccard Drive, the Company recognized \$422,000 in rent expense for the three months ended January 31, 2023 and 2022, respectively, and \$1.3 million in rent expense for both the nine months ended January 31, 2023 and 2022.
- VIA LEONE XIII, 14, Milan, Italy, which consists of laboratory and office space where the Company conducts operations related to its flow cytometry service offerings. The Company executed the lease for its laboratory space in June 2021, and commenced occupancy during the three months ended October 31, 2021. This lease was set to expire May 2023. The Company executed a lease for its office space on October 1, 2021. This lease was set to expire September 2027.
  - Upon lease execution, the Company recognized an operating ROU asset and related operating lease liability for the lab and office space of \$205,000 each, respectively.
  - On November 1, 2022, the Company executed a new lease to consolidate its office and laboratory space at a new nearby location in Italy. The new lease is set to expire October 31, 2028 and it replaces the previous two leases.
    - Upon lease execution, the Company recognized an operating ROU asset and related operating lease liability for the lab and office space of \$231,000 each, respectively.
    - The original office space lease, which was set to expire September 2027, was terminated with an effective date of November 30, 2022. Upon lease termination, the Company recognized a decrease in the related net operating ROU asset and operating lease liability of approximately \$40,700 and \$41,500, respectively, as well as a gain on lease termination of less than \$1,000.
    - The original laboratory lease, which was set to expire May 2023, was terminated in the third quarter of fiscal year 2023 with an effective date of February 2023. In accordance with ASC 842, the company performed an evaluation on the existing least to determine the impact of this termination, if any. As a result, the company recorded a reduction to both the operating ROU asset and related operating lease liability of approximately \$20,000, respectively, during the three months ended January 31, 2023.
  - The Company recognized rent expense associated with these leases of \$34,000 and \$23,000 for the three months ended January 31, 2023 and 2022, respectively, and \$81,000 and \$58,000 for the nine months ended January 31, 2023 and 2022, respectively.

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

	<b>January 31, 2023</b>	<b>April 30, 2022</b>
Operating lease right-of-use assets, net	\$ 7,590	\$ 8,230
Current portion of operating lease liabilities	1,166	1,054
Non-current portion of operating lease liabilities	7,702	8,412

As of January 31, 2023, the weighted average remaining operating lease term and the weighted average discount rate were 5.96 years and 5.82%, respectively.

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

Remainder of 2023	\$ 689
2024	2,841
2025	2,889
2026	2,938
2027	2,904
Thereafter	5,244
<b>Total undiscounted liabilities</b>	<b>17,505</b>
Less: Imputed interest	(8,636)
<b>Present value of minimum lease payments</b>	<b>\$ 8,869</b>

Refer to Note 5, Property and Equipment, for 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 January 31, 2023 and 2022, the Company paid an affiliate of a board member \$9,000 and \$9,000, respectively, for consulting services unrelated to his duty as a board member. During the nine months ended January 31, 2023 and 2022, the Company paid the same affiliate of a board member \$27,000 and \$27,000, respectively, for consulting services unrelated to his duty as a board member.

During the three months ended January 31, 2023 and 2022, the Company paid an affiliate of another board member \$0 and \$341, respectively, for consulting services unrelated to their duties as a board member. During the nine months ended January 31, 2023 and 2022, the Company paid the same affiliate of a board member \$0 and \$5,460 respectively, for consulting services unrelated to their duties as a board member. As of January 31, 2023, \$0 was due to these related parties.

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

### ***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. 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.

### ***Royalties***

The Company contracts with third-party vendors to license tumor samples for development into Patient Derived Xenograft (PDX) models and use in our pharmacology TOS business. These types of arrangements have an upfront fee ranging from nil to \$30,000 per tumor sample depending on the successful growth of the tumor model and ability to develop them into a sellable product. The upfront costs are expensed as incurred. In addition, under certain agreements, for a limited period of time, the Company is subject to royalty payments if the licensed tumor models are used for sale in our TOS business, ranging from 2% to 20% of the contract price after recouping certain initiation costs. Some of these arrangements also set forth an annual minimum royalty due regardless of tumor models used for sale. For the three months ended January 31, 2023 and 2022, we have recognized approximately \$21,000 and \$87,000, respectively, in expense related to these royalty arrangements. For the nine months ended January 31, 2023 and 2022, we have recognized approximately \$129,000 and \$286,000 in expense related to these royalty arrangements, respectively.

## **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, 2022, 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, 2022, 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 a technology-enabled research organization engaged in creating transformative technology solutions to be utilized in drug discovery and development. Our research center consists of a comprehensive set of computational and experimental research platforms. Our pharmacology, biomarker, and data platforms are designed to facilitate drug discovery and development at lower costs and increased speeds. We perform studies which we believe may predict the efficacy of experimental oncology drugs or approved drugs as stand-alone therapies or in combination with other drugs and can stimulate the results of human clinical trials. These studies include in vivo studies that rely on implanting multiple tumors from our TumorBank in mice and testing the therapy of interest on these tumors. Studies may also include bioinformatics analysis that reveal the differences in the genetic signatures of the tumors that responded to a therapy as compared to the tumors that did not respond. Additionally, we provide computational or experimental support to identify novel therapeutic targets, select appropriate patient populations for clinical evaluation, identify potential therapeutic combination strategies, and develop biomarker hypothesis of sensitivity or resistance. These studies include the use of our in vivo, ex vivo, analytical and computational platforms.

We are engaged in the development and sale of advanced technology solutions and products to personalize the development and use of oncology drugs through our Translational Oncology Solutions ("TOS"). This technology ranges from computational-based discovery platforms, unique oncology software solutions, and innovative and proprietary experimental tools such as in vivo, ex vivo and biomarker platforms. Utilizing our TumorGraft Technology Platform (the "Platform"), a comprehensive bank of unique, well characterized 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.

As part of our growth strategy, we launched Lumin Bioinformatics ("Lumin"), an oncology data-driven software program. Our Lumin software contains comprehensive information derived from our research services and clinical studies. Lumin leverages our large Datacenter coupled with analytics and artificial intelligence to provide a robust tool for computational cancer research. It is the combination of the Datacenter and the analytics that create a unique foundation for Lumin. Insights developed using Lumin can provide the basis for biomarker hypotheses, reveal potential mechanisms of therapeutic resistance, and guide the direction of additional preclinical evaluations.

Our drug discovery and development business leverages the computational and experimental capabilities within our platforms. Our discovery strategy utilizes our rich and unique Datacenter, coupled with artificial intelligence and other advanced computational analytics, to identify novel therapeutic targets. We then employ the use of our proprietary experimental platforms to rapidly validate these targets for further drug development efforts.

We have a rich pipeline of targets at various stages of discovery and validation, with a select group that has progressed to therapeutic development. Our commercial strategy for the validated targets and therapeutics established from this business is wide-ranging and still being developed. It will depend on many factors, and will be specific for each target or therapeutic area identified. All expenses associated with this part of our business are research and development and are expensed as incurred.

We regularly evaluate strategic options to create additional value from our drug discovery business, which may include, but are not limited to, potential spin-out transactions or capital raises.

## 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. Recently, we have met these cash requirements through cash, working capital management, and sales of products and services. In the past, we have also received proceeds from certain private placements and public offerings of our securities. For the nine months ended January 31, 2023, the Company had a net loss of approximately \$2,774,000 and cash provided by operations of \$4.7 million. As of January 31, 2023, the Company had an accumulated deficit of approximately \$74.8 million and cash on hand of \$11.6 million. We believe that our cash on hand, together with expected cash flows from operations for fiscal year 2023, 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 January 31,</b>				
	<b>2023</b>	<b>% of Revenue</b>	<b>2022</b>	<b>% of Revenue</b>	<b>% Change</b>
Oncology services revenue	\$ 12,773	100.0 %	\$ 13,193	100.0 %	(3.2)%
<b>Costs and operating expenses:</b>					
Cost of oncology services	7,699	60.3	6,406	48.6	20.2
Research and development	3,202	25.1	2,181	16.5	46.8
Sales and marketing	1,761	13.8	1,549	11.7	13.7
General and administrative	2,569	20.1	2,227	16.9	15.4
Total costs and operating expenses	15,231	119.3	12,363	93.7	23.2
(Loss) Income from operations	<u>\$ (2,458)</u>	<u>(19.2)%</u>	<u>\$ 830</u>	<u>6.3 %</u>	<u>(396.1)%</u>

	<b>For the Nine months ended January 31,</b>				
	<b>2023</b>	<b>% of Revenue</b>	<b>2022</b>	<b>% of Revenue</b>	<b>% Change</b>
Oncology services revenue	\$ 40,799	100.0 %	\$ 36,232	100.0 %	12.6 %
<b>Costs and operating expenses:</b>					
Cost of oncology services	22,194	54.4	17,411	48.1	27.5
Research and development	8,693	21.3	6,783	18.7	28.2
Sales and marketing	5,153	12.6	4,764	13.1	8.2
General and administrative	7,494	18.4	6,356	17.5	17.9
<b>Total costs and operating expenses</b>	<b>43,534</b>	<b>106.7</b>	<b>35,314</b>	<b>97.4</b>	<b>23.3</b>
(Loss) Income from operations	<u>\$ (2,735)</u>	<u>(6.7)</u>	<u>\$ 918</u>	<u>2.5 %</u>	<u>(397.9)%</u>

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

Oncology services revenue, which is primarily derived from pharmacology studies, was \$12.8 million and \$13.2 million for the three months ended January 31, 2023 and 2022, respectively, a decrease of \$420,000 or 3.2%. The decrease in revenue resulted from an increase in cancellations on studies booked in prior quarters. Oncology services revenue was \$40.8 million and \$36.2 million for the nine months ended January 31, 2023 and 2022, respectively, an increase of \$4.6 million or 12.6%. The increase in revenue was primarily due to growing demand for our services and platform expansion leading to larger in-vivo and ex-vivo pharmacology studies.

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

Cost of oncology services for the three months ended January 31, 2023 and 2022 were \$7.7 million and \$6.4 million, respectively, an increase of \$1.3 million or 20.2%. Cost of oncology services for the nine months ended January 31, 2023 and 2022 were \$22.2 million and \$17.4 million, respectively, an increase of \$4.8 million or 27.5%. The increase in cost of oncology services was primarily from compensation expense for our pharmacology operational study teams. For the three months ended January 31, 2023 and 2022, total gross margins were 39.7% and 51.4%, respectively. For the nine months ended January 31, 2023 and 2022, total gross margins were 45.6% and 51.9%, respectively. The lower margin for the fiscal year 2023 third quarter and year to date was the result of the increase in compensation expense as we staffed our operational teams to support bookings growth during the year, which failed to convert to revenue at the expected rate due to cancellations.

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

Research and development expenses for the three months ended January 31, 2023 and 2022 were \$3.2 million and \$2.2 million, respectively, an increase of approximately \$1.0 million or 46.8%. Research and development expenses for the nine months ended January 31, 2023 and 2022 were \$8.7 million and \$6.8 million, respectively, an increase of approximately \$1.9 million or 28.2%. The increase for the three and nine-month periods was mainly due to compensation and lab supply expense related to the investment in our therapeutic drug discovery platform.

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

Sales and marketing expenses for the three months ended January 31, 2023 and 2022 were \$1.8 million and \$1.5 million, respectively, an increase of \$212,000, or 13.7%. Sales and marketing expenses for the nine months ended January 31, 2023 and 2022 were \$5.2 million and \$4.8 million, respectively, an increase of \$389,000, or 8.2%. The increase for both periods was mainly due to compensation and conference expenses to support sales effort expansion.

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

General and administrative expenses for the three months ended January 31, 2023 and 2022 were \$2.6 million and \$2.2 million, an increase of \$342,000, or 15.4%, respectively. General and administrative expenses for the nine months ended January 31, 2023 and 2022 were \$7.5 million and \$6.4 million, respectively, an increase of \$1.1 million, or 17.9%. General and

administrative expenses are primarily comprised of compensation, insurance, professional fees, IT, and depreciation and amortization expenses. The increase for the three and nine-month period was mainly due to an increase in compensation and IT related expenses to support the overall infrastructure growth of the Company.

### ***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 \$1.6 million for the three months ended January 31, 2023 . The Company generated cash from operating activities in fiscal year 2023, even with a net loss, primarily from a decrease in accounts receivable, in the ordinary course of business, and an increase in deferred revenue due to strong bookings. Year to date net cash provided by operating activities was \$4.7 million. The cash provided by operating activities was primarily due a decrease in accounts receivable and an increase in accounts payable balances in the ordinary course of business, along with an increase in deferred revenue.

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

Net cash used in investing activities was \$2.1 million and \$1.9 million for the nine months ended January 31, 2023 and 2022, respectively. The cash used in investing activities was primarily for the investment in additional lab and computer equipment.

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

Net cash provided by financing activities was \$86,000 for the nine months ended January 31, 2023 compared to cash provided by financing activities of \$191,000 for the nine months ended January 31, 2022. The decrease in cash provided by financing is related to decrease in stock option exercise activity.

### **Critical Accounting Estimates and Policies**

The preparation of these condensed consolidated financial statements in conformity with GAAP 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 22, 2022.

### ***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, as amended (the "Exchange Act"). 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. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the relationship between the benefit of desired controls and procedures and the cost of implementing new controls and procedures.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of January 31, 2023. Based on that assessment, our management, including our Chief Executive Officer and our Chief Financial Officer, have concluded that our disclosure controls and procedures were effective as of January 31, 2023 at the reasonable assurance level in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act, 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. Further, management concluded that our consolidated financial statements in this quarterly report on Form 10-Q present fairly, in all material respects, the Company's financial position, results of operations and cash flows as of the dates, and for the periods presented, in conformity with U.S. GAAP.

## **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 and the below risk factor 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 22, 2022. 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.

*Our cash and cash equivalents could be adversely affected if the financial institutions, in which we hold our cash balances, fail.*

We regularly maintain cash balances at several third-party financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The failure of, or any other adverse condition suffered by, one or more of these financial institutions could result in our inability to obtain the return of our funds and/or could impact our access to our cash which could adversely impact our operating liquidity and financial performance.

### 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*	<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*	iXBRL Instance Document.
101.SCH*	iXBRL Taxonomy Extension Schema Document.
101.CAL*	iXBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	iXBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	iXBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	iXBRL Taxonomy Extension Presentation Linkbase Document.

\* filed herewith

\*\* furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CHAMPIONS ONCOLOGY, INC.**

(Registrant)

Date: March 16, 2023

By: /s/ Ronnie Morris  
Ronnie Morris  
Chief Executive Officer  
*(principal executive officer)*

Date: March 16, 2023

By: /s/ David Miller  
David Miller  
Chief Financial Officer  
*(principal financial and accounting officer)*