CHAMPIONS BIOTECHNOLOGY, INC.
Form 10-Q
March 08, 2011

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the Quarterly period ended January 31, 2011

OR

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

Commission file number 0-17263

CHAMPIONS BIOTECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-1401755**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
855 N. Wolfe Street, Suite 619, Baltimore, MD	**21205**
(Address of principal executive offices)	(zip code)

(410) 369-0365

(Registrant s telephone number, including area code)

Inapplicable

(Former name, former address, and former fiscal year, if changed from 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 o No o

Indicate by check mark if 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 (check one).

Large accelerated filer o	Accelerated filer o	Non-Accelerated Filer o	Smaller Reporting Company þ

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

At March 3, 2011, the number of shares outstanding of the registrant s common stock was 36,852,942.

CHAMPIONS BIOTECHNOLOGY, INC.
FORM 10-Q
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHAMPIONS BIOTECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31, 2011 (unaudited)	April 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,941,000	$ 2,572,000
Accounts receivable	366,000	46,000
Grant receivable	367,000	
Prepaid expenses, deposits, and other	420,000	540,000
Total current assets	4,094,000	3,158,000
Property and equipment, net	121,000	105,000
Goodwill	669,000	669,000
TOTAL ASSETS	$ 4,884,000	$ 3,932,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,082,000	$ 944,000
Accrued liabilities	246,000	236,000
Deferred revenue	361,000	910,000
Total current liabilities	2,689,000	2,090,000
Other liabilities		77,000
TOTAL LIABILITIES	2,689,000	2,167,000
COMMITMENTS AND CONTINGENCIES		
Accrued stock purchase		188,000
STOCKHOLDERS EQUITY		
Preferred stock, $10 par value; 56,075 shares authorized; 0 shares issued and outstanding		
Common stock, $.001 par value; 50,000,000 shares authorized; 36,853,000 and 36,844,000 issued at January 31, 2011 and April 30, 2010, respectively, and 35,617,000 and 35,780,000 shares outstanding as of January 31, 2011 and April 30, 2010, respectively	37,000	37,000
Treasury stock, at cost, 1,236,000 and 1,064,000 shares at January 31, 2011 and April 30, 2010, respectively	(292,000)	(219,000)
Stock subscription receivable	(750,000)	(750,000)

Additional paid-in capital	16,958,000	15,193,000
Accumulated deficit	(13,740,000)	(12,680,000)
Accumulated other comprehensive loss	(18,000)	(4,000)
Total stockholders equity	2,195,000	1,577,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,884,000	$ 3,932,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CHAMPIONS BIOTECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2011	**2010**	**2011**	**2010**
OPERATING REVENUE				
Personalized oncology solutions	$ 1,419,000	$ 325,000	$ 2,816,000	$ 1,813,000
Translational oncology solutions[(1)]	1,386,000	417,000	2,522,000	1,180,000
Total operating revenue	2,805,000	742,000	5,338,000	2,993,000
COSTS AND OPERATING EXPENSES				
Cost of personalized oncology solutions	751,000	162,000	1,234,000	783,000
Cost of translational oncology solutions[(1)]	584,000	202,000	1,094,000	586,000
Research and development	400,000	566,000	2,044,000	1,707,000
General and administrative	1,856,000	596,000	3,370,000	2,293,000
Total costs and operating expenses	3,591,000	1,526,000	7,742,000	5,369,000
OPERATING LOSS	(786,000)	(784,000)	(2,404,000)	(2,376,000)
Interest and other income	371,000		1,344,000	5,000
NET LOSS	$ (415,000)	$ (784,000)	$ (1,060,000)	$ (2,371,000)
NET LOSS PER SHARE BASIC AND DILUTED	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.07)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	35,664,000	34,052,000	35,693,000	33,175,000

(1) Previously referred to as Preclinical eValuation services.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CHAMPIONS BIOTECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended January 31,	
	2011	**2010**
OPERATING ACTIVITIES		
Net loss	$ (1,060,000)	$ (2,371,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	1,578,000	343,000
Depreciation	30,000	24,000
Common stock issued for patent		175,000
Changes in operating assets and liabilities:		
Accounts receivable	(319,000)	(414,000)
Grant receivable	(367,000)	
Prepaid expenses, deposits and other receivables	120,000	363,000
Accounts payable	1,139,000	(528,000)
Accrued liabilities and other	(67,000)	215,000
Deferred revenue	(550,000)	(915,000)
Net cash provided by (used in) operating activities	504,000	(3,108,000)
INVESTING ACTIVITIES		
Purchase of property and equipment	(47,000)	(40,000)
Proceeds from certificate of deposit		1,017,000
Net cash (used in) provided by investing activities	(47,000)	977,000
FINANCING ACTIVITIES		
Purchase of treasury stock	(73,000)	(188,000)
Proceeds from exercise of warrants	2,000	3,000
Net proceeds from private placement of common stock		2,075,000
Net cash (used in) provided by financing activities	(71,000)	1,890,000
Exchange rate effect on cash and cash equivalents	(17,000)	(8,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	369,000	(249,000)
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	2,572,000	1,728,000

CASH AND CASH EQUIVALENTS END OF PERIOD	$ 2,941,000	$ 1,479,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CHAMPIONS BIOTECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Champions Biotechnology, Inc., (the Company) is a medical technology company that is engaged in the development of advanced technology solutions and services to personalize the development and use of oncology drugs. The Company derives revenue from Personalized Oncology Solutions and Translational Oncology Solutions (previously referred to as Preclinical eValuation Services). Personal Oncology Solutions assists physicians in developing personalized treatment options for their cancer patients through access to panels of expert medical professionals and tumor specific data. The Company s Translational Oncology Solutions offers a technology platform to pharmaceutical and biotechnology companies using proprietary Tumorgraft studies, which have been shown to be predictive of how drugs may perform in clinical settings.

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced recurring losses from operations while developing its service offerings and expanding its sales channels. These operating losses are expected to continue into the near future as the Company continues to expand. The Company will require additional capital beyond the cash currently on hand to fund these expected near term operating losses. To meet these capital needs, the Company s management is seeking to raise funds from various sources, including grants, private placements and public markets. There is no assurance that the Company will succeed in these fund-raising efforts. These condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2. Summary of Significant Accounting Policies

Interim Financial Information

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). All significant intercompany transactions and accounts have been eliminated. Certain information related to the Company s significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) has been condensed or omitted. The accounting policies followed in the preparation of these condensed consolidated financial statements are consistent with those followed in the Company s annual consolidated financial statements for the year ended April 30, 2010, as filed on the Company s Annual Report on Form 10-K. In the opinion of management, these 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, 2010.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Biomerk, Inc., Champions Biotechnology U.K., Limited and the Company s new Israeli subsidiary established in November 2010, Champions Oncology (Israel) Ltd. All material intercompany transactions have been eliminated in consolidation.

The financial statements of the Company s foreign subsidiaries, all of which have a functional currency other than the U.S. dollar, have been translated into the U.S. dollar for the Company s condensed consolidated financial statements for each period being presented. Translation gains and losses are recognized as a component of accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets. The Company is subject to foreign exchange rate fluctuations in connection with the Company s international operations.

Table of Contents

Segment Reporting

The Company operates as a single operation, using core infrastructure that serves the oncology needs of customers through both personalized oncology and translational oncology services. The Company s chief operating decision maker assesses the Company s performance as a whole and no expense or operating income is generated or evaluated on any component level.

Use of Estimates

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. Significant estimates consist of share-based compensation and expenses related to personalized oncology solutions.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less, to be cash equivalents. At various times, the Company has amounts on deposit at financial institutions in excess of federally insured limits.

Fair Value of Financial Instruments

As of January 31, 2011, 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.

Goodwill

Goodwill represents the excess of the cost over the fair market value of the net assets acquired including identifiable assets. Goodwill is tested annually, or more frequently, if circumstances indicate potential impairment, by comparing its fair value to its carrying amount. The determination of whether or not goodwill is impaired involves significant judgment. Although the Company believes its goodwill is not impaired, changes in strategy or market conditions could significantly impact the judgments and may require future adjustments to the carrying value of goodwill.

Deferred Revenue

Deferred revenue represents payments received in advance for services to be performed. When services are rendered, deferred revenue is then recognized as earned.

Revenue Recognition

The Company derives revenue from Personalized Oncology Solutions and Translational Oncology Solutions. Personalized Oncology Solutions assists physicians by providing information that may enhance personalized treatment options for their cancer patients through access to panels of expert medical professionals and tumor specific data. The Company s Translational Oncology Solutions offers a preclinical tumorgraft platform to pharmaceutical and biotechnology companies using proprietary Tumorgraft studies, which have been shown to be predictive of how drugs may perform in clinical settings. The Company recognizes revenue when the following four basic criteria are met: 1) a contract has been entered into with its customers; 2) delivery has occurred or services rendered to its customers; 3) the fee is fixed and determinable as noted in the contract; and 4) collectability is reasonably assured, as fees for services are remitted in full upon execution of the contract. The Company utilizes a proportional performance revenue recognition model for its Translational Oncology Solutions under which it recognize revenue as performance occurs, based on the relative outputs of the performance that have occurred up to that point in time under the respective agreement, typically the delivery of reports to its customers documenting the results of its testing protocols.

Table of Contents

When a Personalized Oncology or Translational Oncology arrangement involves multiple elements, the items included in the arrangement (deliverables) are evaluated to determine whether they represent separate units of accounting. The Company performs this evaluation at the inception of an arrangement and as each item in the arrangement is delivered. Generally, the Company accounts for a deliverable (or a group of deliverables) separately if: (1) the delivered item(s) has standalone value to the customer, (2) if the Company has given the customer a general right of return relative to the delivered item(s), and (3) delivery or performance of the undelivered item(s) or service(s) is probable and substantially in the Company s control. All revenue from contracts determined not to have separate units of accounting is either recognized based on consideration of the most substantive delivery factor of all the elements in the contract or if there is no predominant deliverable upon delivery of the final element of the arrangement.

Cost of Personalized Oncology Solutions

Cost of Personalized Oncology Solutions consists of costs related to personalized oncology revenue from oncology panels, implantations, vaccine development and studies. Along with the internal cost of salaries for personnel directly engaged in these services, this includes physicians honorariums and panel participation costs including travel, lodging, and meals, laboratory and testing fees and administrative costs. Costs associated with implantation revenues are primarily related to consulting fees and laboratory expenses. Vaccines and study costs are primarily incurred from contract research organizations that conduct the related studies.

Cost of Translational Oncology Solutions

Cost of Translational Oncology Solutions consists of costs related to Translational Oncology Solutions revenues. Along with the internal cost of salaries directly related to Translational Oncology Solutions, costs consist primarily of charges from contract research organizations for conducting the related clinical evaluation.

Research and Development

Research and development costs represent both costs incurred internally for research and development activities as well as costs incurred externally to fund research activities. All research and development costs are expensed as incurred. Non-refundable advance payments are capitalized and recorded as expense when the respective product or services are rendered.

Recent Accounting Pronouncements

During October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). This update requires the use of the relative selling price method when allocating revenue in multiple-deliverable types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. ASU 2009-13 was adopted on May 2, 2010 and did not have a material effect on the Company s condensed consolidated financial statements.

Note 3. Basic and Dilutive Loss Per Common Share

Basic loss per share is calculated by dividing loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted loss per share is calculated based on the weighted average number of common shares outstanding for the period, plus the dilutive effect of common stock purchase warrants, stock options and restricted stock units using the treasury stock method. Contingently issuable shares are included in the calculation of basic earnings per share when all contingencies surrounding the issuance of the shares are met and the shares are issued or issuable. Contingently issuable shares are included in the calculation of dilutive earnings per share as of the beginning of the reporting period if, at the end of the reporting period, all contingencies surrounding the issuance of the shares are satisfied or would be satisfied if the end of the reporting period were the end of the contingency period. Due to the net losses for the three and nine months ended January 31, 2011 and 2010, basic and diluted loss per share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

For the nine months ended January 31, 2011 and 2010, the Company had 15,286,300 and 3,707,264 stock options, warrants and unvested restricted stock, respectively, that were not included in net loss per share because the Company reported a net loss from operations.

Table of Contents

Note 4. 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:

	January 31, 2011	April 30, 2010
Furniture and fixtures	$ 6,000	$ 6,000
Computer equipment and software	121,000	42,000
Laboratory equipment	47,000	37,000
Software in-progress		43,000
Total property and equipment	174,000	128,000
Less accumulated depreciation	(53,000)	(23,000)
Property and equipment, net	$ 121,000	$ 105,000

Depreciation expense was $11,000 and $8,000 for the three months ended January 31, 2011 and 2010, respectively, and $30,000 and $24,000 for the nine months ended January 31, 2011 and 2010, respectively.

Note 5. Licensing Agreements

Bithionol License Agreement

In November 2009, the Company entered into a license agreement with two United States based companies for world-wide rights to develop and commercialize Bithionol, a drug compound, for the treatment of various forms of cancer, including melanoma, prostate, breast and lung cancer. The Company may terminate the license agreement in whole or in part on a country-by-country basis for any reason upon sixty days prior written notice.

Under the terms of the agreement, the Company will be required to pay $6,250,000 upon successful completion of certain clinical milestones. The Company will also make royalty payments based on a percentage of net sales as defined in the license agreement. In addition, the Company will pay annual license fee payments ranging from $25,000 to $100,000 until the minimum royalty payments outlined in the license agreement are met. No amounts were due under this agreement as of January 31, 2011.

TAR 1 License Agreement

In October 2009, the Company entered into a license agreement with an Israeli company for world-wide rights to develop and commercialize a transactivation and apoptosis restoring (TAR-1) developmental drug compound. The Company may terminate the license agreement in whole or in part on a country-by-country basis for any reason upon sixty days prior written notice.

Under the terms of the agreement, the Company will be required to pay $6,140,000 upon successful completion of certain clinical milestones, $5,000,000 upon reaching certain regulatory approvals and $23,000,000 upon the achievement of certain commercial milestones. The Company will also make royalty payments based on net sales as defined in the license agreement. In addition, the Company will pay an annual licensing fee of $30,000 for the first three years of the agreement beginning on the second year of the agreement. No amounts were due under this agreement as of January 31, 2011.

Benzoylyphenylerea License Agreement

In July 2009, the Company entered into a joint development and licensing agreement with a third party for the development of a soluble form of SG410, the Company s Benzoylyphenylerea (BPU) sulfur analog compound. Under the joint agreement, the third party will be entitled to milestone payments of $2,000,000 upon the success of certain regulatory approvals and royalty payments on net sales of the licensed BPU product. No amounts were due under this agreement as of January 31, 2011.

Table of Contents

Liposome Option Agreement

In February 2010, the Company entered into an exclusive option agreement with a Canadian company for which they paid and expensed $40,000 during the Company s fiscal 2010 year. The option agreement grants the Company the exclusive right to review Irinophore C, a nanoparticle drug compound, for the treatment of various forms of cancer, including melanoma, prostate, breast and lung cancer, for a period ending in April 2011. During the option year, the Company performed various tumorgraft testing on the nanoparticle compound. The Company is currently evaluating the results, and currently has not decided if it will move forward with a license agreement. No amounts were due under this agreement as of January 31, 2011.

Note 6. Stock-Based Compensation

The Company has previously granted (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 under a 2008 Equity Incentive Plan (the 2008 Equity Plan). The Company may also grant Incentive Stock Options and Restricted Stock Awards under the Director Compensation Plan of 2010 (the Director Plan). Such awards may be granted by the Company s Board of Directors. Options granted under the Equity Plan expire no later than ten years from the date of grant and the awards vest as determined by the Board of Directors.

The Company s Board has not approved a limit to the number of shares available for issuance under the Equity Plan or the Director Plan, and as such the Board approves each grant individually.

For stock-based payments to non-employee consultants, the fair value of the share-based consideration issued is used to measure the transaction, as management believes this to be a more reliable measure of fair value than the services received. The fair value of the award is expensed over the period service provided to the Company; however, it is ultimately measured at the price of the Company s common stock or the fair value of stock options using the Black-Scholes valuation model on the date that the commitment for performance by the non-employee consultant has been reached or performance is complete.

Stock-based compensation totaled $1.2 million and $159,000 for the three months ended January 31, 2011 and 2010, respectively, and $1.6 million and $343,000 for the nine months ended January 31, 2011 and 2010, respectively. Stock-based compensation costs were recorded as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2011	2010	2011	2010
Cost of personalized oncology solutions	$	$ 4,000	$	$ 15,000
Research and development	27,000	38,000	76,000	70,000
General and administrative	1,184,000	117,000	1,502,000	258,000
Total stock-based compensation expense	$ 1,211,000	$ 159,000	$ 1,578,000	$ 343,000

Black-Scholes assumptions used to calculate the fair value of options and warrants granted during the three and nine months ended January 31, 2011 and 2010 were as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2011	2010	2011	2010
Expected term in years	6.0		6.0	6.0
Risk-free interest rates	1.5% 2.5%		1.5% 2.5%	2.8% 3.1%
Volatility	105% 107%		104% 107%	94%
Dividend yield	0%		0%	0%

The weighted average fair value of stock options granted during the three months ended January 31, 2011 was $0.77. No options were granted during the three months ended January 31, 2010. The weighted average fair value of stock options granted during the nine months ended January 31, 2011 and 2010 was $0.74 and $0.63, respectively.

Table of Contents

Stock Option Grants

During the nine months ended January 31, 2011, the Company issued an aggregate of 10,000,000 options to purchase the Company s unregistered common stock to its Chief Executive Officer and to its President. These options have a weighted average exercise price of $0.875, expire in ten years and, for 5,000,000 of these options, vesting is based solely on service conditions and occurs evenly on a monthly basis over three years from the date of grant. These first 5,000,000 options expire 90 days following termination for cause or voluntary resignation. The remaining 5,000,000 options are subject to similar service-based vesting provisions, but are also subject to the following performance-based conditions, which must be met within three years following the date of grant prior to any of the options becoming exercisable: (i) closing of one or more financings of the Company in the aggregate amount of at least $5,000,000; (ii) bringing in new Company management; (iii) launching of personalized medicine (oncology) business; and (iv) commencing implementation of the Company s business plan. The consideration as to whether these performance-based conditions have been met will be made by the Company s Board of Directors. The service-based options, like all of the Company s service-based options, are being expensed on a straight-line basis. Since the straight-line method is not available for performance or market-based share-based payments, the performance-based options are being expensed on an accelerated basis, which is based on each monthly vesting tranche and an expectation that it is probable that all performance-based criteria will be met by the end of April 2011.

During the nine months ended January 31, 2011, the Company also issued 1,426,000 options to purchase the Company s unregistered common stock to ten other employees and two outside advisors. The options have a weighted average exercise price of $0.88, expire in ten years and vest evenly over three or four years from the date of grant.

During the nine months ended January 31, 2011, 173,000 and 25,000 options were forfeited and expired, respectively.

No options were exercised in the nine months ended January 31, 2011.

During the nine months ended January 31, 2010, the Company issued a total of 609,948 options to purchase the Company s unregistered common stock to four employees and three Board members. The options have a weighted average exercise price of $0.92, expire in ten years and vest evenly over three years from the date of grant.

No options were exercised, forfeited or expired in the nine months ended January 31, 2010.

Warrants

No warrants were issued for the nine months ended January 31, 2011 and 2010. During the nine months ended January 31, 2011 and 2010, warrants to purchase 8,631 shares and 15,408 shares, respectively, of the Company s unregistered common stock were exercised resulting in the receipt by the Company of net cash proceeds of $2,000 and $3,000, respectively.

At January 31, 2011, the Company has warrants outstanding to purchase 740,352 shares of the Company s unregistered common stock with a weighted average exercise price of $0.36 per share which expire from October 2011 through July 2014. At January 31, 2011, all of these warrants were exercisable.

Note 7. Related Party Transactions

Related party transactions include transactions between the Company and certain of its shareholders, management and affiliates.

Effective January 2010, the Company entered into a Consulting Agreement with the Chairman of the Board of Directors of the Company. The Consulting Agreement calls for compensation of $5,000 per month for services performed outside the scope of services as Chairman of the Board of Directors. Total consideration expensed and paid to the individual under the Consulting Agreement for the three and nine months ended January 31, 2011 was $15,000 and $45,000, respectively, and $5,000 for the three and nine months ended January 31, 2010.

Stock Repurchase Agreement

In May 2009, the Board of Directors approved a stock repurchase agreement with a Board member which obligated the Company to purchase up to approximately $407,000 of the Company s common stock held by the Board member through April of 2011 providing that the Board member continues his services under a consulting agreement executed concurrently with the stock repurchase agreement. Under the stock repurchase agreement, the Company made an initial purchase of $125,000 of the Company s shares of common stock, and may have been required to make quarterly purchases of $31,250 of the Company s common stock held by the Board member after the end of each fiscal quarter. The purchase price per share of the common stock for each purchase is equal to the lesser price of $0.50 or 50% of the

average closing price of the stock as quoted on the OTC Bulletin Board for the 30-day trading period ending on the day before the date of each purchase as long as the consulting agreement remained in effect.

Table of Contents

Under the agreement, the Company has paid this Board member approximately $292,000 for the purchase of 646,172 shares of the Company s common stock through January 31, 2011.

Effective May 2010, the Company terminated the consulting agreement with the Board member which correspondingly terminated the stock repurchase agreement. Because the requirement for the Company to transfer cash in exchange for the shares of common stock ended with the termination of the consulting agreement, in the first quarter of the year ending April 30, 2011, the Company reclassified $114,000 from accrued stock purchase on the balance sheet into additional paid-in capital, which represented the remaining amount of the purchase price required under the repurchase arrangement after the termination of the consulting agreement.

Furthermore, under the stock repurchase agreement, the Company, at its option for one year following the termination of the consulting agreement, may purchase all or any part of the shares that have not been previously purchased, up to but not to exceed, 2,250,000 shares of the common stock, subject to the pricing formula described above. The Company has not purchased any additional shares under this agreement.

Note 8. Exit Costs

During the fourth quarter of fiscal 2010, the Company commenced the process of closing its Tempe, Arizona corporate office and consolidating the Company s corporate administrative functions into its headquarters in Baltimore, Maryland. The exit costs expected to be incurred with this decision were expensed and included in general and administrative expenses in the consolidated statement of operations for fiscal 2010 when the decision was made. The following table is a summary of the Company s exit costs by category and amounts paid and accrued though January 31, 2011.

	Total Estimated Expense Recorded in the Fourth Quarter of 2010	Liability as of April 30, 2010	Payments during fiscal 2011	Liability as of January 31, 2011
Severance payments	$ 11,000	$ 6,000	$ 6,000	$
Future lease payments, net of sublease rental	18,000	17,000	10,000	7,000
Moving costs and other	7,000	2,000	2,000	
Disposal of assets	22,000			
Total	$ 58,000	$ 25,000	$ 18,000	$ 7,000

During the three and nine months ended January 31, 2011, the Company s accrual for exit costs decreased $5,000 and $18,000, respectively.

Note 9. Research and Development Materials Purchase Agreement

In February 2010, the Company entered into a research and development materials purchase agreement with a foreign hospital for the acquisition of Tumorgrafts. Under the agreement, the Company will pay the foreign hospital approximately $33,000 monthly for 18 months, commencing March 1, 2010. Future payments due under the agreement are as follows:

2011	$