

CHAMPIONS BIOTECHNOLOGY, INC.

Form 10-Q

March 17, 2010

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**SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q**

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

For the quarterly period ended January 31, 2010

OR

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

For transition period from _____ to _____

**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)

(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 No

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

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

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

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

As of March 15, 2010, the Registrant had a total of 35,579,958 shares of common stock outstanding.

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CONDENSED CONSOLIDATED BALANCE SHEETS**

	January 31, 2010 (unaudited)	April 30, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,479,000	\$ 1,728,000
Short term investments		1,017,000
Accounts receivable	414,000	
Prepaid expenses, deposits, and other receivables	762,000	1,125,000
Total current assets	2,655,000	3,870,000
Property and equipment, net	97,000	81,000
Goodwill	669,000	669,000
TOTAL ASSETS	\$ 3,421,000	\$ 4,620,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 886,000	\$ 1,414,000
Accrued liabilities	205,000	67,000
Deferred revenue	308,000	1,223,000
Total current liabilities	1,399,000	2,704,000
Other	77,000	
Total liabilities	1,476,000	2,704,000
COMMITMENTS AND CONTINGENCIES		
Accrued stock repurchase	219,000	
STOCKHOLDERS EQUITY		
Preferred stock, \$10 par value; 56,075 shares authorized; 0 shares issued and outstanding		
Common stock, \$0.001 par value; 50,000,000 shares authorized; 36,644,000 and 33,579,000 issued at January 31, 2010 and April 30, 2009, respectively, and 35,665,000 and 32,989,000 shares outstanding at January 31, 2010 and April 30, 2009, respectively	37,000 (188,000)	34,000 (1,000)

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Treasury stock, at cost, 979,000 and 590,000 shares at January 31, 2010 and April 30, 2009, respectively		
Additional paid-in capital	14,013,000	11,640,000
Accumulated deficit	(12,128,000)	(9,757,000)
Accumulated other comprehensive income	(8,000)	
Total stockholders' equity	1,726,000	1,916,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,421,000	\$ 4,620,000

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

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

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
OPERATING REVENUE				
Personalized oncology services	\$ 325,000	\$ 901,000	\$ 1,813,000	\$ 2,381,000
Preclinical eValuation services	417,000	83,000	1,180,000	320,000
Total operating revenue	742,000	984,000	2,993,000	2,701,000
COSTS AND OPERATING EXPENSES				
Cost of Personalized oncology services	162,000	464,000	783,000	1,059,000
Cost of Preclinical eValuation services	202,000	206,000	586,000	329,000
Research and development	566,000	435,000	1,707,000	1,072,000
General and administrative	596,000	463,000	2,293,000	1,163,000
Total costs and operating expenses	1,526,000	1,568,000	5,369,000	3,623,000
LOSS BEFORE OTHER INCOME				
Interest income	(784,000)	(584,000)	(2,376,000)	(922,000)
		21,000	5,000	67,000
LOSS BEFORE PROVISION FOR INCOME TAXES				
Provision for income taxes	(784,000)	(563,000)	(2,371,000)	(855,000)
NET LOSS	\$ (784,000)	\$ (563,000)	\$ (2,371,000)	\$ (855,000)
NET LOSS PER SHARE BASIC AND DILUTED				
	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.03)
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC AND DILUTED	34,052,000	33,273,000	33,175,000	33,271,000

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

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

	Nine Months Ended	
	January 31,	
	2010	2009
OPERATING ACTIVITIES		
Net loss	\$ (2,371,000)	\$ (855,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common stock issued for patent	175,000	
Stock-based compensation	343,000	324,000
Depreciation	24,000	
Changes in operating assets and liabilities:		
Accounts receivable	(414,000)	
Prepaid expenses, deposits, and other receivables	363,000	(628,000)
Accounts payable	(528,000)	547,000
Accrued liabilities and other	215,000	(361,000)
Deferred revenue	(915,000)	925,000
Net cash used in operating activities	(3,108,000)	(48,000)
INVESTING ACTIVITIES		
Proceeds from certificate of deposit	1,017,000	
Purchase of certificate of deposit		(1,005,000)
Purchase of property and equipment	(40,000)	(38,000)
Net cash provided by (used in) investing activities	977,000	(1,043,000)
FINANCING ACTIVITIES		
Net proceeds from private placement of common stock	2,075,000	
Purchase of treasury stock	(188,000)	
Proceeds from exercise of options and warrants	3,000	7,000
Net cash provided by financing activities	1,890,000	7,000
Exchange rate effect on cash and cash equivalents	(8,000)	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(249,000)	(1,084,000)
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	1,728,000	3,709,000

CASH AND CASH EQUIVALENTS	END OF PERIOD	\$ 1,479,000	\$ 2,625,000
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The accompanying notes are an integral part of these consolidated financial statements.

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CHAMPIONS BIOTECHNOLOGY, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Champions Biotechnology, Inc., (the Company, or we) is a biotechnology company that is engaged in the development of advanced preclinical platforms and predictive tumor specific data to enhance and accelerate the value of oncology drugs. In March 2009, the Company formed Champions Biotechnology U.K. Limited, a wholly owned subsidiary, in order to establish operations in the United Kingdom and Israel.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (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 services.

During the nine months ended January 31, 2010, the Company recognized a \$218,000 reduction in expense as a result of certain obligations being canceled by various vendors that were previously accrued.

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 both the private placements and public markets. There is no assurance that the Company will succeed in these fund-raising efforts. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We evaluated subsequent events through the date the accompanying condensed consolidated financial statements were issued.

Note 2. Summary of Significant Accounting Policies

Unaudited Interim Financial Information

These unaudited 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 GAAP has been condensed or omitted. The accounting policies followed in the preparation of these unaudited condensed consolidated are consistent with those followed in the Company's annual consolidated financial statements for the year ended April 30, 2009, as filed on the Company's Annual Report 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, 2009.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Biomerk, Inc. and Champions Biotechnology U.K., Limited. All material intercompany transactions have been eliminated in consolidation.

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The local currency of the Company's foreign operations is converted to U.S. currency for the Company's condensed consolidated financial statements for each period being presented and the Company is subject to foreign exchange rate fluctuations in connection with the Company's international operations.

Segment Reporting

The Company operates as a single operation, using core infrastructure that serves the oncology needs of customers through both personalized oncology and preclinical 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.

Reclassifications

Certain reclassifications have been made to the prior period financial statement amounts to conform to the current period presentation.

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 throughout the year, the Company had amounts on deposit at financial institutions in excess of federally insured limits. Our highly liquid investments are maintained at well-capitalized financial institutions to mitigate the risk of loss.

Fair Value of Financial Instruments

As of January 31, 2010, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses, deposits and other receivables, accounts payable, accrued liabilities and deferred revenue 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.

Revenue Recognition

The Company derives revenue from Personalized Oncology and Preclinical eValuation services. Personalized Oncology Services assist physicians by providing information that may enhance personalized treatment options for their cancer patients through access to expert medical information panels and tumor specific data. The Company's Preclinical eValuation services offer a preclinical tumorgraft platform to pharmaceutical and biotechnology companies using Biomerk 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 our customers; 2) delivery has occurred or services rendered to our 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 preclinical eValuation services under which we 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 our customers documenting the results of our testing protocols.

When a Personalized Oncology or Preclinical eValuation arrangement involves multiple elements, the items included in the arrangement (deliverables) are evaluated to determine whether they represent separate units of accounting. We perform this evaluation at the inception of an arrangement and as we deliver each item in the arrangement. Generally, we account for a deliverable (or a group of deliverables) separately if: (1) the delivered item(s) has standalone value to the customer, (2) there is objective and reliable evidence of the fair value of the

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undelivered items included in the arrangement, (3) if we have given the customer a general right of return relative to the delivered item(s), and (4) delivery or performance of the undelivered item(s) or service(s) is probable and substantially in our control. All revenue from contracts determined not to have separate units of accounting is recognized based on consideration of the most substantive delivery factor of all the elements in the contract.

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 delivered.

Recent Accounting Pronouncements

In June 2009, the FASB approved the FASB Accounting Standards Codification (Codification) as the single authoritative source for GAAP. The Codification, which was launched on July 1, 2009, does not change current U.S. GAAP, but is intended to simplify user access by providing all authoritative U.S. GAAP in one location. All existing accounting standards have been superseded and all other accounting literature not included in the Codification is considered non-authoritative. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification did not change GAAP and did not have a material impact on the Company's condensed consolidated financial statements.

In June 2009, the FASB issued guidance for determining whether an entity is a variable interest entity (VIE). This guidance requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. Under this guidance, an enterprise has a controlling financial interest when it has (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. Enterprises are also required to assess whether they have an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has power to direct the activities of the VIE that most significantly impact the entity's economic performance. This guidance also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. This guidance is effective for annual reporting periods beginning after November 15, 2009. We do not anticipate that the adoption of this guidance will have a material impact on our financial position or results of operations.

In August 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-5, Measuring Liabilities at Fair Value (ASU 2009-05). ASU 2009-05 amends Accounting Standards Codification Topic 820, Fair Value Measurements. Specifically, ASU 2009-5 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets and/or (ii) a valuation technique that is consistent with the principles of Topic 820 of the Accounting Standards Codification (e.g. an income approach or market approach). ASU 2009-05 also clarifies that (i) when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability and (ii) that both a quoted price in an active market for an identical liability at the measurement date and a quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are level one fair value measurements. ASU 2009-05 was adopted as of November 1, 2009 and did not have any effect on Company's condensed consolidated financial statements

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Basic loss per common share is computed by dividing our net loss by the weighted average number of common shares outstanding during the period excluding the dilutive effects of options and warrants. For the three and nine months ended January 31, 2010 and 2009, diluted loss per common share is computed on the same basis as basic loss per common share, as the inclusion of potential common shares outstanding would be anti-dilutive. The table below reflects the potential weighted average incremental shares of common stock that have been excluded from the computation of diluted loss per common share since their effect would be anti-dilutive.

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
Stock options	506,000	343,000	472,000	355,000
Warrants	447,000	441,000	449,000	459,000
Restricted stock	9,000		5,000	
Total common stock equivalents	962,000	784,000	926,000	814,000

Note 4. Property and Equipment

Property and equipment is recorded at cost and consists of laboratory equipment, furniture and fixtures, computer hardware and software, and leasehold improvements. Depreciation is calculated on a straight-line basis over the estimated useful lives of the various assets ranging from three to seven years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the lease term or estimated useful life. Property and equipment consisted of the following:

	January 31,	April 30,
	2010	2009
Laboratory equipment	\$ 36,000	\$ 4,000
Furniture and fixtures	32,000	26,000
Computer hardware and software	55,000	55,000
Leasehold improvements	2,000	
Total property and equipment	\$ 125,000	\$ 85,000
Less accumulated depreciation	(28,000)	(4,000)
Property and equipment, net	\$ 97,000	\$ 81,000

Depreciation expense was approximately \$8,000 and \$0 for the three months ended January 31, 2010 and 2009, respectively, \$24,000 and \$0 for the nine months ended January 31, 2010 and 2009, respectively.

Note 5. Licensing Agreements***Bithionol license agreement***

In November 2009, the Company entered into a license agreement with two U.S. based companies for world-wide rights to develop and commercialize Bithionol, a drug candidate, for the treatment of various forms of cancer which include 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 made an initial payment of \$50,000 upon execution of the agreement and is obligated to make a second payment of \$50,000 within nine months of executing the agreement. In addition, 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 for \$25,000 to \$100,000 until

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the minimum royalty payments outlined in the license agreement are met. The Company also agreed to pay for past patent expenses of \$29,780 incurred by the two U.S. based companies upon signing of the agreement. The initial payment of past patent expenses, initial payment due upon signing the agreement and second payment due within nine months of signing the agreement were all charged to research and development expense during the three months ended January 31, 2010. No amounts have been accrued for the annual license fees since management has determined that it is not probable that any such payments will be made in future periods.

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 candidate. 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 made an initial payment of \$60,000. In addition, 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 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. The Company also agreed to pay for \$118,000 of past patent expenses incurred by the Israeli company prior to execution of the agreement. The initial payment of past patent expenses, first annual licensing fee and initial payment were all charged to research and development expense.

Benzoylphenylerea 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 Benzoylphenylerea (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, 2010.

Note 6. Stock-Based Compensation

The Company may grant (i) Incentive Stock Options, (ii) Non-statutory Stock Options, (iii) Restricted Stock Awards, and (iv) Stock Appreciation Rights (collectively, stock-based compensation) to its employees, directors and non-employee consultants under a 2008 Equity Incentive Plan that has not yet been approved by the Company's shareholders. Such awards may be granted by the Company's Board of Directors. Options granted under the plan expire no later than ten years from the date of grant and the awards vest as determined by the Board of Directors.

For share-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 measured at the price of the Company's common stock or stock options on the date that the commitment for performance by the non-employee consultant has been reached or performance is complete.

Stock-based compensation in the amount of \$159,000 and \$222,000 was recognized for the three months ended January 31, 2010 and 2009, respectively and \$343,000 and \$324,000 for the nine months ended January 31, 2010 and 2009, respectively. Stock-based compensation costs were recorded as follows:

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
Cost of personalized oncology services	\$ 4,000	\$	\$ 15,000	\$
Research and development	38,000	87,000	70,000	99,000
General and administrative	117,000	135,000	258,000	225,000
Total stock-based compensation expense	\$ 159,000	\$ 222,000	\$ 343,000	\$ 324,000

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Black-Scholes assumptions used to calculate the fair value of options and warrants granted during the nine months ended January 31, 2010 and 2009 were as follows:

	Nine Months Ended	
	January 31,	
	2010	2009
Expected term in years	6.0	3.4 6.0
Risk free interest rates	2.8% - 3.1%	2.1% - 2.4%
Volatility	94%	69% - 102%
Dividend yield	0%	0%

Stock options and restricted stock

During the nine months ended January 31, 2009, options to purchase 25,000 shares of the Company's unregistered common stock were exercised resulting in the receipt by the Company of net cash proceeds of \$7,000. No options were exercised in the nine months ended January 31, 2010.

No options were granted during the three months ended January 31, 2010 or 2009.

Effective January 1, 2010 our President and Principal Executive Officer of the Company, Dr. Douglas D. Burkett, resigned and became a consultant to the Company. In conjunction with Dr. Burkett's departure, the Company amended Dr. Burkett's employment agreement to accelerate the vesting of 166,670 unvested stock options to December 31, 2009. The Company has considered this a Type III modification which resulted in the recording of an additional \$43,000 charge to compensation expense during the three months ended January 31, 2010.

Warrants

During the nine months ended January 31, 2010, warrants to purchase 15,408 shares of the Company's unregistered common stock were exercised resulting in the receipt by the Company of net cash proceeds of \$3,000. No warrants were issued for the nine months ended January 31, 2010. Warrants to purchase 150,000 shares of the Company's unregistered common stock were issued during the nine months ended January 31, 2009. No warrants were exercised during nine months ended January 31, 2009.

At January 31, 2010, the Company has warrants outstanding to purchase 748,983 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.

Stock option plans

On February 22, 2010, the Compensation Committee of the Board of Directors of the Company adopted the Director Compensation Plan of 2010 (the "Director Plan") to replace the Company's former compensation policy for directors, effective for the 2010 calendar year commencing January 1, 2010. Under the Director Plan, independent directors of the Company are entitled to an annual award of five-year options to purchase 50,000 shares of the Company's unregistered common stock, and the Chairman of the Board of the Company is entitled to an annual award of options to purchase 100,000 shares of the Company's unregistered common stock. Independent directors who serve on one or more Board committees will also receive an annual grant of five-year options to purchase 50,000 shares of the Company's unregistered common stock or 50,000 shares of restricted unregistered common stock. For the initial Director Plan year, an independent director can choose to receive a cash fee equal to the value of the unregistered restricted common stock that would have otherwise been granted. The Chairman of the Board is also entitled to the same arrangement for his services on Board committees at a rate of twice that of an independent director. The Company will also pay each independent director \$15,000 to offset the tax liability in respect of any unregistered restricted stock awards. All unregistered common stock options and unregistered restricted stock issued under the Director Plan vest quarterly at a rate of 25%.

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Note 7. Related Party Transactions

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

Effective January 2010, the Company entered into a Consulting Agreement with David Sidransky, MD, our Chairman of the Board of Directors. The Consulting Agreement calls for compensation of \$5,000 per month plus reimbursement for reasonable expenses. The consulting services performed under the terms of this agreement are outside of the scope of services performed by Dr. Sidransky as our Chairman of the Board of Directors and include assisting the Company with new product programs and assistance with certain financial strategies. Dr. Sidransky shall devote at least 20 hours per month to his services to the Company under this agreement, which will expire on December 31, 2012, subject to certain renewal provisions.

In May 2009, the Board of Directors approved a stock repurchase agreement with a Board member which obligates the Company to purchase up to approximately \$407,000 of the Company's common stock held by the Board member over the next two years 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 Company's shares of common stock, and may be 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. Such purchases may occur quarterly through April 2011 provided the consulting agreement remains in effect. 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 volume-weighted 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 remains in effect.

Under the agreement, the Company has paid this Board member approximately \$188,000 for the purchase of 389,062 shares of our common stock as of January 31, 2010.

The Company accounted for its obligation to repurchase shares of its common stock under the stock repurchase agreement as a put option entered into in con