

CESCA THERAPEUTICS INC.  
Form 10-Q  
November 14, 2018

Table of Contents

**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 September 30, 2018.

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

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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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

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 12, 2018
Common stock, \$.001 par value	21,649,147

Table of Contents

**Cesca Therapeutics Inc.**

**INDEX**

	<u>Page Number</u>
<b><u>Part I Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
<b><u>Part II Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults upon Senior Securities</u>	31
Item 4. <u>Mine Safety Disclosure</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	31
<b><u>Signatures</u></b>	<b>33</b>

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Cesca Therapeutics Inc.****Condensed Consolidated Balance Sheets**

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$2,220,000	\$3,513,000
Accounts receivable, net of allowance for doubtful accounts of \$335,000 (\$274,000 at December 31, 2017)	2,090,000	1,687,000
Accounts receivable – related party	--	862,000
Inventories, net of reserves of \$142,000 (\$1,069,000 at December 31, 2017)	4,332,000	4,798,000
Prepaid expenses and other current assets	286,000	594,000
Total current assets	8,928,000	11,454,000
Restricted cash	1,000,000	1,000,000
Equipment, less accumulated depreciation	3,343,000	2,996,000
Goodwill	1,281,000	13,976,000
Intangible assets, net	6,996,000	21,629,000
Other assets	51,000	56,000
Total assets	\$21,599,000	\$51,111,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,784,000	\$2,079,000
Accrued payroll and related expenses	384,000	532,000
Deferred revenue	527,000	384,000
Related party payable	--	606,000
Interest payable – related party	1,128,000	657,000
Other current liabilities	1,478,000	1,206,000
Total current liabilities	5,301,000	5,464,000
Convertible promissory note – related party, less debt discount of \$6,400,000 at September 30, 2018 (\$0 at December 31, 2017)	800,000	6,700,000
Derivative obligations	6,000	597,000
Noncurrent deferred tax liability	1,279,000	4,730,000

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Other noncurrent liabilities	343,000	408,000
Total liabilities	7,729,000	17,899,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; none issued and outstanding	--	--
Common stock, \$0.001 par value; 350,000,000 shares authorized; 21,649,147 issued and outstanding (10,872,428 at December 31, 2017)	22,000	11,000
Paid in capital in excess of par	235,691,000	221,371,000
Accumulated deficit	(220,276,000)	(187,640,000)
Accumulated other comprehensive income (loss)	8,000	(43,000 )
Total Cesca Therapeutics Inc. stockholders' equity	15,445,000	33,699,000
Noncontrolling interests	(1,575,000 )	(487,000 )
Total equity	13,870,000	33,212,000
Total liabilities and stockholders' equity	\$21,599,000	\$51,111,000
See accompanying notes.		

Table of Contents**Cesca Therapeutics Inc.****Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net revenues	\$3,113,000	\$3,069,000	\$6,984,000	\$9,822,000
Cost of revenues	2,458,000	2,138,000	5,614,000	5,986,000
Gross profit	655,000	931,000	1,370,000	3,836,000
Expenses:				
Sales and marketing	364,000	517,000	1,048,000	1,273,000
Research and development	611,000	1,063,000	2,560,000	2,196,000
General and administrative	1,615,000	1,701,000	6,256,000	6,302,000
Impairment charges	--	--	27,202,000	310,000
Total operating expenses	2,590,000	3,281,000	37,066,000	10,081,000
Loss from operations	(1,935,000 )	(2,350,000 )	(35,696,000 )	(6,245,000 )
Other income (expense):				
Change in fair value of derivative instruments	24,000	(13,000 )	591,000	100,000
Interest expense	(835,000 )	(198,000 )	(1,928,000 )	(329,000 )
Other expense	(18,000 )	(26,000 )	(63,000 )	(37,000 )
Total other expense	(829,000 )	(237,000 )	(1,400,000 )	(266,000 )
Loss before benefit for income taxes	(2,764,000 )	(2,587,000 )	(37,096,000 )	(6,511,000 )
Benefit for income taxes	--	--	3,451,000	673,000
Net loss	(2,764,000 )	(2,587,000 )	(33,645,000 )	(5,838,000 )
Loss attributable to noncontrolling interests	(175,000 )	(237,000 )	(1,088,000 )	(237,000 )
Net loss attributable to common stockholders	\$(2,589,000 )	\$(2,350,000 )	\$(32,557,000 )	\$(5,601,000 )
<b>COMPREHENSIVE LOSS</b>				
Net loss	\$(2,764,000 )	\$(2,587,000 )	\$(33,645,000 )	\$(5,838,000 )
Other comprehensive loss:				
Foreign currency translation adjustments	23,000	4,000	51,000	3,000
Comprehensive loss	(2,741,000 )	(2,583,000 )	(33,594,000 )	(5,835,000 )

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Comprehensive loss attributable to noncontrolling interests	(175,000 )	(237,000 )	(1,088,000 )	(237,000 )
Comprehensive loss attributable to common stockholders	\$(2,566,000 )	\$(2,346,000 )	\$(32,506,000 )	\$(5,598,000 )

Per share data:

Basic and diluted net loss per common share	\$(0.12 )	\$(0.24 )	\$(2.01 )	\$(0.57 )
Weighted average common shares outstanding Basic and diluted	22,114,473	9,950,776	16,174,365	9,902,480

See accompanying notes.

Table of Contents**Cesca Therapeutics Inc.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(33,645,000)	\$(5,838,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	506,000	517,000
Stock based compensation expense	475,000	560,000
Recovery of excess and slow-moving inventories	(126,000 )	(117,000 )
Bad debt expense	75,000	37,000
Amortization of debt discount	800,000	--
Change in fair value of derivative	(591,000 )	(100,000 )
Loss on disposal of equipment	451,000	176,000
Impairment of intangible asset	27,202,000	310,000
Deferred income tax benefit	(3,451,000 )	(673,000 )
Net change in operating assets and liabilities:		
Accounts receivable	543,000	(413,000 )
Inventories	336,000	(111,000 )
Prepaid expenses and other assets	304,000	(11,000 )
Accounts payable	(407,000 )	(29,000 )
Related party payable	(606,000 )	606,000
Accrued payroll and related expenses	(147,000 )	(1,192,000)
Deferred revenue	66,000	200,000
Other current liabilities	785,000	(94,000 )
Other noncurrent liabilities	(1,000 )	77,000
Net cash used in operating activities	(7,431,000 )	(6,095,000)
Cash flows from investing activities:		
Cash paid for business acquisition	--	(1,000,000)
Capital expenditures	(985,000 )	(239,000 )
Net cash used in investing activities	(985,000 )	(1,239,000)
Cash flows from financing activities:		
Proceeds from convertible promissory note – related party	500,000	5,000,000
Payment of financing cost	--	(13,000 )
Payments on capital lease obligations	(28,000 )	(42,000 )
Proceeds from issuance of common stock and warrants, net	6,655,000	--
Cash paid for taxes on vested stock	--	(51,000 )
Net cash provided by financing activities	7,127,000	4,894,000
Effects of foreign currency rate changes on cash and equivalents	(4,000 )	5,000
Net change in cash and cash equivalents	(1,293,000 )	(2,435,000)
Cash and cash equivalents at beginning of period	3,513,000	4,899,000
Cash and cash equivalents at end of period	\$2,220,000	\$2,464,000



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Supplemental disclosures of cash flow information:

Cash paid for interest	\$664,000	\$5,000
Supplemental non-cash financing and investing information:		
Subsidiary common stock issued for acquisition of net assets	--	\$2,499,000
Recording of beneficial conversion feature on debt	\$7,200,000	--
Transfer of inventories to equipment	\$420,000	--
Transfer of equipment to inventories	\$172,000	\$625,000

See accompanying notes.

Table of Contents

**Cesca Therapeutics Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Basis of Presentation and Summary of Significant Accounting Policies**

***Organization and Basis of Presentation***

Cesca Therapeutics Inc. (“Cesca Therapeutics,” “Cesca,” the “Company”), a Delaware corporation, develops, commercializes and markets a range of automated technologies for CAR-T and other cell-based therapies. The Company was founded in 1986 and is headquartered in Rancho Cordova, CA. ThermoGenesis Corp. (“ThermoGenesis”), its device subsidiary, provides the AutoXpre<sup>®</sup> and BioArchive<sup>®</sup> platforms for automated clinical biobanking, PXP<sup>™</sup> platform for point-of-care cell-based therapies and CAR-TXpress<sup>™</sup> platform under development for bio-manufacturing for immuno-oncology applications. Cesca is also leveraging its proprietary technology platforms to develop autologous cell-based therapies that address significant unmet needs in the vascular and orthopedic markets.

Cesca is an affiliate of the Boyalife Group, a China-based industry research alliance encompassing top research institutions for stem cell and regenerative medicine.

***Liquidity and Going Concern***

The Company has a Revolving Credit Agreement (the “Credit Agreement”) with Boyalife Asset Holding II, Inc. (Refer to Note 4). As of September 30, 2018, the Company had drawn down \$7,200,000 of the \$10,000,000 available under the Credit Agreement. Future draw-downs may be limited for various reasons including default or government regulations in China. Boyalife Asset Holding II, Inc. is a wholly owned subsidiary of Boyalife Group Inc., which is owned and controlled by the Company’s Chief Executive Officer and Chairman of the Board.

On August 28, 2018, the Company completed a private placement transaction with an accredited investor, in which the Company sold 1,000,000 shares of the Company’s common stock, par value \$0.001 per share (Common Stock), for a purchase price of \$0.18 per share and 2,965,000 pre-funded warrants for a purchase price of \$0.17 per pre-funded warrant. Each pre-funded warrant is immediately exercisable for one share of Common Stock at an exercise price of \$0.01 per share and will remain exercisable until exercised in full. The Company received \$684,000 in gross proceeds, net proceeds of \$623,000 after deducting offering expenses of \$61,000. As of September 30, 2018,

none of the pre-funded warrants issued in the August 2018 private placement have been exercised. In addition, subject to certain exceptions, in the event the Company sells or issues any shares of Common Stock or common stock equivalents through February 26, 2019, the Company is required to issue the selling stockholder a number of shares of Common Stock (or additional pre-funded warrants to purchase shares of Common Stock) equal to the number of shares the selling stockholder would have received had the purchase price for such shares been at such lower purchase price.

On May 18, 2018, the Company completed a public offering of 6,475,001 units (the “Units”) and 2,691,666 pre-funded units (the “Pre -Funded Units”) for a purchase price of \$0.60 per unit, resulting in aggregate gross proceeds of approximately \$5,500,000, and net proceeds of \$4,819,000 after deducting offering expenses of \$681,000. Each Unit consisted of one share of Common Stock, and one common warrant to purchase one share of Common Stock, and each Pre-Funded Unit consisted of one pre-funded warrant to purchase one share of Common Stock and one common warrant to purchase one share of Common Stock. The common warrants included in the Units and Pre-Funded Units were immediately exercisable at a price of \$0.60 per share of Common Stock, subject to adjustment in certain circumstances, and will expire five years from the date of issuance. As of June 30, 2018, all 2,691,666 Pre-Funded Units issued in the May 2018 public offering have been exercised.

## Table of Contents

At September 30, 2018, the Company had cash and cash equivalents of \$2,220,000 and working capital of \$3,627,000. The Company has incurred recurring operating losses and as of September 30, 2018 had an accumulated deficit of \$220,276,000. These recurring losses raise substantial doubt about the Company's ability to continue as a going concern within one year after the issuance date of these financial statements. The Company anticipates requiring additional capital to grow the device business, to fund other operating expenses and to make interest payments on the line of credit with Boyalife Asset Holding II, Inc. The Company's ability to fund its cash needs is subject to various risks, many of which are beyond its control. The Company plans to seek additional funding through bank borrowings or public or private sales of debt or equity securities or strategic partnerships. The Company cannot guarantee that such funding will be available on a timely basis, in needed quantities or on terms favorable to the Company, if at all.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern; however, the above conditions raise substantial doubt about the Company's ability to do so. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

### ***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of Cesca, its majority-owned subsidiary, ThermoGenesis, and its wholly-owned subsidiary TotipotentRX Cell Therapy, Pvt. Ltd (TotipotentRX). During the quarter ended September 30, 2018, TotipotentSC Scientific Product Pvt. Ltd., a wholly-owned subsidiary of the Company, merged into TotipotentRX. All significant intercompany accounts and transactions have been eliminated upon consolidation.

### ***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 and nine-month period ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Transition Report on Form 10-K for the transition period ended December 31, 2017.

***Reclassification***

Certain prior period amounts have been reclassified to conform to the current period presentation. The reclassifications did not have an impact on net loss as previously reported.

5

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Table of Contents

**2. Summary of Significant Accounting Policies**

***Recently Issued Accounting Standards***

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, “*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.*” This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

In June 2018, the FASB issued ASU 2018-07, “*Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*”, which simplifies the accounting for nonemployee share-based payment transactions. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The standard is effective for public business entities for fiscal years beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

In January 2017, the FASB issued ASU 2017-04, “*Simplifying the Test for Goodwill Impairment*” which removes Step 2 from the goodwill impairment test. It is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed with a measurement date after January 1, 2017. The Company has not yet determined the effect that ASU 2017-04 will have on its results of operations, statement of financial position or financial statement disclosures.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*”. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods therein. In July 2018, the FASB issued ASU 2018-10 “*Codification Improvements to Topic 842, Leases*” which clarified various aspects of the guidance under ASU 2016-02. Originally, entities were required to adopt ASU 2016-02 using a modified retrospective approach, which required prior periods to be presented under this new standard with certain practical expedients available. However, in July 2018, the FASB issued ASU 2018-11, “*Leases (Topic 842): Targeted Improvements*”, which now allows entities the option of recognizing the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings in the year of adoption (January 1, 2019) while continuing to present all prior periods under previous lease guidance. The Company is currently evaluating the effect that ASU 2016-02 will have on its results of operations, statement of financial position or financial statement disclosures.

***Recently Adopted Accounting Standards***

In July 2017, the FASB issued ASU No. 2017-11, “*Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features; (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*”. ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The guidance in ASU 2017-11 can be applied using a full or modified retrospective approach. The Company has elected to early adopt ASU 2017-11 effective April 1, 2018. Prior to April 1, 2018, the Company did not have any convertible instruments with embedded conversion features that contained a down round provision, so prior periods will not be impacted. On April 16, 2018, the Company signed the Amended and Restated Credit Agreement with Boyalife Asset Holding II, Inc. The agreement is a convertible instrument which has an embedded conversion feature containing a down round provision. Adoption of ASU 2017-11 resulted in the exclusion of the down round feature in determining if the embedded conversion feature was indexed to the Company’s own stock. Refer to Note 4 for additional information.

Table of Contents

***Sequencing Policy***

Under Accounting Standard Codification (“ASC”) 815-40-35, the Company has adopted a sequencing policy. In the event that reclassification of contracts from equity to assets or liabilities is necessary pursuant to ASC 815 due to the Company’s inability to demonstrate it has sufficient authorized shares as a result of certain securities with a potentially indeterminable number of shares, shares will be allocated on the basis of the earliest issuance date of potentially dilutive instruments, with the earliest grants receiving the first allocation of shares. Pursuant to ASC 815, issuance of securities to the Company’s employees or directors are not subject to the sequencing policy.

On January 1, 2018, the Company adopted ASU No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*” using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for the reporting period beginning after January 1, 2018 are presented under ASU No. 2014-09, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under “Revenue Recognition” (Topic 605). The Company recorded a net increase to accumulated deficit of \$79,000 as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact related to service obligations requiring deferral. ASC 606 requires the Company to defer costs related to obligations on service contracts with limited performance obligations. Under previous guidance, these service obligations were amortized on a straight-line basis.

***Revenue Recognition***

Revenue is recognized based on the five-step process outlined in ASC 606:

*Step 1 – Identify the Contract with the Customer* – A contract exists when (a) the parties to the contract have approved the contract and are committed to perform their respective obligations, (b) the entity can identify each party’s rights regarding the goods or services to be transferred, (c) the entity can identify the payment terms for the goods or services to be transferred and, (d) the contract has commercial substance and it is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

*Step 2 – Identify Performance Obligations in the Contract* – Upon execution of a contract, the Company identifies as performance obligations each promise to transfer to the customer either (a) goods or services that are distinct or (b) a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. To the extent a contract includes multiple promised goods or services, the Company must apply judgement to determine whether the goods or services are capable of being distinct within the context of the contract. If these criteria are not met, the goods or services are accounted for as a combined performance obligation.



*Step 3 – Determine the Transaction Price* – The contract terms and customary business practices are used to determine the transaction price. The transaction price is the amount of consideration expected to be received in exchange for transferring goods or services to the customer. The Company’s contracts include fixed consideration.

## Table of Contents

*Step 4 – Allocate the Transaction Price* – After the transaction price has been determined, the next step is to allocate the transaction price to each performance obligation in the contract. If the contract only has one performance obligation, the entire transaction price will be applied to that obligation. If the contract has multiple performance obligations, the transaction price is allocated to the performance obligations based on the relative standalone selling price (SSP) at contract inception.

*Step 5 – Satisfaction of the Performance Obligations (and Recognize Revenue)* – When an asset is transferred and the customer obtains control of the asset (or the services are rendered), the Company recognizes revenue. At contract inception, the Company determines if each performance obligation is satisfied at a point in time or over time. For device sales, revenue is recognized at a point in time when the goods are transferred to the customer and they obtain control of the asset. For maintenance contracts, revenue is recognized over time as the performance obligations in the contracts are completed.

### *Disaggregation of Revenue*

The Company's primary revenue streams include device sales, service revenue from device maintenance contracts and clinical services.

### *Device Sales*

Device sales include devices and consumables for BioArchive, AXP®, X-Series™ products and manual disposables. Most devices are sold with contract terms stating that title passes and the customer takes control at the time of shipment. Revenue is then recognized when the devices are shipped and the performance obligation has been satisfied. If devices are sold under contract terms that specify that the customer does not take ownership until the goods are received revenue is recognized when the customer receives the assets.

### *Service Revenue*

Service revenue consists primarily of maintenance contracts for BioArchive, AXP and X-Series products. Devices sold have warranty periods of one to two years. After the warranty expires, the Company offers annual maintenance contracts for the remaining life of the devices. Under these contracts, customers pay in advance. These prepayments are recorded as deferred revenue and recognized over time as the contract performance obligations are satisfied. For AXP and X-Series products, the Company offers one type of maintenance contract providing preventative maintenance and repair services. Revenue under these contracts is recognized ratably over time, as the customer has the right to use the service at any time during the annual contract period and services are unlimited. For BioArchive, the Company offers three types of maintenance contracts: Gold, Silver and Preventative Maintenance Only. Under the Gold contract, preventative maintenance and repair services are unlimited and revenue is recognized ratably over time. For the Silver and Preventative Maintenance contracts, available services are limited and revenue is recognized during the contract period when the underlying performance obligations are satisfied. If the services are not used during the contract period, any remaining revenue is recognized when the contract expires. The renewal date for maintenance

contract varies by customer, depending when the customer signed their initial contract.

8

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Table of Contents*Clinical Services*

Service revenue in our Clinical Development Segment includes point of care procedures and cord blood processing and storage in our clinical segment. Point of care procedures are recognized when the procedures are performed. Cord blood processing and storage is recognized as the performance obligations are satisfied. Processing revenue is recognized when that performance obligation is completed immediately after the baby's birth, with storage revenue recorded as deferred revenue and recognized ratably over time for up to 21 years. As of September 30, 2018, the total deferred cord blood storage revenue is \$251,000 and is included in other non-current liabilities in the condensed consolidated balance sheets. The customer may pay for both services at the time of processing. The amount of the transaction price allocated to each of the performance obligations is determined by using the standalone selling price of each component.

The following table summarizes the revenues of the Company's reportable segments for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018			
	Device	Service	Other	Total
	Revenue	Revenue	Revenue	Revenue
Device Segment:				
AXP	\$1,396,000	\$70,000	\$--	\$1,466,000
BioArchive	485,000	314,000	--	799,000
Manual Disposables	254,000	--	--	254,000
CAR-TXpress	517,000	--	--	517,000
Other	--	--	23,000	23,000
Total Device Segment	2,652,000	384,000	23,000	3,059,000
Clinical Development Segment:				
Manual Disposables	8,000	--	--	8,000
Bone Marrow	--	40,000	--	40,000
Other	--	6,000	--	6,000
Total Clinical Development	8,000	46,000	--	54,000
Total	\$2,660,000	\$430,000	\$23,000	\$3,113,000
	Nine Months Ended September 30, 2018			
	Device	Service	Other	Total
	Revenue	Revenue	Revenue	Revenue
Device Segment:				
AXP	\$2,930,000	\$201,000	\$--	\$3,131,000
BioArchive	1,357,000	969,000	--	2,326,000
Manual Disposables	716,000	--	--	716,000
CAR-TXpress	547,000	--	--	547,000
Other	46,000	--	56,000	102,000

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Total Device Segment	5,596,000	1,170,000	56,000	6,822,000
Clinical Development Segment:				
Manual Disposables	31,000	--	--	31,000
Bone Marrow	--	101,000	--	101,000
Other	--	30,000	--	30,000
Total Clinical Development	31,000	131,000	--	162,000
Total	\$5,627,000	\$1,301,000	\$56,000	\$6,984,000

Table of Contents*Performance Obligations*

There is no right of return provided for distributors or customers. For all distributors, the Company has no control over the movement of goods to the end customer. The Company's distributors control the timing, terms and conditions of the transfer of goods to the end customer. Additionally, 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 the Company, 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. Additionally, the Company currently recognizes revenue primarily on the sell-in method with its distributors.

Payments from domestic customers are normally due in two months or less after the title transfers, the service contract is executed or the services have been rendered. For international customers, payment terms may extend up to 120 days. All sales have fixed pricing and there are currently no variable components included in the Company's revenue.

*Contract Balances*

The Company records a receivable when the titles of goods have transferred, maintenance contracts have been fully executed or when services have been rendered. Generally, all sales are contract sales (with either an underlying contract or purchase order). The Company does not have any material contract assets. When invoicing occurs prior to revenue recognition a contract liability is recorded (as deferred revenue on the Balance Sheet). Revenues recognized during the quarter that were included in the beginning balance of deferred revenue were \$284,000. Short term deferred revenues increased from \$384,000 to \$527,000 during the nine months ended September 30, 2018 due to the renewal of annual maintenance contracts for several large customers.

*Backlog of Remaining Customer Performance Obligations*

The following table includes revenue expected to be recognized and recorded as sales in the future from the backlog of performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

	Remainder of	2019	2020	2021 and beyond	Total
	2018				
Service revenue	\$ 323,000	\$ 817,000	\$ 253,000	\$ 33,000	\$ 1,426,000
Clinical revenue	3,000	14,000	14,000	219,000	250,000
Total	\$ 326,000	\$ 831,000	\$ 267,000	\$ 252,000	\$ 1,676,000

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.

***Goodwill, Intangible Assets and Impairment Assessments***

For goodwill and indefinite-lived intangible assets (clinical protocols), the carrying amounts are periodically reviewed for impairment (at least annually) and whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. According to ASC 350, "Intangibles-Goodwill and Other", the Company can opt to perform a qualitative assessment or a quantitative assessment; however, if the qualitative assessment determines that it is more likely than not (i.e., a likelihood of more than 50 percent) the fair value is less than the carrying amount, a quantitative assessment must be performed. If the quantitative assessment determines that the fair value is less than the carrying amount, the Company would perform an analysis (step 2) to measure such impairment.

Table of Contents

In the second quarter of 2018, the Company experienced a significant and sustained decline in its stock price. The decline resulted in the Company's market capitalization falling significantly below the recorded value of its consolidated net assets. As a result, the Company performed a quantitative assessment as of June 30, 2018 and computed a fair value for its intangible assets and goodwill. In performing the assessment, the Company used current market capitalization, discounted future cash flows, internal forecasts and other factors as the best evidence of fair value. These assumptions represent Level 3 inputs. The assessment determined that the carrying amount for the Company's goodwill exceeded the estimated fair value. Additionally, the Company's indefinite-lived intangible assets relating to the clinical protocols was also determined to be impaired.

The Company recorded an impairment charge of \$12,695,000 to goodwill and \$14,507,000 to intangible assets during the nine months ended September 30, 2018, as shown in the following table.

	Intangible Assets	Goodwill
Balance at December 31, 2017, net	\$21,629,000	\$13,976,000
Amortization and foreign exchange (current year)	(126,000 )	--
Impairment loss	(14,507,000)	(12,695,000)
Balance at September 30, 2018, net	\$6,996,000	\$1,281,000

***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.

The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.



Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short duration. The fair value of the Company's derivative obligation liability is classified as Level 3 within the fair value hierarchy since the valuation model of the derivative obligation is based on unobservable inputs.

### ***Segment Reporting***

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM), or decision making group, whose function is to allocate resources to and assess the performance of the operating segments. The Company has identified its chief executive officer and chief operating officer as the CODM. In determining its reportable segments, the Company considered the markets and the products or services provided to those markets.

Table of Contents

The Company has two reportable business segments:

The Clinical Development Segment, is developing autologous (utilizing the patient’s own cells) stem cell-based therapeutics that address significant unmet medical needs for applications within the vascular, cardiology and orthopedic markets.

The Device Segment, engages in the development and commercialization of automated technologies for cell-based therapeutics and bio-processing. The device segment is operated through the Company’s ThermoGenesis subsidiary.

***Net Loss per Share***

Net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding plus the pre-funded warrants. For the purpose of calculating basic net loss per share, the additional shares of common stock that are issuable upon exercise of the pre-funded warrants have been included since the shares are issuable for a negligible consideration and have no vesting or other contingencies associated with them. 2,965,000 pre-funded warrants are included in the three and nine months ended September 30, 2018 calculations. The calculation of the basic and diluted earnings per share is the same for all periods presented, as the effect of the potential common stock equivalents noted below is anti-dilutive due to the Company’s net loss position for all periods presented.

Anti-dilutive securities consisted of the following at September 30:

	2018	2017
Vested Series A warrants	404,412	404,412
Unvested Series A warrants	698,529	698,529 (1)
Warrants – other	13,197,267	3,725,782
Convertible promissory note and accrued interest	46,266,667	--
Stock options	1,188,297	420,185
Restricted stock units	--	9,163
Total	61,755,172	5,258,071

The unvested Series A warrants were subject to vesting based upon the amount of funds actually received by the (1) Company in the second close of the August 2015 financing which never occurred. The warrants will remain outstanding but unvested until they expire in February 2021.

**3. Acquisition of SynGen Inc.**

On July 7, 2017, Cesca, through its then wholly-owned subsidiary ThermoGenesis, entered into an Asset Acquisition Agreement (the “Asset Acquisition Agreement”) with SynGen Inc. (SynGen), and acquired substantially all of SynGen’s operating assets, including its proprietary cell processing platform technology (the “Transaction”).

The business acquired in the Transaction excludes certain assets and liabilities of SynGen that ThermoGenesis did not acquire under the Asset Acquisition Agreement, including cash and cash equivalents, accounts receivable, certain prepaid expenses and other current assets, other assets, accounts payable and other accrued liabilities. The acquisition was consummated for the purpose of enhancing the Company's cord blood product portfolio and settling litigation between the Company and SynGen.

Table of Contents

The acquisition was accounted for under the acquisition method of accounting for business combinations which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date.

The consideration for the Transaction consisted of \$1,000,000 in cash and ThermoGenesis' issuance at closing to SynGen of an aggregate of 2,000,000 shares of its common stock, constituting a 20% interest, which had a fair market value utilizing the income approach of \$2,528,000. The goodwill will be deductible for tax purposes. The 2,000,000 shares of common stock were transferred to Bay City Capital Fund V, L.P. and an affiliated fund (Bay City). Bay City was granted certain minority investor rights in ThermoGenesis. These rights include board representation rights, a right of first refusal over sales of ThermoGenesis stock by the Company, co-sale rights with respect to any sale of ThermoGenesis stock by the Company, and supermajority protective voting rights over certain major decisions, such as a sale of ThermoGenesis, raising capital in ThermoGenesis with preferred stock, transfers of ThermoGenesis assets, or redemptions of ThermoGenesis stock.

***Supplemental Pro Forma Data***

The Company used the acquisition method of accounting to account for the SynGen acquisition and, accordingly, the results of SynGen are included in the Company's consolidated financial statements for the period subsequent to the date of acquisition. For the three and nine months ended September 30, 2018, Cesca has recorded revenues of approximately \$517,000 and \$566,000 respectively associated with the operations of SynGen. The following unaudited supplemental pro forma data for the three and nine months ended September 30, 2017 present consolidated information as if the acquisition had been completed on January 1, 2017. The pro forma results were calculated by combining the results of Cesca with the stand-alone results of SynGen for the pre-acquisition periods:

	Three Months Ended	Nine Months Ended
	September 30, 2017	September 30, 2017
Net revenues	\$3,069,000	\$10,207,000
Net loss	\$(2,439,000)	\$(6,399,000)
Basic and diluted net loss per common share	\$(0.22)	\$(0.65)

The unaudited pro forma financial information reflects certain adjustments related to the acquisition, such as the incremental amortization expense in connection with recording acquired identifiable intangible assets at fair value, the revised payroll expense associated with the new salaries of SynGen employees resulting from the acquisition, the elimination of SynGen expenses related to debt issuance costs, interest and other warrant related expenses, the elimination of the legal fees paid by both parties related to the litigation between Cesca and SynGen as ceasing the litigation was part of the Asset Acquisition Agreement and costs directly related to the acquisition.

**4. Related Party Transactions**

*Convertible Promissory Note and Revolving Credit Agreement*

On March 6, 2017, Cesca entered into the Credit Agreement with Boyalife Investment Fund II, Inc., which later merged into Boyalife Asset Holding II, Inc. (the “Lender”). The Lender is a wholly owned subsidiary of Boyalife Group Inc. The Credit Agreement, and its subsequent amendments, grants to the Company the right to borrow up to \$10,000,000 from Lender (the “Loan”) at any time prior to March 6, 2022 (the “Maturity Date”). The Company has drawn down a total of \$7,200,000 as of September 30, 2018.

Table of Contents

The Credit Agreement and the Convertible Promissory Note issued thereunder (the “Note”) provide that the principal and all accrued but unpaid interest under the Loan will be due and payable on the Maturity Date, with payments of interest-only due on the last day of each calendar year. The Loan bears interest at 22% per annum, simple interest. The Note can be prepaid in whole or in part by the Company at any time without penalty.

The Credit Agreement and Note were amended on April 16, 2018. The First Amended and Restated Credit Agreement (“the Amended Credit Agreement”) contained the following provisions:

The Lender was granted the right to convert, at any time, outstanding principal and accrued but unpaid interest under the Credit Agreement into shares of Common Stock at a conversion price equal to \$1.61 per share, subject to customary adjustments for stock splits, reverse stock splits, and the like (the “Fixed Conversion Price”).

Notwithstanding the foregoing, if the Note is converted after the Maturity Date, the conversion price of the Note will be the lower of the Fixed Conversion Price or an amount equal to 90% of the average volume-weighted average price of Common Stock during the 10 trading days immediately prior to the Maturity Date. Prior to the April 2018 amendment, the principal and accrued interest was convertible by the Lender only upon maturity of the obligation.

If the Company after April 16, 2018 issues shares of Common Stock, or is deemed to issue shares of Common Stock, prior to the full payment or conversion of the Note for a price per share lower than the Fixed Conversion Price then in effect, the Fixed Conversion Price will be reduced to the price per share paid in the future issuance, with certain customary exceptions for equity plan issuances and issuances pursuant to certain strategic transactions.

The Company has been granted the right to defer payment of the \$657,000 interest payment that was originally due on December 31, 2017 until December 31, 2018, or if earlier, the date on which the Company completes a debt or equity financing transaction resulting in gross proceeds of \$5.0 million or more. The Company paid the \$657,000 interest payment in May 2018.

On May 7, 2018, the Company entered into an Amendment No. 1 to the Amended Credit Agreement with Boyalife Asset Holding II, Inc. The amendment amends the Company’s revolving line of credit facility by adding a provision securing it with a security interest in the Company’s shares of common stock of ThermoGenesis.

On May 18, 2018, the Company completed a public offering of its Common Stock for a purchase price of \$0.60 per unit. This offering lowered the effective Fixed Conversion Price from \$1.61 to \$0.60. On August 28, 2018, the Company completed a private placement transaction of its Common Stock for a purchase price of \$0.18 per unit. This offering lowered the effective Fixed Conversion Price from \$0.60 to \$0.18.

The Maturity Date of the Amended Credit Agreement is subject to acceleration at the option of the Lender upon customary events of default, which include a breach of the Loan documents, termination of operations or bankruptcy. The Lender’s obligation to make advances under the Loan is subject to the Company’s representations and warranties in the Amended Credit Agreement continuing to be true at all times and there being no continuing event of default under the Note. No default has occurred through the date of filing.

The Company accounted for the Amended Credit Agreement as a loan modification. As discussed in Note 2, The Company has adopted ASU 2017-11 "*Accounting for Certain Financial Instruments with Down Round Features*". The Company performed an analysis of the Amended Credit Agreement, including the adoption of ASU 2017-11 in the analysis. It determined that the embedded conversion option contained within the Amended Credit Agreement does not require bifurcation and should not be classified as a derivative liability. Additionally, it was concluded that the conversion option did contain a beneficial conversion feature and as a result of the aforementioned modifications to the conversion price, the Company recorded an out of period adjustment for the debt discount in the amount of \$7,200,000. Such discount represented the fair value of the incremental shares up to the initial proceeds received from the convertible notes. The Company amortized \$450,000 and \$800,000 of such debt discount to interest expense for the three and nine months ended September 30, 2018. \$350,000 of the amount of amortization represents an out of period adjustment.

## Table of Contents

The Company recorded interest expense of \$385,000 and \$1,128,000, exclusive of the amortization of the debt discount, during the three and nine months ended September 30, 2018, and \$198,000 and \$329,000 for the three and nine months ended September 30, 2017, respectively, and had an interest payable balance of \$1,128,000 and \$657,000 at September 30, 2018 and December 31, 2017, respectively related to the Amended Credit Agreement.

### ***Distributor Agreement***

On August 21, 2017, ThermoGenesis entered into an International Distributor Agreement with Boyalife W.S.N. Under the terms of the agreement, Boyalife W.S.N. was granted the exclusive right, subject to existing distributors and customers (if any), to develop, sell to, and service a customer base for ThermoGenesis' AXP<sup>®</sup> (AutoXpress<sup>®</sup>) System and BioArchive<sup>®</sup> System in the People's Republic of China (excluding Hong Kong and Taiwan), Singapore, Indonesia, and the Philippines (the "Territories"). Boyalife W.S.N. is an affiliate of our Chief Executive Officer and Chairman of our Board of Directors, and Boyalife (Hong Kong) Limited, our largest stockholder. Boyalife W.S.N.'s rights under the agreement include the exclusive right to distribute AXP<sup>®</sup> Disposable Blood Processing Sets and use rights to the AutoXpress<sup>®</sup> System, BioArchive System and other accessories used for the processing of stem cells from cord blood in the Territories. Boyalife W.S.N. is also appointed as the exclusive service provider to provide repairs and preventative maintenance to ThermoGenesis products in the Territories.

The term of the agreement is for three years with ThermoGenesis having the right to renew the agreement for successive two-year periods at its option. However, ThermoGenesis has the right to terminate the agreement early if Boyalife W.S.N. fails to meet specified minimum purchase requirements.

### ***Revenues***

The Company recorded \$267,000 and \$536,000 for the three and nine months ended September 30, 2018 respectively, and \$751,000 for both the three and nine months ended September 30, 2017 of revenues from Boyalife W.S.N. related to the aforementioned distributor agreement.

### ***Bill Payment Arrangement***

The Company entered into a bill payment arrangement whereby Boyalife Group Ltd. (Payor), the Company's largest shareholder, agreed to pay the Company's legal expenses payable to the Company's attorney related to certain litigation involving SynGen (the "Bill Payment Arrangement"), although the Company remains jointly and severally liable for the payment of such legal fees. The terms of the Bill Payment Arrangement provided that the Company will reimburse Payor for any and all amounts paid by Payor in connection with the Bill Payment Arrangement under certain specified events. There is no interest payable on outstanding balance of related party payable. This litigation was terminated as part of the SynGen acquisition agreement. Invoices totaling \$606,000 had previously been paid by Payor. The Company reimbursed the Payor for the full outstanding amount of \$606,000 in May 2018.



**5. Commitments and Contingencies**

***Financial Covenants***

Effective May 15, 2017, the Company entered into a Sixth Amended and Restated Technology License and Escrow Agreement with CBR Systems, Inc. which modified the financial covenant that the Company must meet in order to avoid an event of default. The Company must maintain a cash balance and short-term investments net of debt or borrowed funds that are payable within one year of not less than \$2,000,000. The Company was in compliance with this financial covenant as of October 31, 2018.

Table of Contents***Warranty***

The Company offers a warranty on all of its non-disposable products of one to two years. The Company warrants disposable products through their expiration date. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

The warranty liability is included in other current liabilities in the unaudited condensed consolidated balance sheets. The change in the warranty liability for the nine months ended September 30, 2018 is summarized in the following table:

Balance at December 31, 2017	\$291,000
Warranties issued during the period	78,000
Settlements made during the period	(234,000)
Changes in liability for pre-existing warranties during the period	(24,000 )
Balance at September 30, 2018	\$111,000

***Contingencies and Restricted Cash***

In fiscal 2016, the Company signed an engagement letter with a strategic consulting firm. Included in the engagement letter was a success fee due upon the successful conclusion of certain strategic transactions. On May 4, 2017, a lawsuit was filed against the Company and its CEO by the consulting firm as the consulting firm argues that it is owed a transaction fee of \$1,000,000 under the terms of the engagement letter due to the conversion of the Boyalife debentures in August 2016. In October 2017, to streamline the case by providing for the dismissal of Dr. Xu as an individual defendant and without acknowledging any liability, the Company deposited \$1,000,000 with the Court. The consulting firm has also dismissed the Company's CEO from the case, without liability. The Company filed a Motion for Summary Judgment, which was denied by the Court on June 26, 2018. On September 24, 2018, Mavericks filed an amended complaint, adding back our CEO as a named defendant, as well as Boyalife Investment, Inc. (a dissolved company) and Boyalife (Hong Kong) Limited under new theories of liability, namely intentional interference with contract and inducement of breach of contract. No trial date has been set. The Company intends to defend the lawsuit vigorously and no accrual has been recorded for this contingent liability as of September 30, 2018.

In the normal course of operations, the Company may have disagreements or disputes with customers, employees or vendors. Such potential disputes are seen by management as a normal part of business. As of September 30, 2018, management believes any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, operating results or cash flows.

Table of Contents**6. Derivative Obligations***Series A Warrants*

Series A warrants to purchase 404,412 common shares were issued and vested during the year ended June 30, 2016. At the time of issuance, the Company determined that as such warrants can be settled for cash at the holders' option in a future fundamental transaction they constituted a derivative liability. The Company has estimated the fair value of the derivative liability, using a Binomial Lattice Valuation Model with the following assumptions:

	Series A		
	September	December	
	30,	31,	
	2018	2017	
Market price of common stock	\$0.32	\$ 3.00	
Expected volatility	102 %	107 %	
Contractual term (years)	2.4	3.2	
Discount rate	2.84 %	1.99 %	
Dividend rate	0 %	0 %	
Exercise price	\$8.00	\$ 8.00	

Expected volatilities are based on the historical volatility of the Company's common stock. Contractual term is based on remaining term of the respective warrants. The discount rate represents the yield on U.S. Treasury bonds with a maturity equal to the contractual term.

The Company recorded a gain(loss) of \$24,000 and \$591,000 for the three and nine months ended September 30, 2018, and (\$13,000) and \$100,000 during the three and nine months ended September 30, 2017, respectively, representing the net change in the fair value of the derivative liability, in the accompanying condensed consolidated statements of operations and comprehensive loss.

The following table represents the Company's fair value hierarchy for its financial liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

Derivative  
Obligation

	September 30,	December 31,
	2018	2017
Balance	\$6,000	\$597,000
Level 1	\$-	\$-
Level 2	\$-	\$-
Level 3	\$6,000	\$597,000

The following table reflects the change in fair value of the Company's derivative liabilities for the nine months ended September 30, 2018:

	Amount
Balance – December 31, 2017	\$597,000
Change in fair value of derivative obligation	(591,000)
Balance – September 30, 2018	\$6,000

## 7. Stockholders' Equity

### *Common Stock*

On August 28, 2018, the Company completed a private placement transaction with an accredited investor, in which the Company sold 1,000,000 shares of Common Stock for a purchase price of \$0.18 per share and 2,965,000 pre-funded warrants for a purchase price of \$0.17 per pre-funded warrant. Each pre-funded warrant is immediately exercisable for one share of Common Stock at an exercise price of \$0.01 per share and will remain exercisable until exercised in full. The Company received \$684,000 in gross proceeds, net proceeds of \$623,000 after deducting offering expenses of \$61,000. As of September 30, 2018, none of the pre-funded warrants issued in the August 2018 private placement have been exercised. In addition, subject to certain exceptions, in the event the Company sells or issues any shares of Common Stock or common stock equivalents through February 26, 2019, the Company is required to issue the investor a number of shares of Common Stock (or additional pre-funded warrants to purchase shares of common stock) equal to the number of shares the investor would have received had the purchase price for such shares been at such lower purchase price. The Company evaluated the pre-funded warrants issued and determined that the warrants should be classified as equity instruments.

Table of Contents

On May 18, 2018, the Company completed a public offering 6,475,001 Units and 2,691,666 Pre-Funded Units for a purchase price of \$0.60 per unit, resulting in aggregate gross proceeds of approximately \$5,500,000, net proceeds of \$4,819,000 after deducting the offering expenses of \$681,000. Each Unit consists of one share of Common Stock, and one common warrant to purchase one share of Common Stock, and each Pre-Funded Unit consists of one pre-funded warrant to purchase one share of Common Stock and one common warrant to purchase one share of Common Stock. The common warrants included in the Units and Pre-Funded Units were immediately exercisable at a price of \$0.60 per share of Common Stock, subject to adjustment in certain circumstances, and will expire five years from the date of issuance. All 2,691,666 Pre-Funded units issued in the May 2018 public offering were exercised in the second quarter of fiscal 2018.

On March 28, 2018, the Company sold 609,636 shares of Common Stock at a price of \$2.27 per share. The net proceeds to the Company from the sale and issuance of the shares, after deducting the offering expenses borne by the Company of approximately \$171,000, were \$1,213,000. Additionally, the investors received unregistered warrants in a simultaneous private placement to purchase up to 304,818 shares of common stock. The warrants have an exercise price of \$2.68 per share and shall be exercisable commencing six months following the issuance date and have a term of 5.5 years and were accounted for as equity by the Company.

***Stock Based Compensation***

The Company recorded stock-based compensation of \$175,000 and \$475,000 for the three and nine months ended September 30, 2018, and \$132,000 and \$560,000 for the three and nine months ended September 30, 2017, respectively.

The following is a summary of option activity for the Company's stock option plans:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2017	1,156,027	\$ 3.92		
Granted	93,500	\$ 2.63		
Forfeited	(33,860 )	\$ 3.83		
Expired	(27,370 )	\$ 4.83		

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Outstanding at September 30, 2018	1,188,297	\$ 3.80	8.2	--
Vested and expected to vest at September 30, 2018	973,878	\$ 3.98	7.9	--
Exercisable at September 30, 2018				