CHAMPIONS ONCOLOGY, INC.
Form 10-Q
March 17, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended January 31, 2015
	Or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission file number 0-17263

CHAMPIONS ONCOLOGY, INC.

(Exact name of registrant as defined in its charter)

Delaware	**52-1401755**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
One University Plaza, Suite 307 Hackensack, New Jersey	**07601**
(Address of principal executive offices)	*(Zip Code)*

(201) 808-8400

(Registrant’s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

The number of Common Shares of the Registrant outstanding as of March 13, 2015 was 104,026,506.

DOCUMENTS INCORPORATED BY REFERENCE - None

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FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2015

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CHAMPIONS ONCOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	January 31, 2015 (unaudited)	April 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 182	$ 5,891
Accounts receivable, net	1,092	1,325
Prepaid expenses and other current assets	258	383
Total current assets	1,532	7,599
Restricted cash	163	165
Property and equipment, net	469	434
Goodwill	669	669
Total assets	$ 2,833	$ 8,867
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 1,362	$ 981
Accrued liabilities	598	587
Notes Payable, related party	2,000	-
Deferred revenue	2,309	2,091
Total current liabilities	6,269	3,659
Warrant liability	610	2,011
Other Non-current liability	98	-
Total liabilities	6,977	5,670

Stockholders' (deficit) equity:		
Common stock, $.001 par value; 125,000,000 shares authorized, including redeemable common stock, 70,125,836 and 70,121,741 shares issued and 66,889,600 and 66,885,741 shares outstanding as of January 31, 2015 and April 30, 2014, respectively	70	70
Treasury stock, at cost, 3,236,236 common shares as of January 31, 2015 and April 30, 2014	(1,252)	(1,252)
Additional paid-in capital	45,388	43,259
Accumulated deficit	(48,350)	(38,880)
Total stockholders' (deficit) equity	(4,144)	3,197
Total liabilities and stockholders' (deficit) equity	$ 2,833	$ 8,867

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

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CHAMPIONS ONCOLOGY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands Except Per Share Amounts)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2015	2014	2015	2014
Operating revenue:				
Personalized oncology solutions	$453	$590	$1,245	$1,834
Translational oncology solutions	1,376	3,100	4,377	7,258
Total operating revenue	1,829	3,690	5,622	9,092
Costs and operating expenses:				
Cost of personalized oncology solutions	674	614	2,190	2,139
Cost of translational oncology solutions	1,301	1,008	3,225	2,585
Research and development	1,093	535	3,757	1,614
Sales and marketing	1,094	821	3,340	2,160
General and administrative	1,086	2,120	3,944	4,476
Total costs and operating expenses	5,248	5,098	16,456	12,974
Loss from operations	(3,419)	(1,408)	(10,834)	(3,882)
Other income (expense):				
Change in fair value of warrant liability	621	846	1,401	(1,202)
Other income/(expense), net	(6)	(7)	(3)	(37)
Total other income (expense)	615	839	1,398	(1,239)
Loss before provision for income taxes	(2,804)	(569)	(9,436)	(5,121)
Provision for income taxes	12	5	27	13
Net loss	$(2,816)	$(574)	$(9,463)	$(5,134)
Net loss per common share outstanding, including				
redeemable common stock, basic	$(0.04)	$(0.01)	$(0.14)	$(0.08)
and diluted	$(0.05)	$(0.02)	$(0.16)	$(0.08)
Weighted average common shares outstanding, including				
redeemable common stock, basic	66,893,364	66,867,114	66,890,929	66,860,792
and diluted	67,245,577	66,867,114	67,243,142	66,860,792

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Dollars in Thousands)

Net loss	$(2,816)	$(574)	$(9,463)	$(5,134)
Foreign currency translation adjustment	-	1	-	(23)
Comprehensive loss	$(2,816)	$(573)	$(9,463)	$(5,157)

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

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CHAMPIONS ONCOLOGY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Nine Months Ended January 31,	
	2015	2014
Operating activities:		
Net loss	$(9,463)	$(5,134)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,284	1,968
Depreciation expense	166	158
Change in fair value of warrant liability	(1,401)	1,202
Changes in operating assets and liabilities:		
Accounts receivable	233	(2,623)
Prepaid expenses and other current assets	125	34
Restricted cash	2	28
Accounts payable	381	(266)
Accrued liabilities	(167)	94
Deferred revenue	218	981
Net cash used in operating activities	(7,622)	(3,558)
Investing activities:		
Purchase of property and equipment	(84)	(164)
Net cash used in investing activities	(84)	(164)
Financing activities:		
Proceeds from executive note financing	2,000	-
Capital lease payments	(5)	-
Proceeds from exercise of options	2	-
Net cash provided by financing activities	1,997	-
Exchange rate effect on cash and cash equivalents	-	(27)
Decrease in cash and cash equivalents	(5,709)	(3,749)
Cash and cash equivalents, beginning of period	5,891	9,561

Cash and cash equivalents, end of period	$182	$5,812
Non-cash investing activities:		
Purchased equipment under capital lease	124	-

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

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CHAMPIONS ONCOLOGY, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Company has three operating subsidiaries: Champions Oncology (Israel), Limited, Champions Biotechnology U.K., Limited and Champions Oncology Singapore, PTE LTD. For the three and nine months ended January 31, 2015 and 2014, there were no material revenues earned by these subsidiaries.

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

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

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

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Earnings Per Share

Basic net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock plus dilutive potential common stock considered outstanding during the period. Such dilutive shares consist of incremental shares that would be issued upon exercise of the Company's derivative warrants.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2015	2014	2015	2014
Basic loss per share computation				
Net loss attributable to common stockholders	$(2,816,465)	$(574,207)	$(9,462,281)	$(5,133,684)
Weighted Average common shares - basic	66,893,364	66,867,114	66,890,929	66,860,792
Basic net loss per share	$(0.04)	$(0.01)	$(0.14)	$(0.08)
Diluted loss per share computation				
Net loss attributable to common stockholders	$(2,816,465)	$(574,207)	$(9,462,281)	$(5,133,684)
Less: Gain on derivative warrant liability	620,687	845,774	1,401,314	-
Loss available to common stockholders	$(3,437,152)	$(1,419,981)	$(10,863,595)	$(5,133,684)
Weighted Average common shares	66,893,364	66,867,114	66,890,929	66,860,792
Incremental shares from assumed exercise of warrants and stock options	352,213	-	352,213	-
Adjusted weighted average share - diluted	67,245,577	66,867,114	67,243,142	66,860,792
Diluted net loss per share	$(0.05)	$(0.02)	$(0.16)	$(0.08)

The following table reflects the total potential share-based instruments outstanding at January 31, 2015 and 2014 that could have an effect on the future computation of dilution per common share:

	January 31,	
	2015	2014
Stock options	23,990,008	22,633,955
Warrants	3,126,667	3,276,667
Total common stock equivalents	27,116,675	25,910,622

Liquidity

Our liquidity needs have typically arisen from the funding of our research and development programs and the launch of new products, working capital requirements, and other strategic initiatives. In the past, we have met these cash requirements through our sales of products and services, cash and cash equivalents, working capital management, and proceeds from certain private placements of our securities. As of January 31, 2015, we had negative working capital of $4.7 million and cash and cash equivalents on hand of $0.2 million.

On March 11, 2015, (the Company entered into a 2015 Securities Purchase Agreement (the "2015 Securities Purchase Agreement") with related party and non-related party investors for the sale to the investors of units, each unit consisting of one share of the Company's Common Stock, par value $0.001 per share (the "Common Stock") and a warrant to buy 0.55 shares of Common Stock at $0.48 per share (the "Warrants"), at a purchase price of $0.40 per unit, for an aggregate of $14,000,000. See Note 10 for more detail.

As of March 17, 2015, Management believes that the Company has sufficient cash on hand to continue as a going concern for at least the next 12 months.

Provision for 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. As of January 31, 2015 and 2014, the Company provided a valuation allowance for all net deferred tax assets, as it is not more likely than not that the assets will not be recovered based on an insufficient history of earnings.

The income tax provision for the nine months ended January 31, 2015 was $27 as compared to $13 for the corresponding period in the previous year, and primarily consists of income tax obligations payable to the foreign jurisdictions.

There were no uncertain tax position identified by the Company.

Note 2. Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *"Revenue from Contracts with Customers"*, which will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 allows for both retrospective and prospective methods of adoption and is effective for periods beginning after December 15, 2016. The Company is currently evaluating the impact that the adoption of ASU 2014-09 will have on our financial statements.

In June 2014, FASB has issued Accounting Standards Update ("ASU") No. 2014-12, *"Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period"*. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated balance sheets and results of operations.

In August 2014, FASB issued Accounting Standards Update (“ASU”) 2014-15, *“Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”*. This ASU requires management to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and provide related disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2014-15 on its financial statements.

Note 3. Property and Equipment

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

	January 31, 2015 (unaudited)	April 30, 2014
Furniture and fixtures	$ 70	$ 69
Computer equipment and software	694	655
Laboratory equipment	457	296
Leasehold improvements	2	2
Total property and equipment	1,223	1,022
Less: Accumulated depreciation	(754)	(588)
Property and equipment, net	$ 469	$ 434

Depreciation expense was $52 and $56 for the three months ended January 31, 2015 and 2014, respectively, and $166 and $158 for the nine months ended January 31, 2015 and 2014, respectively. As of January 31, 2015 and April 30, 2014, property, plant and equipment included assets held under capital lease of $124 and $0, respectively. Related depreciation expense was $6 and $0, respectively.

Capital Lease

In November 2014, the Company entered into a lease for laboratory equipment. The lease is a capital lease that has costs of approximately $149 through November 2019. The current monthly capital lease payment is approximately $3.

The following is a schedule by years of future minimum lease payments under this capital lease together with the present value of the net minimum lease payments as of January 31, 2015:

For the Years Ended April 30,	2015	$6
	2016	23
	2017	24
	2018	25
	2019	26
	2020	16
Total minimum lease payments		$120
Less: current maturity		(22)
Long-term maturity		98

The present value of minimum future obligations shown above is calculated based on interest rate of 5%.

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Note 4. Share-Based Payments

The Company has in place a 2010 Equity Incentive Plan and a 2008 Equity Incentive Plan. In general, these plans provide for stock-based compensation in the form of (i) Non-statutory Stock Options; (ii) Restricted Stock Awards; and (iii) Stock Appreciation Rights to the Company's employees, directors and non-employees. The plans also provide for limits on the aggregate number of shares that may be granted, the term of grants and the strike price of option awards.

Stock-based compensation in the amount of $657 and $941 was recognized for the three months ended January 31, 2015 and 2014, respectively and $2,284 and $1,968 for the nine months ended January 31, 2015 and 2014, respectively. As of January 31, 2015, $158 of stock compensation is included within accrued liabilities line item on the balance sheet. Stock-based compensation expense was recognized as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2015	2014	2015	2014
General and administrative	$ 474	$ 866	$ 1,530	$ 1,686
Sales and marketing	114	63	447	189
Research and development	65	4	267	19
TOS cost of sales	2	2	20	12
POS cost of sales	2	6	20	62
Total stock-based compensation expense	$ 657	$ 941	$ 2,284	$ 1,968

Stock Option Grants

Black-Scholes assumptions used to calculate the fair value of options granted during the three and nine months ended January 31, 2015 and 2014 were as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2015	2014	2015	2014
Expected term in years	-	5 - 6	3 - 6	5 - 6
Risk-free interest rates	-	1.4% - 2.1%	0.79% - 1.94%	0.8% - 2.4%
Volatility	-	97% - 102%	85.8% - 102.1%	97% - 102%

Dividend yield	-	0%	0%	0%

The weighted average fair value of stock options granted during the three months ended January 31, 2015 and 2014 was nil and $0.97, respectively. The weighted average fair value of stock options granted during the nine months ended January 31, 2015 and 2014 was $0.67 and $0.96, respectively. The Company's stock options activity for the nine months ended January 31, 2015 is as follows:

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	Non-Employees	Directors and Employees	Total	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, May 1, 2014	765,000	22,586,037	23,351,037	$ 1.01	7.5	$ 985
Granted	80,000	1,013,175	1,093,175	0.72	5.9	-
Exercised	-	(3,750)	(3,750)	0.49		
Forfeited	-	(101,250)	(101,250)	0.96		
Expired	(150,000)	(199,204)	(349,204)	1.04		
Outstanding, January 31, 2015	695,000	23,295,008	23,990,008	1.00	6.6	63
Vested and expected to vest as of January 31, 2015	695,000	23,295,008	23,990,008	1.00	6.6	63
Exercisable as of January 31, 2015	487,500	16,544,466	17,031,966	0.91	5.8	62

Included in the beginning balances outstanding in the table above are 3,000,000 options granted to the Company's Chief Executive Officer and President which vest based on service criteria and 3,000,000 options granted to the Company's Chief Executive Officer and President which vest based on performance criteria. The service-based conditions of these options provide for vesting to occur monthly over a period of three years. Since the straight-line method is not available for performance or market-based share-based payments, the 3,000,000 performance-based options will be expensed on an accelerated basis once the Company determines it is probable that the performance-based conditions will be met.

Stock Purchase Warrants

As of January 31, 2015 and April 30, 2014, the Company had warrants outstanding for the purchase of 3,276,667 shares of its common stock, all of which were exercisable. Of these warrants, 1,266,667 were issued in connection with the April 2011 Private Placement and 1,860,000 were issued in connection with the January 2013 Private Placement and are accounted for as liabilities. The remaining 150,000 warrants, with an exercise price of $1.00, were accounted for as equity instruments and expired on July 31, 2014. Activity related to these warrants, which expire at various dates through April 2016, is summarized as follows (dollars in thousands):

Number	Weighted Average	Weighted Average Remaining	Aggregate

	of Shares	Exercise Price	Contractual Life (Years)	Intrinsic Value
Outstanding, May 1, 2014	3,276,667	$ 0.61	2.9	$ 984
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(150,000)	-	-	-
Outstanding, January 31, 2015	3,126,667	$ 0.60	2.3	$ -

The warrants issued in connection with both the April 2011 Private Placement and January 2013 Private Placement contain certain exercise price reset provisions. Under these provisions, the exercise price of the warrants may be adjusted downward should the Company have future sales of its Common Stock for no consideration or for a consideration per share less than the Per Share Price (as such term is defined in the April 2011 Private Placement and January 2013 Private Placement). These exercise price reset provisions resulted in a downward adjustment to the exercise price of the warrants issued in the April 2011 Private Placement from $0.90 to $0.50.

The Company has accounted for the warrants issued in connection with the April 2011 Private Placement and January 2013 Private Placement as a liability based on the exercise price reset provisions described above. This liability, which is recorded at fair value on the accompanying consolidated balance sheets, totaled $0.8 million at the time of the close of the January 2013 Private Placement Agreement. As of January 31, 2015 and April 30, 2014, the fair value of these warrants was $0.6 million and $2.01 million, respectively. The change in fair value of these warrants has been, and will be, recognized as other income (expense) on the Company’s consolidated statements of operations. The fair value of these warrants was calculated by the Monte Carlo simulation valuation method. Assumptions used to calculate the fair value of these warrants were as follows:

	January 31, 2015	April 30, 2014
Expected term in years	1.2 - 3.0	1.9 - 3.7
Risk-free interest rates	0.6% - 1.05%	0.4% - 1.17%
Volatility	73% - 100%	95% - 113%
Dividend yield	0%	0%

The Company estimated the volatility based upon the applicable look-back periods or historical volatility observed for the Company. For the Risk-free rate the Company used the yield on a T-bill with maturity closest to the expected time to the warrant expiration.

In addition to the assumptions above, the Company also takes into consideration whether or not the Company would participate in another round of financing and if that financing is registered or not and what that stock price would be for the financing at that time.

The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise of the warrants, at which time the liability will be reclassified to stockholders' equity, or expiration of the warrants.

The Company has granted demand registration rights in connection with the investment in common shares and the common shares underlying the warrants for both the April 2011 Private Placement and January 2013 Private Placement. These rights include the requirement of the Company to file certain registration statements within a specified time period and to have these registration statements declared effective within a specified time period. If the Company is not able to comply with these registration requirements, the Company will be required to pay cash penalties equal to 1.0% of the aggregate Purchase Price paid by the investors for each 30-day period in which a Registration Default, as defined in the Securities Purchase Agreement, exists. These penalties are subject to a 10% limit of the aggregate Purchase Price paid by the investors. The Company may become subject to these penalty provisions if it fails to have a registration statement for the common shares declared effective, or to maintain the effectiveness of such registration statement. The total amount of potential penalties under this registration payment arrangement ranges from $50 to $130 for each 30-day period in which a registration default exists; however, as of

January 31, 2015 and April 30, 2014, and through the date of this filing, the Company does not believe these penalties to be probable and accordingly, has not established an accrual for such registration payment arrangements.

Note 5. 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 nine months ended January 31, 2015 and 2014, the Company paid a member of its Board of Directors $75 and $115, respectively, for consulting services unrelated to his duties as a board member. All of the amounts paid to this related party have been recognized and expensed in the period the services were performed.

Notes Payable

On December 1, 2014, the Company entered into note purchase agreements with and issued convertible promissory notes in the principal amount of $1 million each to Joel Ackerman, the Company's Chief Executive Officer, and Dr. Ronnie Morris, the Company's President, to finance the operations of the Company. The transaction was approved by the Company's audit committee.

The notes bear interest at 12% per annum and have a term of 90 days. The notes, including any accrued but unpaid interest, are convertible at the option of each noteholder: (a) upon the closing of any equity financing that occurs during the term of the notes, into the securities offered in the financing to other investors at a 5% discount to the price per share paid by other investors in the financing; and (b) upon the maturity date of the notes, into the Company's common stock at the volume weighted average closing price of the common stock for the five trading days prior to such conversion.

On February 28, 2015, the Company entered into amendments to the convertible promissory notes issued on December 1, 2014. The amendments extended the maturity dates of the convertible promissory notes to April 1, 2015. The amendments were approved by the Company's audit committee.

On May 11, 2015, the convertible promissory notes were converted into equity as part of the 2015 Securities Purchase Agreement. See Note 10 for further details.

Note 6. Commitments and Contingencies

Operating Leases

As of January 31, 2015, we lease the following facilities under non-cancelable operating lease agreements:

- One University Plaza, Suite 307, Hackensack, New Jersey 07601, which, since November 2011, serves as the Company's corporate headquarters. The lease expires in November 2016. The Company recognized $64 and $53 of rental costs relative to this lease for the nine months ended January 31, 2015 and 2014, respectively.

- 855 North Wolfe Street, Suite 619, Baltimore, Maryland 21205, which consists of laboratories and office space where the Company conducts operations related to its primary service offerings. This lease expires June 2016. The Company recognized $65 and $64 of rental costs relative to this lease for nine months ended January 31, 2015 and 2014, respectively.

- 17 Hatidhar Street, Ra'anana, Israel, which served as office headquarters for Champions Oncology, Israel. This lease expired in July 2013 and was not renewed. The Company recognized nil and $6 of rental costs relative to this lease for the nine months ended January 31, 2015 and 2014, respectively.

- 57 Mohamed Sultan Road, Singapore, which serves as office headquarters for Champions Oncology, Singapore. The lease expired in January 2015. The Company has not renewed this lease. We incurred $4 of rental expense for both the nine months ended January 31, 2015 and 2014, respectively.

- 450 East 29th Street, New York, New York, 10016, which is a laboratory at which we implant tumors. We incurred $35 of rental expense for the nine months ended January 31, 2015. The lease began in March 2014. The lease expires in September 2015 and can be renewed by the Company for subsequent one year terms.

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 April 2011 Private Placement and January 2013 Private Placement and is discussed more fully in Note 4. 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 does not believe it is probable that penalty payments will be made for the Amended and Restated Registration Rights Agreement discussed in Note 4 and, accordingly, has not accrued for such potential penalties as of January 31, 2015 and April 30, 2014.

Note 7. Teva Agreement

On July 30, 2013, the Company entered into an agreement with Teva Pharmaceutical Industries Ltd., pursuant to which the Company agreed to conduct TumorGraft studies on multiple proprietary chemical compounds provided by Teva to determine the activity or response of these compounds in potential clinical indications. Under the agreement, Teva agreed to pay an upfront payment and, under certain conditions, pay the Company various amounts upon achieving certain milestones, based on the performance of the compounds in preclinical testing and dependent upon testing the compound in clinical settings and obtaining FDA approval. In addition, Teva agreed to pay the Company royalties on any commercialized products developed under the agreement. This agreement terminated a prior collaborative agreement between Cephalon, Inc. a wholly-owned subsidiary of Teva, and the Company. Revenue recognized related to this agreement for the three months ended January 31, 2015 and 2014, was $94 and nil, respectively. Revenue recognized related to this agreement for the nine months ended January 31, 2015 and 2014, was $574 and $194, respectively.

Note 8. Fair Value

The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses, deposits and other receivables, accounts payable, and accrued liabilities approximate their fair value based on the liquidity or the short-term maturities of these instruments. The fair value hierarchy promulgated by GAAP consists of three levels:

- *Level one* — Quoted market prices in active markets for identical assets or liabilities;
- *Level two* — Inputs other than level one inputs that are either directly or indirectly observable; and
- *Level three* — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. The Company has one liability measured at fair value on a recurring basis, which are warrants that were issued in connection with private placements of the Company’s securities that are discussed more fully in Note 4. As of January 31, 2015 and April 30, 2014, these warrants had an estimated fair value of $0.6 million and $2.01 million, respectively, which was calculated by the Monte Carlo simulation valuation method using level three inputs. The Company has no assets that are measured at fair value on a recurring basis and there were no assets or liabilities measured at fair value on a non-recurring basis during the nine months ended January 31, 2015 and 2014.

The following table presents information about our warrants liability, which was our only financial instrument measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of January 31, 2015 and April 30, 2014 (in thousands):

Balance, May 1, 2014	$(2,011)
Transfers to (from) Level 3	-
Total (gains) losses included in earnings	1,401
Purchases, issuances and settlements, net	-
Balance, January 31, 2015	$(610)

Note 9. Segment Information

The Company operates in two reportable segments, POS and TOS. The accounting policies of the Company's segments are the same as those described in Note 2 of the Company's annual financial statements for the year ended April 30, 2014, as filed on Form 10-K. The Company evaluates performance of its segments based on profit or loss from operations before stock compensation expense, depreciation and amortization, interest expense, interest income, gain on sale of assets, special charges or benefits, and income taxes ("segment profit"). Management uses segment profit information for internal reporting and control purposes and considers it important in making decisions regarding the allocation of capital and other resources, risk assessment, and employee compensation, among other matters. The following tables summarize, for the periods indicated, operating results by reportable segment (in thousands):

Three Months Ended January 31, 2015	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 453	$ 1,376	$ -	$ 1,829
Direct cost of services	(672)	(1,300)	-	(1,972)
Sales and marketing costs	(366)	(613)	-	(979)
Other operating expenses	-	(1,028)	(612)	(1,640)
Stock- based compensation expense (1)	-	-	(657)	(657)
Segment profit (loss)	$ (585)	$ (1,565)	$ (1,269)	$ (3,419)

Three Months Ended January 31, 2014	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 590	$ 3,100	$ -	$ 3,690
Direct cost of services	(608)	(1,007)	-	(1,615)
Sales and marketing costs	(405)	(352)	-	(757)
Other operating expenses	-	(531)	(1,254)	(1,785)
Stock- based compensation expense (1)	-	-	(941)	(941)
Segment profit (loss)	$ (423)	$ 1,210	$ (2,195)	$ (1,408)

Nine Months Ended January 31, 2015	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 1,245	$ 4,377	$ -	$ 5,622
Direct cost of services	(2,171)	(3,205)	-	(5,376)
Sales and marketing costs	(1,243)	(1,650)	-	(2,893)
Other operating expenses	-	(3,490)	(2,413)	(5,903)
Stock- based compensation expense (1)	-	-	(2,284)	(2,284)
Segment profit (loss)	$ (2,169)	$ (3,968)	$ (4,697)	$ (10,834)

Nine Months Ended January 31, 2014	Personalized Oncology Solutions (POS)	Translational Oncology Solutions (TOS)	Unallocated Corporate Overhead	Consolidated
Net revenue	$ 1,834	$ 7,258	$ -	$ 9,092
Direct cost of services	(2,078)	(2,572)	-	(4,650)
Sales and marketing costs	(1,159)	(812)	-	(1,971)
Other operating expenses	-	(1,595)	(2,790)	(4,385)
Stock- based compensation expense (1)	-	-	(1,968)	(1,968)

Segment profit (loss)	$