

THERMOGENESIS CORP
Form 10-Q
February 14, 2014

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 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 December 31, 2013.

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition from _____ to _____.

Commission File Number: 333-82900
ThermoGenesis Corp.
(Exact name of registrant as specified in its charter)

Delaware 94-3018487
(State of incorporation) (I.R.S. Employer Identification No.)

2711 Citrus Road
Rancho Cordova, California 95742
(Address of principal executive offices) (Zip Code)

(916) 858-5100
(Registrant's telephone number, including area code)

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ 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 ☐ No ☒

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 7, 2014
Common stock, \$.001 par value	20,038,547

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ThermoGenesis Corp.

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PART I - FINANCIAL INFORMATION

Item 1. Financial StatementsThermoGenesis Corp.
Condensed Balance Sheets (Unaudited)

(in thousands, except share and per share amounts)		December 31, 2013	June 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents		\$2,330	\$6,884
Accounts receivable, net of allowance for doubtful accounts of \$29 (\$47 at June 30, 2013)		5,538	4,898
Inventories		4,180	4,259
Prepaid expenses and other current assets		136	232
Total current assets		12,184	16,273
Equipment at cost, less accumulated depreciation of \$3,589 (\$3,277 at June 30, 2013)		2,106	2,208
Other assets		48	48
		\$14,338	\$18,529
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		\$2,737	\$3,106
Accrued payroll and related expenses		531	477
Deferred revenue		371	377
Other current liabilities		998	1,188
Total current liabilities		4,637	5,148
Deferred revenue		69	63
Commitments and contingencies (Footnote 3)			
Stockholders' equity:			
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; none outstanding		--	--
Common stock, \$0.001 par value; 80,000,000 shares authorized; 16,692,372 issued and outstanding (16,557,627 at June 30, 2013)		16	16
Paid in capital in excess of par		127,709	127,493
Accumulated deficit		(118,093)	(114,191)
Total stockholders' equity		9,632	13,318
		\$14,338	\$18,529

See accompanying notes.

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Condensed Statements of Operations (Unaudited)

(in thousands, except share and per share amounts)	Three Months Ended December 31,		Six Month Ended December 31,	
	2013	2012	2013	2012
Net revenues	\$ 4,468	\$ 4,802	\$ 8,112	\$8,924
Cost of revenues	2,679	2,826	4,932	5,322
Gross profit	1,789	1,976	3,180	3,602
Expenses:				
Sales and marketing	713	735	1,428	1,391
Research and development	797	714	1,630	1,552
General and administrative	1,882	1,085	4,024	2,225
Gain on sale of product line	--	--	--	(2,000)
Total operating expenses	3,392	2,534	7,082	3,168
Income (loss) from operations	(1,603)	(558)	(3,902)	434
Interest and other income (expense), net	--	(5)	--	(2)
Net income (loss)	\$ (1,603)	\$ (563)	\$ (3,902)	\$ 432

Per share data:

Basic and diluted net income (loss) per common share	\$ (0.10)	\$ (0.03)	\$ (0.23)	\$ 0.03
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Weighted average common shares outstanding:

Basic	16,682,730	16,522,310	16,672,811	16,519,078
Diluted	16,682,730	16,522,310	16,672,811	16,519,654

See accompanying notes.

IndexThermoGenesis Corp.
Condensed Statements of Cash Flows (Unaudited)

(in thousands)	Six Months Ended	
	December 31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$ (3,902)	\$432
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	327	266
Stock based compensation expense	284	272
Loss on disposal of equipment	--	7
Gain on sale of product line	--	(2,000)
Net change in operating assets and liabilities:		
Accounts receivable, net	(640)	(797)
Inventories	7	710
Prepaid expenses and other current assets	96	(82)
Accounts payable	(369)	(1,087)
Accrued payroll and related expenses	54	(168)
Deferred revenue	--	(135)
Other liabilities	(190)	87
Net cash used in operating activities	(4,333)	(2,495)
Cash flows from investing activities:		
Capital expenditures	(153)	(314)
Proceeds from sale of product line	--	2,000
Proceeds from prepayment from sale of product line	--	500
Net cash provided by (used in) investing activities	(153)	2,186
Cash flows from financing activities:		
Repurchase of common stock	(68)	(54)
Net cash used in financing activities	(68)	(54)
Net decrease in cash and cash equivalents	(4,554)	(363)
Cash and cash equivalents at beginning of period	6,884	7,879
Cash and cash equivalents at end of period	\$ 2,330	\$7,516
Supplemental non-cash financing and investing information:		
Transfer of inventories to equipment	\$ 57	\$214

See accompanying notes.

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ThermoGenesis Corp.
Notes to Condensed Financial Statements
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Organization and Basis of Presentation

ThermoGenesis Corp. (the Company, we or our) designs, develops and commercializes clinical technologies for the processing, storage and administration of stem cells and blood components for sale to users and companies involved in the development and administration of cell therapies.

Interim Reporting

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such Securities and Exchange Commission (SEC) rules and regulations and accounting principles applicable for interim periods. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying condensed financial statements through the date of issuance. Operating results for the six month period ended December 31, 2013, are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. These unaudited condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Revenue Recognition

Revenues from the sale of our products are recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed or determinable, and collectability is reasonably assured. We generally ship products F.O.B. shipping point. There is no conditional evaluation on any product sold and recognized as revenue. All foreign sales are denominated in U.S. dollars. Amounts billed in excess of revenue recognized are recorded as deferred revenue on the balance sheet.

Our sales are generally through distributors. There is no right of return provided for distributors. For sales of products made to distributors, we consider a number of factors in determining whether revenue is recognized upon transfer of title to the distributor, or when payment is received. These factors include, but are not limited to, whether the payment terms offered to the distributor are considered to be non-standard, the distributor history of adhering to the terms of its contractual arrangements with us, the level of inventories maintained by the distributor, whether we have a pattern of granting concessions for the benefit of the distributor, and whether there are other conditions that may indicate that the sale to the distributor is not substantive. We currently recognize revenue primarily on the sell-in method with our distributors.

Revenue arrangements with multiple deliverables are divided into units of accounting if certain criteria are met, including whether the deliverable item(s) has (have) value to the customer on a stand-alone basis. Revenue for each unit of accounting is recognized as the unit of accounting is delivered. Arrangement consideration is allocated to each unit of accounting based upon the relative estimated selling prices of the separate units of accounting contained within an arrangement containing multiple deliverables. Estimated selling prices are determined using vendor specific objective evidence of value (VSOE), when available, or an estimate of selling price when VSOE is not available for a given unit of accounting. Significant inputs for the estimates of the selling price of separate units of accounting include market and pricing trends and a customer's geographic location. We account for training and installation, and

service agreements as separate units of accounting.

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Service revenue generated from contracts for providing maintenance of equipment is amortized over the life of the agreement. All other service revenue is recognized at the time the service is completed.

Revenues are net of normal discounts. Shipping and handling fees billed to customers are included in net revenues, while the related costs are included in cost of revenues.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short duration.

Segment Reporting

We operate in a single segment providing medical devices and disposables to hospitals and blood banks throughout the world which utilize the equipment to process blood components.

Net Income (Loss) per Share

Basic net income (loss) per share is calculated in accordance with Accounting Standards Codification (ASC) Topic 260, "Earnings Per Share", which requires using the average number of shares of common stock outstanding. Diluted net income (loss) per share is computed on the basis of the average number of common shares outstanding plus the dilutive effect of any common stock equivalents using the "treasury stock method".

The following table provides a reconciliation of weighted-average shares used to determine basic and diluted earnings per share for the six months ended December 31, 2012.

Basic average common shares outstanding	16,519,078
Effect of dilutive options	576
Diluted average common shares outstanding	16,519,654

Common stock equivalents consist of stock options, warrants and common stock restricted awards. For the three and six months ended December 31, 2013, 2,263,671 common stock equivalents were excluded from the computation of earnings per share because their effect would have been anti-dilutive, and 2,622,712 and 2,577,712 for the three and six months ended December 31, 2012.

Comprehensive Loss

ASC 220, "Comprehensive Income" establishes standards for the reporting and communication of comprehensive income (loss) and its components in the financial statements. As of December 31, 2013, the Company has no items of other comprehensive income (loss) and, therefore, has not included a schedule of comprehensive income (loss) in the financial statements.

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Recently Adopted Accounting Pronouncements

In February 2013, the FASB issued ASC 2013-02, which is an update to improve the reporting of reclassifications out of accumulated other comprehensive income (AOCI). Companies are also required to present reclassifications by component when reporting changes in AOCI balances. We adopted ASC 2013-02 effective July 1, 2013. The adoption of ASC 2013-02 did not have a material impact on our results of operations or financial condition.

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This amendment requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward or a similar tax loss or a tax credit carryforward, unless certain conditions exist. This guidance is effective prospectively for annual reporting periods (and the interim periods within) beginning after December 15, 2013. Early adoption and retrospective application are permitted. We expect to adopt this guidance effective July 2014. We are currently assessing the potential impact, if any, the adoption of ASU 2013-11 may have on our financial statements.

2. Inventories

Inventories consisted of the following at:

	December 31, 2013	June 30, 2013
Raw materials	\$ 709,000	\$ 981,000
Work in process	1,963,000	2,066,000
Finished goods	1,508,000	1,212,000
	\$ 4,180,000	\$ 4,259,000

3. Commitments and Contingencies

Financial Covenants

In June 2010, we entered into a License and Escrow Agreement which granted a customer a non-exclusive, royalty-free license to certain intellectual property necessary for the potential manufacture and supply of AXP devices and certain AXP disposables. The license is for the sole and limited purpose of manufacturing and supplying the AXP and related disposables for use by the customer. The licensed intellectual property will be maintained in escrow and will be released to and used by the customer if and only if the Company defaults under the Agreement. Originally, default occurred if the Company (1) fails to meet certain positive cash flow metrics for each rolling quarterly measurement period except where the following two measures are met, (2) failure to meet cash balance and short-term investments of at least \$6,000,000 at the end of any given month, or (3) failure to meet a quick ratio of 2 to 1 at the end of any given month.

On December 31, 2013 we amended and restated the License and Escrow Agreement to delete all of the financial covenants except the minimum cash and short-term investments balance covenant, (2) above, which was reduced to \$2,000,000 at the end of any given month. We are in compliance with this covenant at January 31, 2014.

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Contingencies

On April 11, 2013, we filed an answer and counter-claims in response to the complaint Harvest Technologies Corp. (Harvest) filed on October 24, 2012 against the Company in the case captioned as Harvest Technologies Corp. v. ThermoGenesis Corp., 12-cv-01354, U.S. District Court, District of Delaware (Wilmington), with the complaint being amended on February 15, 2013 to name the Company's customer Celling Technologies, LLC as a defendant. In the complaint, Harvest contends that our Res-Q 60 System infringes certain Harvest patents. The counter-claims are based on anti-trust and other alleged improper conduct by Harvest and further seek declarations that the Res-Q 60 System does not infringe the patents and that the patents are invalid. The Company is vigorously defending itself against the Harvest claims, while aggressively pursuing its separate claims against Harvest. The Company is unable to ascertain the likelihood of any liability and has not made an accrual as of December 31, 2013.

During the three months ended September 30, 2012, we were notified by a third party who believes that the Res-Q system infringes upon certain of its US and European patents. The Company is in the process of gathering information; however, it has not yet collected enough information to assess the validity of the alleged infringement or estimate any potential financial impact; therefore, it has not made an accrual as of December 31, 2013.

Warranty

We offer a warranty on all of our products of one to two years, except disposable products which we warrant through their expiration date. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

The warranty liability is included in other current liabilities in the unaudited balance sheet. The change in the warranty liability for the six months ended December 31, 2013 is summarized in the following table:

Balance at July 1, 2013	\$489,000
Warranties issued during the period	90,000
Settlements made during the period	(75,000)
Changes in liability for pre-existing warranties during the period	(142,000)
Balance at December 31, 2013	\$362,000

4. Stockholders' Equity

Stock Based Compensation

We recorded stock-based compensation of \$115,000 and \$284,000 for the three and six months ended December 31, 2013, and \$129,000 and \$272,000 for the three and six months ended December 31, 2012.

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The following is a summary of option activity for our stock option plans:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at June 30, 2013	1,063,750	\$ 2.36		
Granted	48,750	\$ 1.39		
Forfeited	(6,750)	\$ 2.21		
Expired	(158,750)	\$ 3.67		
Outstanding at December 31, 2013	947,000	\$ 2.09	1.9	\$ 27,000
Vested and Expected to Vest at December 31, 2013	861,767	\$ 2.04	1.8	\$ 21,000
Exercisable at December 31, 2013	602,214	\$ 2.41	1.6	\$ 7,000

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock. There were no options exercised during the six months ended December 31, 2013 and 2012.

Common Stock Restricted Awards

The following is a summary of restricted stock activity during the six months ended December 31, 2013:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at June 30, 2013	390,003	\$ 1.81
Granted	--	--
Vested	(164,998)	\$ 1.93
Forfeited	(33,334)	\$ 1.81
Outstanding at December 31, 2013	191,671	\$ 1.70

In connection with the vesting of the restricted stock awards, the election was made by some of the employees to satisfy the applicable federal income tax withholding obligation by a net share settlement, pursuant to which the Company withheld 57,680 shares and used the deemed proceeds from those shares to pay the income tax withholding. The net share settlement is deemed to be a repurchase by the Company of its common stock.

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5. Merger with TotipotentRX

On July 15, 2013, we entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”), with TotipotentRX providing for the merger of TotipotentRX into the Company, with the Company surviving. TotipotentRX is a privately held biomedical technology company specializing in human clinical trials in the field of regenerative medicine and is the exclusive provider of cell-based therapies to the Fortis Healthcare System.

At the February 13, 2014 Special Meeting, the Company’s stockholders voted in favor of the merger and the TotipotentRX stockholders have also approved the merger. The merger is expected to become effective on February 18, 2014. The combined company will be called Cesca Therapeutics Inc. to better reflect the combined products and services of the two companies.

Upon consummation of the merger, a TotipotentRX stockholder will receive, in exchange for each share of TotipotentRX common stock held by such stockholder immediately before the closing of the Merger, approximately 30 shares of Company common stock, subject to adjustment. After the merger, the former shareholders of TotipotentRX will own approximately 12,490,800 shares of the Company’s common stock. Additionally, TotipotentRX’s Chief Executive Officer will become President of and a director of our Company.

The Merger Agreement contains certain termination rights for both the Company and TotipotentRX, and further provides that, upon termination of the Merger Agreement under specified circumstances, including, but not limited to, termination due to a failure by one party to recommend approval of the merger, a party soliciting an acquisition proposal in breach of the Merger Agreement, or a party entering into an agreement with a third party related to an acquisition proposal, that breaching party may be required to pay to the other party a termination fee of \$500,000.

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6. Sale of Product Lines

Thermoline

On December 31, 2012, the Company entered into an Asset Purchase Agreement for the sale of certain of the assets, rights and properties of the ThermoLine product line for \$500,000. The \$500,000 was received upon signing the agreement and was included in other current liabilities on the December 31, 2012 balance sheet. The Company recognized the gain on sale upon delivery of the assets which occurred during the quarter ended March 31, 2013.

CryoSeal

In June 2010, the Company and Asahi entered into an amendment (the "Amendment") of their Distribution and License Agreement. Under the terms of the Amendment, Asahi obtained exclusive rights to distribute the CryoSeal System in South Korea, North Korea, Taiwan, the People's Republic of China, the Philippines, Thailand, Singapore, India and Malaysia. These rights included the exclusive right to market, distribute and sell the processing disposables and Thrombin Reagent for production of thrombin in a stand-alone product.

In connection with the above-described Amendment, the Company and Asahi also entered into an Option Agreement ("Option Agreement") and on June 30, 2012, Asahi exercised the option to purchase certain intangible assets related to this product line, including all associated patents and engineering files for \$2,000,000. In connection with the notice of exercise, the Amendment automatically terminated. Payment of the \$2,000,000 was based upon completion of certain provisions of the Option Agreement. As such, the Company recognized the gain on sale upon completion of those provisions which occurred in July 2012. The \$2,000,000 payment was received in August 2012.

7. Subsequent Event

On January 30, 2014, the Company completed a private placement of the sale of 3,336,800 shares of its common stock at \$2.00 per share, together with warrants to purchase up to an aggregate of 1,668,400 shares of common stock. The warrants may be exercised by the holders at a price of \$2.81 per share starting July 30, 2014 continuing through January 29, 2019.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This report contains forward-looking statements. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements contained herein. When used in this report, the words "anticipate," "believe," "estimate," "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by these forward-looking statements. We wish to caution readers of the important factors, among others, that in some cases have affected, and in the future could affect our actual results and could cause actual results for fiscal year 2014 and beyond, to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. These factors include without limitation, the ability to obtain capital and other financing in the amounts and at the times needed to complete clinical trials and product marketing for new products, market acceptance of new products, regulatory approval and time frames for such approval of new products and new claims for existing products, realization of forecasted income and expenses, initiatives by competitors, price pressures, failure to meet FDA regulations governing our products and operations and recalls associated with such regulations, the risks associated with initiating manufacturing for new products, failure to meet FCPA regulations, legal proceedings, and the risk factors listed from time to time in our SEC reports, including, in particular, the factors and discussion in our Form 10-K for fiscal year 2013.

Overview

ThermoGenesis designs, develops and commercializes devices and disposable tools for use by customers to automate the processing, separation and storage of certain cells, and stem cell fractions sourced from cord blood, peripheral blood and bone marrow. These cells can be used for research and development or the practice of regenerative medicine depending upon the application and the specific regulatory approval granted. The Company was founded in 1986 and is located in Rancho Cordova, California. Our growth strategy is to expand our offerings in the development of regenerative medicine tools and partner with other pioneers in the stem cell arena to accelerate our clinical evaluations and our worldwide penetration in this market.

In October 2013, we effected a strategic reorganization designed to better align resources with our expected cord blood revenue streams, increase our internal clinical resource capabilities and provide greater focus on new application development to improve our market competitiveness and to speed AXP AutoXpress Platform (AXP) adoption in developed and emerging markets. As a result of eliminating a total of eleven positions in connection with the reorganization, coupled with other targeted savings in operating costs, we expect to realize approximately \$1.5 million in annual expense savings. One-time severance costs of approximately \$210,000 were recorded in the quarter ended December 31, 2013.

Our Products

Cord Blood

The AXP System is a medical device with an accompanying disposable bag set that isolates and retrieves stem cells from umbilical cord blood. The AXP System provides cord blood banks with an automated method to separate and capture adult stem cells which reduces the overall processing and labor costs with a reduced risk of contamination under cGMP conditions. The AXP System retains over 97% of the mononuclear cells (MNCs). High MNC recovery has significant clinical importance to patient transplant survival rates. Self-powered and microprocessor-controlled, the AXP device contains flow control optical sensors that achieve precise separation of the cord blood fractions.

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The BioArchive System is a robotic cryogenic medical device used to cryopreserve and archive stem cells for future transplant and treatment. Launched in fiscal 1998, our BioArchive Systems have been purchased by over 110 umbilical cord blood banks in over 35 countries to archive, cryopreserve and store stem cell preparations extracted from human placentas and umbilical cords for future use.

Bone Marrow

The MarrowXpress® or MXP System, a derivative product of the AXP and its accompanying disposable bag set, isolates and concentrates stem cells from bone marrow. The product is an automated, closed, sterile system that volume-reduces blood from bone marrow to a user-defined volume in 30 minutes, while retaining over 90% of the MNCs, a clinically important cell fraction. Self-powered and microprocessor-controlled, the MXP System contains flow control optical sensors that achieve precise separation. In June 2008, we received the CE-Mark, enabling commercial sales in Europe. In July 2008, we received authorization from the FDA to begin marketing the MXP as a Class I device in the U.S. for the preparation of cell concentrate from bone marrow. However, the safety and effectiveness of this device for in vivo use has not been established.

The Res-Q 60 BMC, is a rapid, reliable, and easy to use product for cell processing. The product is a centrifuge-based disposable device designed for the isolation and extraction of specific stem cell populations from bone marrow. The product was launched in 2009. The key advantages of the Res-Q 60 BMC include (a) delivering a high number of target cells from a small sample of bone marrow, and (b) providing a disposable that is highly portable and packaged for the sterile field. These features allow users to process bone marrow to isolate and capture certain cells in 15 minutes. However, the safety and effectiveness of this device for in vivo use has not been established.

PRP

The Res-Q 60 PRP is designed to be used for the safe and rapid preparation of autologous platelet rich plasma (PRP) from a small sample of blood at the point of care. The product allows PRP to be mixed with autograft and/or allograft bone prior to application to a bony defect in the body. The Res-Q 60 PRP received FDA 510(k) clearance in June of 2011.

The following is management's discussion and analysis of certain significant factors which have affected our financial condition and results of operations during the period included in the accompanying financial statements.

Merger with TotipotentRX

On July 15, 2013, we entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), with TotipotentRX providing for the merger of TotipotentRX into the Company, with the Company surviving. TotipotentRX is a privately held biomedical technology company specializing in human clinical trials in the field of regenerative medicine and is the exclusive provider of cell-based therapies to the Fortis Healthcare System.

At the February 13, 2014 Special Meeting, the Company's stockholders voted in favor of the merger and the TotipotentRX stockholders have also approved the merger. The merger is expected to become effective on February 18, 2014. The combined company will be called Cesca Therapeutics Inc. to better reflect the combined products and services of the two companies.

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Upon consummation of the merger, TotipotentRX stockholder will receive, in exchange for each share of TotipotentRX common stock held by such stockholder immediately before the closing of the Merger, approximately 30 shares of Company common stock, subject to adjustment. After the merger, the former shareholders of TotipotentRX will own approximately 12,490,800 shares of the Company's common stock. Additionally, TotipotentRX's Chief Executive Officer will become President of and a director of our Company.

The Merger Agreement contains certain termination rights for both the Company and TotipotentRX, and further provides that, upon termination of the Merger Agreement under specified circumstances, including, but not limited to, termination due to a failure by one party to recommend approval of the merger, a party soliciting an acquisition proposal in breach of the Merger Agreement, or a party entering into an agreement with a third party related to an acquisition proposal, that breaching party may be required to pay to the other party a termination fee of \$500,000.

Critical Accounting Policies

Management's discussion and analysis of its financial condition and results of operations is based upon the condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a full discussion of our accounting estimates and assumptions that we have identified as critical in the preparation of our condensed financial statements, please refer to our 2013 Annual Report on Form 10-K.

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Results of Operations for the Three Months Ended December 31, 2013 as Compared to the Three Months Ended December 31, 2012

Net Revenues

Revenues for the three months ended December 31, 2013 were \$4,468,000 compared to \$4,802,000 for the three months ended December 31, 2012, a decrease of \$334,000. The decrease is primarily due to a decrease in BioArchive device revenues as there was one less BioArchive device sold during the quarter ended December 31, 2013 as compared to the quarter ended December 31, 2012. Additionally, other revenues decreased as we were still selling ThermoLine products during the quarter ended December 31, 2012 prior to the sale of the product line. These decreases were offset by an increase in revenues from Res-Q disposables.

The following represents the Company's revenues by product platform for the three months ended:

	December 31,	
	2013	2012
AXP	\$2,126,000	\$2,163,000
BioArchive	1,084,000	1,345,000
Manual Disposables	457,000	546,000
Bone Marrow	654,000	467,000
Other	147,000	281,000
	\$4,468,000	\$4,802,000

Gross Profit

The Company's gross profit was \$1,789,000 or 40% of net revenues for the three months ended December 31, 2013, compared to \$1,976,000 or 41% for the corresponding fiscal 2013 period. Gross profit declined commensurate with the decline in revenues.

Sales and Marketing Expenses

Sales and marketing expenses were \$713,000 for the three months ended December 31, 2013, compared to \$735,000 for the comparable fiscal 2013 period, a decrease of \$22,000 or 3%. The slight decrease is primarily due to a decline in sales commissions as a result of the decrease in revenues.

Research and Development Expenses

Research and development expenses were \$797,000 for the three months ended December 31, 2013, compared to \$714,000 for the comparable fiscal 2013 period, an increase of \$83,000 or 12%. The increase is primarily due to costs associated with developing our Vascular Xpress, or VXP, which is an advancement of the AXP system to treat vascular indications.

General and Administrative Expenses

General and administrative expenses were \$1,882,000 for the three months ended December 31, 2013, compared to \$1,085,000 for the comparable fiscal 2013 period, an increase of \$797,000 or 73%. The increase is primarily due to expenses of \$563,000 associated with the proposed merger with TotipotentRX, \$220,000 of legal fees associated with the Harvest patent litigation and \$130,000 of severance costs related to the October reorganization. Without these costs, general and administrative expenses remained consistent.

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Non-GAAP Measures

In addition to the results reported in accordance with US GAAP, we also use a non-GAAP measure, adjusted EBITDA, to evaluate operating performance and to facilitate the comparison of our historical results and trends. This financial measure is not a measure of financial performance under US GAAP and should not be considered in isolation or as a substitute for loss as a measure of performance. The calculation of this non-GAAP measure may not be comparable to similarly titled measures used by other companies. Reconciliations to the most directly comparable GAAP measure are provided below.

	Three Months Ended December 31,	
	2013	2012
Loss from operations	\$ (1,603,000)	\$ (558,000)
Add (subtract):		
Depreciation and amortization	171,000	132,000
Stock-based compensation expense	115,000	129,000
Adjusted EBITDA loss	\$ (1,317,000)	\$ (297,000)

Adjusted EBITDA

The adjusted EBITDA loss was \$1,317,000 for the three months ended December 31, 2013 compared to \$297,000 for the three months ended December 31, 2012. The adjusted EBITDA loss increased compared to the second quarter in the prior year due to our expenses associated with our proposed merger with TotipotentRX, legal fees regarding the Harvest patent litigation and a decrease in revenues associated with our BioArchive devices and ThermoLine products, as discussed above.

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Results of Operations for the Six Months Ended December 31, 2013 as Compared to the Six Months Ended December 31, 2012

Net Revenues

Revenues for the six months ended December 31, 2013 were \$8,112,000 compared to \$8,924,000 for the six months ended December 31, 2012, a decrease of \$812,000. The decrease is primarily due to the anticipated decrease in AXP disposable revenues that occurred in the first quarter of fiscal 2014 due to the termination of the GE distribution agreement and the related wind-down of their product inventory offset by an increase in shipments to Golden Meditech. Also, other revenues decreased as we were still selling ThermoLine products during the six months ended December 31, 2012 prior to the sale of the product line.

The following represents the Company's revenues by product platform for the six months ended:

	December 31,	
	2013	2012
AXP	\$3,330,000	\$4,034,000
BioArchive	2,195,000	2,180,000
Manual Disposables	1,020,000	967,000
Bone Marrow	1,319,000	1,003,000
Other	248,000	740,000
	\$8,112,000	\$8,924,000

Gross Profit

The Company's gross profit was \$3,180,000 or 39% of net revenues for the six months ended December 31, 2013, compared to \$3,602,000 or 40% for the corresponding fiscal 2013 period. Gross profit declined commensurate with the decline in revenues.

Sales and Marketing Expenses

Sales and marketing expenses were \$1,428,000 for the six months ended December 31, 2013, compared to \$1,391,000 for the comparable fiscal 2013 period, an increase of \$37,000 or 3%. The increase is primarily due to expenses associated with establishing direct representation in Asia.

Research and Development Expenses

Research and development expenses were \$1,630,000 for the six months ended December 31, 2013, compared to \$1,552,000 for the comparable fiscal 2013 period, an increase of \$78,000 or 5%. The increase is primarily due to costs associated with developing our VXP system and ensuring our products comply with the European Union Restriction of Hazardous Substances in Electrical and Electronic Equipment ("RoHS") Directive.

General and Administrative Expenses

General and administrative expenses were \$4,024,000 for the six months ended December 31, 2013, compared to \$2,225,000 for the comparable fiscal 2013 period, an increase of \$1,799,000 or 81%. The increase is primarily due to expenses of \$1,240,000 associated with the proposed merger with TotipotentRX, \$485,000 of legal fees associated with the Harvest patent litigation and \$130,000 of severance costs related to the October reorganization. Without these costs, general and administrative expenses remained consistent.

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Gain on Sale of Product Line

During the six months ended December 31, 2012, the Company recognized a gain of \$2,000,000 on the sale of certain intangible assets related to the CryoSeal product line, including all associated patents and engineering files.

Non-GAAP Measures

In addition to the results reported in accordance with US GAAP, we also use a non-GAAP measure, adjusted EBITDA, to evaluate operating performance and to facilitate the comparison of our historical results and trends. This financial measure is not a measure of financial performance under US GAAP and should not be considered in isolation or as a substitute for loss as a measure of performance. The calculation of this non-GAAP measure may not be comparable to similarly titled measures used by other companies. Reconciliations to the most directly comparable GAAP measure are provided below.

	Six Months Ended December 31,	
	2013	2012
Income (loss) from operations	\$ (3,902,000)	\$ 434,000
Add (subtract):		
Depreciation and amortization	327,000	266,000
Stock-based compensation expense	284,000	272,000
Gain on sale of product line	--	(2,000,000)
Adjusted EBITDA loss	\$ (3,291,000)	\$ (1,028,000)

Adjusted EBITDA

The adjusted EBITDA loss was \$3,291,000 for the six months ended December 31, 2013 compared to \$1,028,000 for the six months ended December 31, 2012. The adjusted EBITDA loss increased compared to the first six months in the prior year due to our temporary decrease in AXP disposable revenues and expenses associated with our proposed merger with TotipotentRX and legal fees regarding the Harvest patent litigation.

Liquidity and Capital Resources

At December 31, 2013, we had cash and cash equivalents of \$2,330,000 and working capital of \$7,547,000. This compares to cash and cash equivalents of \$6,884,000 and working capital of \$11,125,000 at June 30, 2013. The Company has primarily financed operations through private and public placement of equity securities and the sale of certain non-core assets. On January 30, 2014, we completed a private placement of 3,336,800 shares of common stock, plus 1,668,400 warrants for net proceeds of \$6.1 million.

Net cash used in operating activities for the six months ended December 31, 2013 was \$4,333,000 compared to \$2,495,000 for the six months ended December 31, 2012. The increase is primarily due to the net loss of \$3,902,000.

Based on our cash balance after the January 30, 2014 private placement, historical trends, cost reductions and future revenue projections, we believe our current funds are sufficient to provide for our projected needs to maintain operations and working capital requirements for at least the next 12 months. However, in order to maximize the value of our clinical trials and accelerate the planned commercialization of our products in connection with the proposed merger with TotipotentRX, we intend to raise approximately \$10 to \$15 million for investing in the planned clinical development strategy over 36 months. Effective December 31, 2013, we amended the Technology License and Escrow Agreement with Cord Blood Registry Systems, Inc. The amendment deleted all of the financial covenants, except the minimum cash and short-term investments balance covenant which it reduced to \$2,000,000 at any month end. Our ability to fund our longer-term cash needs is subject to various risks, many of which are beyond our control. Should we require additional funding, such as additional capital investments, we may need to raise the required

additional funds through bank borrowings or public or private sales of debt or equity securities. We cannot assure that such funding will be available in needed quantities or on terms favorable to us, if at all see Part I Item 1A – Risk Factors.

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Off-Balance Sheet Arrangements

As of December 31, 2013, we had no off-balance sheet arrangements.

Backlog

Our cancelable backlog at December 31, 2013 was \$505,000. Our backlog consists of product orders for which a customer purchase order has been received and is scheduled for shipment within the next twelve months. Orders are subject to cancellation or rescheduling by the customer, sometimes with a cancellation charge. Due to timing of order placement, product lead times, changes in product delivery schedules and cancellations, and because sales will often reflect orders shipped in the same quarter received, our backlog at any particular date is not necessarily indicative of sales for any succeeding period.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities and Exchange Act of 1934 and are not required to provide information under this item.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined by Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of our fiscal quarter pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There were no changes in our internal controls over financial reporting that occurred during the three months ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

In the normal course of operations, we may have disagreements or disputes with distributors, vendors or employees. Such potential disputes are seen by management as a normal part of business.

On December 17, 2013, the Company filed a lawsuit against OriGen Biomedical, Inc. ThermoGenesis Corp. v. Origen Biomedical, Inc., 2:13-cv-02619, U.S. District Court, Eastern District of California (Sacramento) claiming that OriGen's freezer bag products are infringing on one of our patents and a patent developed from our partnership with New York Blood Center, which although owned by the New York Blood Center, has had all rights thereunder assigned to us. On January 28, 2014, a Stipulation and Order, was signed to extend Origen's deadline to file a response until February 28, 2014.

On October 24, 2012, Harvest Technologies Corp. filed suit against us in the case Harvest Technologies Corp. v. ThermoGenesis Corp., 12-cv-01354, U.S. District Court, District of Delaware (Wilmington) claiming our Res-Q 60 System infringes certain Harvest patents. The Company has been served, and on April 11, 2013, we filed an answer and counter-claims in response. The counter-claims are based on anti-trust and other alleged improper conduct by Harvest and further seek declarations that the Res-Q 60 System does not infringe the patents and that the patents are invalid. The Company intends to vigorously defend itself against the Harvest claims, while aggressively pursuing its separate claims against Harvest.

Item 1A. Risk Factors.

In addition to the risk factors discussed below and other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, which could materially affect our business, financial condition or future results. There have been no material changes from those risk factors, other than the risk factors listed below. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known or knowable to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

An Inability to Successfully Integrate Operations with TotipotentRX Could Adversely Affect the Combined Business. The ability of ThermoGenesis and TotipotentRX to fulfill our strategy and business plan is dependent on our ability to successfully integrate our operations. Failure to quickly and adequately integrate operations and personnel could adversely affect the combined company's business and its ability to achieve its objectives and strategy.

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We May Not Be Able to Successfully Integrate our Business with TotipotentRX, or to Realize the Anticipated Synergies of the Combined Businesses. Our proposed merger with TotipotentRX represents a significant investment by both companies. The merger will require significant attention and resources of both our companies which could reduce the likelihood of achievement of other corporate goals. The additional financing needs created by the combined company will also require additional management time to address. There is no assurance that we will realize synergies in the scientific, clinical, regulatory, or other areas as we currently contemplate.

Upon Completion of the Merger, We Will Need to Raise Additional Capital in Furtherance of our Business Plan. Upon completion of the merger, management estimates a need for \$10 million to \$15 million of additional growth capital to execute the Cesca business plan over the next 24 to 36 months. The proposed financing may include shares of common stock and warrants to purchase additional shares of common stock, equity investments from strategic development partners or some combination of each. Any additional equity financings may be financially dilutive to, and will be dilutive from an ownership perspective to, the combined company's stockholders.

Lack of Demonstrated Clinical Utility of Cord Blood Derived Stem Cells Beyond Hematopoietic Transplantation May Result in a Decline in Demand for Cord Blood Banking Services, Adversely Affecting Sales of Our Products. Transplants using stem cells derived from cord blood and cord tissue have become a standard procedure for treating blood cell lineage disorders including leukemia, lymphoma and anemia. However, clinical research demonstrating the utility of cord blood stem cells for use in treating other diseases or injury has been minimal, leaving claims of broad clinical utility of cord blood stem cells by cord blood banks largely unsubstantiated. The low utilization rate of banked cord blood samples coupled with the lack of demonstrated clinical results for multiple treatment indications has led to consumer skepticism regarding the benefits of cord blood banking and in turn, a significant reduction in collection rates in a number of geographies in Europe and the US. A continued lack of investment in the research and development of supporting clinical data for additional applications may lead to greater skepticism globally, further adversely affecting demand for cord blood banking services and our revenues.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not applicable.

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Item 5. Other Information.

Voting Results of Special Meeting of Stockholders

On February 13, 2014, we held a special meeting of stockholders (the “Special Meeting”). The results of the Special Meeting, based on the presence in person or by proxy of holders of 11,303,241 shares of the Company’s common stock entitled to vote, are described below.

Proposal 1: To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger and Reorganization dated July 15, 2013, by and among ThermoGenesis Corp., TotipotentRX Corporation, Kenneth Harris and Mitchel Sivilotti, and related transactions therein, pursuant to which among other things ThermoGenesis will issue shares of common stock to the shareholders of TotipotentRX Corporation and TotipotentRX Corporation will merge with and into ThermoGenesis, with ThermoGenesis surviving the merger and changing its name to Cesca Therapeutics Inc. The proposal was approved as follows:

For	Against	Abstain
8,852,015	2,413,090	38,136

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Item 6. Exhibits.

10.1 Extension Addendum to Escrow Agreement dated October 30, 2013 (1)

10.16 Employment Agreement with Matthew T. Plavan (2)

10.17 Employment Agreement with Dan T. Bessey (2)

10.18* Sales and Purchase Agreement between ThermoGenesis Corp and CBR Systems, Inc. dated December 31, 2013 (3)

10.2.4 Forbearance Agreement to Technology License and Escrow Agreement dated November, 26, 2013 (4)

31.1 Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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101.INS XBRL Instance Document†

101.SCH XBRL Taxonomy Extension Schema Document†

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document†

101.LAB XBRL Taxonomy Extension Label Linkbase Document†

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document†

Footnotes to Exhibit Index

(1) Incorporated by reference to ThermoGenesis Current Report on Form 8-K filed with the SEC on October 31, 2013.

(2) Incorporated by reference to ThermoGenesis Current Report on Form 8-K filed with the SEC on October 30, 2013.

(3) Incorporated by reference to ThermoGenesis Current Report on Form 8-K filed with the SEC on January 7, 2014.

(4) Incorporated by reference to ThermoGenesis Current Report on Form 8-K filed with the SEC on November 27, 2013.

† XBRL information is furnished and not filed for purpose of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

* Portions of this exhibit have been redacted and filed separately with the SEC pursuant to a request for confidential treatment.

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ThermoGenesis Corp.

Signatures

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

ThermoGenesis Corp.
(Registrant)

Dated: February 14, 2014 /s/ Matthew T. Plavan
Matthew T. Plavan
Chief Executive Officer
(Principal Executive Officer)

Dated: February 14, 2014 /s/ Dan T. Bessey
Dan T. Bessey
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)