THERMOGENESIS CORP
Form 10-Q
May 14, 2013

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 March 31, 2013.

or

o 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 x No o

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 o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

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

Yes o 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 May 8, 2013
Common stock, $.001 par value	16,534,075

ThermoGenesis Corp.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ThermoGenesis Corp.
Condensed Balance Sheets (Unaudited)

	March 31, 2013	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$7,521,000	$7,879,000
Accounts receivable, net of allowance for doubtful accounts of $45,000 ($30,000 at June 30, 2012)	4,942,000	4,558,000
Inventories	4,341,000	6,290,000
Prepaid expenses and other current assets	338,000	338,000
Total current assets	17,142,000	19,065,000
Equipment at cost, less accumulated depreciation of $3,463,000 ($3,476,000 at June 30, 2012)	1,996,000	1,652,000
Intangible asset	202,000	315,000
Other assets	48,000	48,000
	$19,388,000	$21,080,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,416,000	$2,772,000
Accrued payroll and related expenses	590,000	607,000
Deferred revenue	373,000	424,000
Other current liabilities	1,359,000	1,228,000
Total current liabilities	3,738,000	5,031,000
Deferred revenue	55,000	55,000
Other non-current liabilities	30,000	96,000
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; 16,534,075 issued and outstanding (16,413,066 at June 30, 2012)	16,000	16,000
Paid in capital in excess of par	127,343,000	126,987,000
Accumulated deficit	(111,794,000)	(111,105,000)
Total stockholders' equity	15,565,000	15,898,000
	$19,388,000	$21,080,000

See accompanying notes.

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ThermoGenesis Corp.
Condensed Statements of Operations (Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Net revenues	$4,892,000	$4,908,000	$13,816,000	$14,542,000
Cost of revenues	3,218,000	3,727,000	8,540,000	9,658,000
Gross profit	1,674,000	1,181,000	5,276,000	4,884,000
Expenses:				
Sales and marketing	733,000	712,000	2,124,000	1,958,000
Research and development	658,000	959,000	2,210,000	2,919,000
General and administrative	1,565,000	1,272,000	3,790,000	4,333,000
Gain on sale of product lines	(161,000)	--	(2,161,000)	--
Total operating expenses	2,795,000	2,943,000	5,963,000	9,210,000
Interest and other income (expense), net	--	--	(2,000)	78,000
Net loss	$(1,121,000)	$(1,762,000)	$(689,000)	$(4,248,000)
Per share data:				
Basic and diluted net loss per common share	$(0.07)	$(0.11)	$(0.04)	$(0.26)
Shares used in computing per share data	16,526,232	16,406,366	16,521,462	16,382,477

See accompanying notes.

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ThermoGenesis Corp.
Condensed Statements of Cash Flows (Unaudited)

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Cash flows from operating activities:		
Net loss	$(689,000)	$(4,248,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	400,000	388,000
Stock based compensation expense	410,000	651,000
Loss on disposal of equipment	7,000	--
Gain on sale of product lines	(2,161,000)	--
Net change in operating assets and liabilities:		
Accounts receivable, net	(384,000)	(871,000)
Inventories	994,000	20,000
Prepaid expenses and other current assets	--	189,000
Other assets	--	1,000
Accounts payable	(1,071,000)	131,000
Accrued payroll and related expenses	(17,000)	463,000
Deferred revenue	(51,000)	71,000
Other liabilities	65,000	(59,000)
Net cash used in operating activities	(2,497,000)	(3,264,000)
Cash flows from investing activities:		
Capital expenditures	(342,000)	(534,000)
Proceeds from sale of product lines	2,535,000	--
Net cash provided by (used in) investing activities	2,193,000	(534,000)
Cash flows from financing activities:		
Repurchase of common stock	(54,000)	--
Net cash used in financing activities	(54,000)	--
Net decrease in cash and cash equivalents	(358,000)	(3,798,000)
Cash and cash equivalents at beginning of period	7,879,000	12,309,000
Cash and cash equivalents at end of period	$7,521,000	$8,511,000
Supplemental non-cash financing and investing information:		
Transfer of inventories to equipment	$561,000	--
Transfer of an other current asset to inventories	--	$120,000
Acquisition of intangible asset in exchange for forgiveness of accounts receivable and assumption of liabilities	--	$390,000

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 enabling technologies for the processing and storage of fractionated 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 nine month period ended March 31, 2013, are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. 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, 2012.

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.

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 Loss per Share
Net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding. The calculation of the basic and diluted net loss per share is the same for all periods presented, as the effect of the potential common stock equivalents is anti-dilutive due to our net loss position for all periods presented. Anti-dilutive securities, which consist of warrants, stock options and common stock restricted awards that were not included in diluted net loss per common share were 2,596,503 and 2,887,567 as of March 31, 2013 and 2012, respectively.

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 March 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.

Reclassifications
Certain amounts in the prior year’s financial statements have been reclassified to conform with the 2013 presentation. These reclassifications had no effect on previously reported total assets, net loss or stockholders’ equity.

Recently Adopted Accounting Pronouncements
In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income.” The guidance improves the comparability of financial reporting and facilitates the convergence of U.S. GAAP and IFRS by amending the guidance in ASC 220, “Comprehensive Income”. Under the amended guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. We adopted this guidance retrospectively for our interim period ending September 30, 2012. The adoption of the guidance did not have a material impact on our financial condition or results of operations.

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Recently Issued 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. The updated accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012 on a prospective basis. This guidance is not expected to have a material impact on our financial condition or results of operations.

In July 2012, the FASB issued ASU 2012-02, which is an update to Topic 350, "Intangibles – Goodwill and Other". This update provides additional guidance in performing impairment tests for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment. The update allows an entity to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a qualitative impairment test. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. ASU 2012-02 is not expected to have a material impact on our financial condition or results of operations.

2. Inventories

Inventories consisted of the following at:

	March 31, 2013	June 30, 2012
Raw materials	$ 1,054,000	$ 1,598,000
Work in process	2,617,000	2,209,000
Finished goods	670,000	2,483,000
	$ 4,341,000	$ 6,290,000

3. Commitments and Contingencies

Contingencies

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 March 31, 2013.

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 intends to vigorously defend 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 March 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.

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

Balance at July 1, 2012	$547,000
Warranties issued during the period	172,000
Settlements made during the period	(201,000)
Changes in liability for pre-existing warranties during the period	54,000
Balance at March 31, 2013	$572,000

4. Stockholders' Equity

Stock Based Compensation

We recorded stock-based compensation of $138,000 and $410,000 for the three and nine months ended March 31, 2013, and $30,000 and $651,000 for the three and nine months ended March 31, 2012.

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, 2012	979,209	$3.11		
Granted	273,750	$0.92		
Forfeited	(34,000)	$2.61		
Expired	(147,459)	$4.46		
Outstanding at March 31, 2013	1,071,500	$2.38	2	--
Vested and Expected to Vest at March 31, 2013	944,493	$2.38	2	--
Exercisable at March 31, 2013	507,943	$3.14	1	--

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 nine months ended March 31, 2013 and 2012.

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Common Stock Restricted Awards

The following is a summary of restricted stock activity granted to employees during the nine months ended March 31, 2013:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at June 30, 2012	540,000	$ 1.93
Granted	50,000	$ 0.91
Vested	(164,997)	$ 1.93
Forfeited	(25,000)	$ 1.70
Outstanding at March 31, 2013	400,003	$ 1.82

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 55,754 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.

5. Gain on 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 and the manufacture of certain spare parts for $35,000. The Company recognized the $161,000 gain on sale, net of transaction costs, upon delivery of the assets which occurred during the quarter ended March 31, 2013. The gain on sale was calculated as follows:

Proceeds	$535,000
Less:	