CESCA THERAPEUTICS INC.
Form 10-Q
November 17, 2016
Table Of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2016.

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: 000-16375.

Cesca Therapeutics Inc.

(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 [X] 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 [X] 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 [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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 November 16, 2016
Common stock, $.001 par value	9,790,500

Table Of Contents

Cesca Therapeutics Inc.

INDEX

Part I Financial Information		Page Number
Item 1.	Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	19
Item 4.	Controls and Procedures	19
Part II Other Information		
Item 1.	Legal Proceedings	20
Item 1A.	Risk Factors	20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3.	Defaults upon Senior Securities	20
Item 4.	Mine Safety Disclosure	20
Item 5.	Other Information	20
Item 6.	Exhibits	20
Signatures		22

Table Of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Cesca Therapeutics Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	September 30, 2016 (Unaudited)	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,608	$5,835
Accounts receivable, net of allowance for doubtful accounts of $56 ($49 at June 30, 2016)	3,010	3,169
Inventories, net of reserves of $1,365 ($1,437 at June 30, 2016)	3,357	3,593
Prepaid expenses and other current assets	203	246
Total current assets	12,178	12,843
Equipment at cost, less accumulated depreciation	3,011	2,962
Goodwill	13,195	13,195
Intangible assets, net	20,723	20,821
Other assets	78	78
Total assets	$ 49,185	$49,899
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 1,821	$2,648
Accrued payroll and related expenses	372	449
Deferred revenue	560	783
Other current liabilities	1,193	1,662
Total current liabilities	3,946	5,542
Noncurrent deferred tax liability	7,641	7,641
Derivative obligations	996	670
Convertible debentures, net	--	2,489
Other non-current liabilities	275	1,284
Total liabilities	12,858	17,626

Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized, none outstanding	--	--
Common stock, $0.001 par value;150,000,000 shares authorized; 9,790,500 issued and outstanding (3,010,687 at June 30, 2016)	9	3
Paid in capital in excess of par	215,060	188,569
Accumulated deficit	(178,707)	(156,262)
Accumulated other comprehensive loss	(35)	(37)
Total stockholders' equity	36,327	32,273
Total liabilities and stockholders' equity	$ 49,185	$ 49,899

See accompanying notes.

Table Of Contents

Cesca Therapeutics Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(in thousands, except share and per share amounts)

	Three Months Ended September 30, 2016	2015
Net revenues	$3,767	$2,823
Cost of revenues	2,385	2,456
Gross profit	1,382	367
Expenses:		
Sales and marketing	481	632
Research and development	670	1,097
General and administrative	2,179	2,552
Total operating expenses	3,330	4,281
Loss from operations	(1,948)	(3,914)
Fair value change of derivative instruments	(326)	1,426
Amortization of debt discount	(9,851)	(13)
Interest Expense	(10,535)	(7)
Registration rights liquidated damages	--	(880)
Other income and (expenses)	215	(9)
Net loss	$(22,445)	$(3,397)
Net loss	$(22,445)	$(3,397)
Other comprehensive income:		
Foreign currency translation adjustments	2	(25)
Comprehensive loss	$(22,443)	$(3,422)
Per share data:		
Basic and diluted net loss per common share	$(3.71)	$(1.67)

Weighted average common shares outstanding – basic and diluted	6,048,982	2,027,612

See accompanying notes.

Cesca Therapeutics Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Three Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(22,445)	$(3,397)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	261	365
Stock based compensation expense	298	343
(Recovery of) reserve for excess and slow-moving inventories	(71)	141
Amortization of debt discount and issue costs	10,011	15
Change in fair value of derivative	326	(1,426)
Non-cash accrued interest	10,373	--
Net change in operating assets and liabilities:		
Accounts receivable	162	1,459
Inventories	258	453
Prepaid expenses and other current assets	43	29
Accounts payable	(832)	300
Accrued payroll and related expenses	(77)	(86)
Deferred revenue	(224)	(134)
Other current liabilities	(122)	633
Other noncurrent liabilities	30	--
Net cash used in operating activities	(2,009)	(1,305)
Net cash flows used in investing activities:		
Capital expenditures	(154)	(187)
Cash flows from financing activities:		
Proceeds from convertible debentures, net of financing costs	--	4,720
Payments on capital lease obligations	(23)	(14)
Repurchase of common stock	(134)	(5)
Proceeds from issuance of common stock, net	2,091	--
Net cash provided by financing activities	1,934	4,701
Effects of foreign currency rate changes on cash and cash equivalents	2	(7)
Net increase(decrease) in cash and cash equivalents	(227)	3,202
Cash and cash equivalents at beginning of period	5,835	3,357

Cash and cash equivalents at end of period	$5,608	$6,559
Supplemental non-cash financing and investing information:		
Derivative obligation related to issuance of warrants	--	$4,282
Common stock issued for payment of convertible debentures and interest	$23,905	--

See accompanying notes.

Table Of Contents

Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(in thousands, except share and per share amounts)

1. Description of Business and Basis of Presentation

Organization and Basis of Presentation

Cesca Therapeutics Inc. ("Cesca", or the "Company") develops and markets integrated cellular therapies and delivery systems that advance the safe and effective practice of regenerative medicine. Cesca is a leader in developing and manufacturing automated blood and bone marrow processing systems that enable the separation, processing and preservation of cell and tissue therapy products.

Reverse Stock Split

On March 4, 2016, the Company affected a one (1) for twenty (20) reverse split of its issued and outstanding common stock. There were no changes to its authorized number of shares of common stock of 350,000,000.

All historical share amounts disclosed herein have been retroactively recast to reflect the reverse split. No fractional shares were issued; fractional shares of common stock were rounded up to the nearest whole share.

Liquidity and Going Concern

At September 30, 2016, the Company had cash and cash equivalents of $5,608 and working capital of $8,232. The Company has incurred recurring operating losses and as of September 30, 2016 had an accumulated deficit of $178,707. The Company has primarily financed operations through the sale of equity securities, convertible debentures and the sale of certain non-core assets.

The Company will need additional funding to support its phase III Critical Limb Ischemia ("CLIRST III") trial. As such, management has been exploring additional funding sources including strategic partner relationships. The Company cannot assure that such funding will be available on a timely basis, in needed quantities, or on favorable terms, if at all. If the Company is unable to generate sufficient revenues or obtain additional funds for its working capital needs, the Company will have to further scale-back operations.

Because of recurring and expected operating losses, its cash balance and severance payments due to the departing Chief Executive Officer, see Subsequent Event footnote 7, there is substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These condensed consolidated financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Principles of Consolidation

The consolidated financial statements include the accounts of Cesca and its wholly-owned subsidiaries, TotipotentRX Cell Therapy, Pvt. Ltd. and TotipotentSC Scientific Product Pvt. Ltd. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Table Of Contents

Interim Reporting

The accompanying unaudited condensed consolidated 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 consolidated financial statements through the date of issuance. Operating results for the three month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017. These unaudited condensed consolidated 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, 2016.

2. Summary of Significant Accounting Policies

Revenue Recognition

Revenues from the sale of the Company's products and services 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. The Company generally ships products F.O.B. shipping point. There is no conditional evaluation on any product sold and recognized as revenue. Amounts billed in excess of revenue recognized are recorded as deferred revenue on the balance sheet.

There is no right of return provided for distributors or customers. For sales of products made to distributors, the Company considers 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 the Company has 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. The Company currently recognizes revenue primarily on the sell-in method with its 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. The Company accounts for training and installation, and service agreements and the collection, processing and testing of the umbilical cord blood and the storage as separate units of accounting.

Service revenue generated from contracts for providing maintenance of equipment is amortized over the life of the agreement. Revenue generated from storage contracts is deferred and recorded ratably over the life of the agreement, up to 21 years. 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.

Table Of Contents

Fair Value Measurements

In accordance with ASC 820, "*Fair Value Measurements and Disclosures*," fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.