

CESCA THERAPEUTICS INC.

Form 10-Q

November 14, 2017

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, 2017.

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Smaller reporting company
Non-accelerated filer (Do not check if a 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 10, 2017 |
|--------------------------------|----------------------------------|
| Common stock, \$.001 par value | 9,965,276 |

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Cesca Therapeutics Inc.

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

| | September 30, 2017 (Unaudited) | June 30, 2017 |
|---|--------------------------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$2,464,000 | \$3,623,000 |
| Accounts receivable, net of allowance for doubtful accounts of \$139,000 (\$102,000 at June 30, 2017) | 3,404,000 | 3,701,000 |
| Inventories, net of reserves of \$1,257,000 (\$1,230,000 at June 30, 2017) | 4,157,000 | 3,617,000 |
| Prepaid expenses and other current assets | 282,000 | 237,000 |
| Total current assets | 10,307,000 | 11,178,000 |
| Equipment, less accumulated depreciation | 2,971,000 | 2,330,000 |
| Goodwill | 13,794,000 | 13,195,000 |
| Intangible assets, net | 21,809,000 | 20,165,000 |
| Other assets | 61,000 | 64,000 |
| Total assets | \$48,942,000 | \$46,932,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$2,038,000 | \$1,601,000 |
| Accrued payroll and related expenses | 429,000 | 385,000 |
| Deferred revenue | 603,000 | 597,000 |
| Related party payable | 606,000 | 606,000 |
| Other current liabilities | 1,319,000 | 1,331,000 |
| Total current liabilities | 4,995,000 | 4,520,000 |
| Long-term debt-related party | 5,000,000 | 3,500,000 |
| Noncurrent deferred tax liability | 6,968,000 | 6,968,000 |
| Derivative obligations | 743,000 | 730,000 |
| Other non-current liabilities | 403,000 | 377,000 |
| Total liabilities | 18,109,000 | 16,095,000 |
| Commitments and contingencies | | |

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| | | |
|---|---------------|---------------|
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 2,000,000 shares authorized, none outstanding | -- | -- |
| Common stock, \$0.001 par value; 350,000,000 shares authorized; 9,959,943 issued and outstanding (9,915,868 at June 30, 2017) | 10,000 | 10,000 |
| Paid in capital in excess of par | 218,801,000 | 216,222,000 |
| Accumulated deficit | (187,707,000) | (185,357,000) |
| Accumulated other comprehensive loss | (34,000) | (38,000) |
| Total Cesca Therapeutics Inc. stockholders' equity | 31,070,000 | 30,837,000 |
| Noncontrolling interests | (237,000) | -- |
| Total equity | 30,833,000 | 30,837,000 |
| Total liabilities and stockholders' equity | \$48,942,000 | \$46,932,000 |

See accompanying notes.

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|----------------|
| | 2017 | 2016 |
| Net revenues | \$3,069,000 | \$3,767,000 |
| Cost of revenues | 2,138,000 | 2,385,000 |
| Gross profit | 931,000 | 1,382,000 |
| Expenses: | | |
| Sales and marketing | 517,000 | 481,000 |
| Research and development | 1,063,000 | 670,000 |
| General and administrative | 1,701,000 | 2,179,000 |
| Total operating expenses | 3,281,000 | 3,330,000 |
| Loss from operations | (2,350,000) | (1,948,000) |
| Fair value change of derivative instruments | (13,000) | (326,000) |
| Amortization of debt discount | -- | (9,851,000) |
| Interest Expense | (198,000) | (10,535,000) |
| Other income and (expenses) | (26,000) | 215,000 |
| Net loss | (2,587,000) | (22,445,000) |
| Loss attributable to noncontrolling interests | (237,000) | -- |
| Net loss attributable to common stockholders | \$(2,350,000) | \$(22,445,000) |
| Net loss | \$(2,587,000) | \$(22,445,000) |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 4,000 | 2,000 |
| Comprehensive loss | (2,583,000) | (22,443,000) |
| Comprehensive loss attributable to noncontrolling interests | (237,000) | -- |
| Comprehensive loss attributable to common stockholders | \$(2,346,000) | \$(22,443,000) |
| Per share data: | | |
| Basic and diluted net loss per common share | \$(0.24) | \$(3.71) |

Weighted average common shares outstanding – basic and diluted 9,950,776 6,048,982

See accompanying notes.

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

| | Three Months Ended | |
|---|--------------------|----------------|
| | September 30, | |
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net loss | \$(2,587,000) | \$(22,445,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 160,000 | 261,000 |
| Stock based compensation expense | 132,000 | 298,000 |
| (Recovery of) reserve for excess and slow-moving inventories | 27,000 | (71,000) |
| Bad debt expense | 37,000 | 7,000 |
| Amortization of debt discount and issue costs | -- | 10,011,000 |
| Change in fair value of derivative | 13,000 | 326,000 |
| Non-cash accrued interest | -- | 10,373,000 |
| Net change in operating assets and liabilities: | | |
| Accounts receivable | 258,000 | 155,000 |
| Inventories | 85,000 | 258,000 |
| Prepaid expenses and other current assets | (48,000) | 43,000 |
| Accounts payable | 446,000 | (832,000) |
| Accrued payroll and related expenses | 44,000 | (77,000) |
| Deferred revenue | 6,000 | (224,000) |
| Other current liabilities | (53,000) | (122,000) |
| Other noncurrent liabilities | 30,000 | 30,000 |
| Net cash used in operating activities | (1,450,000) | (2,009,000) |
| Net cash flows used in investing activities: | | |
| Cash paid for business acquisition | (1,000,000) | -- |
| Capital expenditures | (140,000) | (154,000) |
| Net cash used in investing activities: | (1,140,000) | (154,000) |
| Cash flows from financing activities: | | |
| Payments on capital lease obligations | (17,000) | (23,000) |
| Cash paid for taxes on vested restricted stock | (52,000) | (134,000) |
| Proceeds from long-term debt-related party | 1,500,000 | -- |
| Proceeds from issuance of common stock, net | -- | 2,091,000 |
| Net cash provided by financing activities | 1,431,000 | 1,934,000 |
| Effects of foreign currency rate changes on cash and cash equivalents | -- | 2,000 |
| Net decrease in cash and cash equivalents | (1,159,000) | (227,000) |
| Cash and cash equivalents at beginning of period | 3,623,000 | 5,835,000 |

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| | | |
|--|-------------|--------------|
| Cash and cash equivalents at end of period | \$2,464,000 | \$5,608,000 |
| Supplemental non-cash financing and investing information: | | |
| Common stock issued for payment of convertible debentures and interest | -- | \$23,905,000 |
| Subsidiary common stock issued for acquisition of net assets | \$2,499,000 | -- |

See accompanying notes.

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Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business and Basis of Presentation

Organization and Basis of Presentation

Cesca Therapeutics Inc. (“Cesca Therapeutics,” “Cesca,” the “Company,” “we,” “our,” “us”), a Delaware corporation, is a regenerative medicine company that was founded in 1986 and is headquartered in Rancho Cordova, CA. We develop, commercialize and market a range of automated technologies and products for cell-based therapeutics.

ThermoGenesis Corp. (“ThermoGenesis”), our device subsidiary, provides the AutoXpress and BioArchive platforms for automated clinical biobanking, PXP™ platform for point-of-care cell-based therapies and CAR-TXpress™ platform under development for bio-manufacturing for immuno-oncology applications. Cesca is also leveraging its proprietary PXP™ technology platform 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

The Company has a Revolving Credit Agreement (“Credit Agreement”) with Boyalife Investment Fund II, Inc. (the “Lender”) (Refer to Note 4). As of September 30, 2017, the Company had drawn down \$5,000,000 of the \$10,000,000 available under the Credit Agreement. Boyalife Investment Fund 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 July 7, 2017, the Company, through its wholly-owned subsidiary, ThermoGenesis, acquired the business and substantially all the assets of SynGen Inc. (“SynGen”). In exchange, ThermoGenesis issued to SynGen shares of ThermoGenesis common stock that, after giving effect to the issuance, constitute 20% of ThermoGenesis’ outstanding common shares, and ThermoGenesis also made a one-time cash payment of \$1,000,000 to SynGen. (Refer to Note 3).

At September 30, 2017, the Company had cash and cash equivalents of \$2,464,000 and working capital of \$5,312,000. The Company has incurred recurring operating losses and as of September 30, 2017 had an accumulated deficit of

\$187,707,000. The Company anticipates requiring additional capital to grow the device business (see Note 8), initiate the Phase III Critical Limb Ischemia trial, to fund other operating expenses and to make interest payments on the line of credit with Boyalife. These conditions raised substantial doubt about the Company's ability to meet its obligations. To alleviate the substantial doubt, management plans to use existing cash and cash equivalents balances, revenue generating activities and draw down on the available balance from the line of credit. Other sources of liquidity could include potential issuances of debt or equity securities in public or private financings and strategic partnerships.

Based upon the additional funds available to draw down under the amended Credit Agreement, the Company's cash balance, historical trends, expected outflows and projections for revenues, management believes it will have sufficient cash to provide for its projected needs to maintain operations and working capital requirements for at least the next 12 months from the date of this filing.

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Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Principles of Consolidation

The consolidated financial statements include the accounts of Cesca, its majority-owned subsidiary, ThermoGenesis, 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.

Noncontrolling Interests

The 20% ownership interest of ThermoGenesis that is not owned by Cesca, is accounted for as a non-controlling interest as the Company has an 80% ownership interest in the subsidiary. Earnings or losses attributable to other stockholders of a consolidated affiliated company are classified separately as "noncontrolling interest" in the Company's consolidated statements of operations. Net loss attributable to noncontrolling interest reflects only its share of the after-tax earnings or losses of an affiliated company. The Company's consolidated balance sheets reflect noncontrolling interests within the equity section of the consolidated balance sheets.

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, 2017 are not necessarily indicative of the results that may be expected for the six months ending December 31, 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, 2017.

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.

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Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 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. 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.

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.

Table of Contents**Cesca Therapeutics Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

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.

The Company has two reportable business segments:

The Clinical Development Division, 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 Division, engages in the development and commercialization of automated technologies for cell-based therapeutics and bio-processing. The device division 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. 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 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:

| | 2017 | 2016 |
|---|-----------|-----------|
| Vested Series A warrants | 404,412 | 404,412 |
| Unvested Series A warrants ⁽¹⁾ | 698,529 | 698,529 |
| Warrants – other | 3,725,782 | 3,725,782 |
| Stock options | 420,185 | 270,016 |
| Restricted stock units | 9,163 | 161,170 |

Total 5,258,071 5,259,909

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.

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Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*”. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The Company adopted ASU 2016-09 effective July 1, 2017. The Company has elected to continue its current policy of estimating forfeitures rather than recognizing forfeitures when they occur. Adoption of the new standard did not have a material impact on the financial statements of the Company.

In July 2015, the FASB issued ASU No. 2015-11, “*Inventory: Simplifying the Measurement of Inventory*”, that requires inventory not measured using either the last in, first out (“LIFO”) or the retail inventory method to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The Company adopted ASU 2015-11 effective July 1, 2017. Adoption of the new standard did not have a material impact on the financial statements of the Company.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, “*Revenue from Contracts with Customers (Topic 606)*” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition” and some cost guidance included in ASC Subtopic 605-35, “*Revenue Recognition - Construction-Type and Production-Type Contracts*.” The core principle of ASU 2014-09 is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. ASU 2014-09 requires the disclosure of sufficient information to enable readers of the Company’s financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 also requires disclosure of information regarding significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 provides two methods of retrospective application. The first method would require the Company to apply ASU 2014-09 to each prior reporting period presented. The second method would require the Company to retrospectively apply ASU 2014-09 with the cumulative effect recognized at the date of initial application. ASU 2014-09 will be effective for the Company beginning in fiscal 2018 as a result of ASU 2015-14, “*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*,” which was issued by the FASB in August 2015 and extended the original effective date by one year. The Company is currently evaluating the impact of adopting the available methodologies of ASU 2014-09 and 2015-14 upon its financial statements in future reporting periods. The Company is also in the process of evaluating the new standard against its existing accounting policies,

including the timing of revenue recognition, and its contracts with customers to determine the effect the guidance will have on its financial statements and what changes to systems and controls may be warranted.

3. Acquisition of SynGen

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

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Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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.

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. Acquisition-related costs are not included as a component of the acquisition accounting, but are recognized as expenses in the periods in which the costs are incurred. Acquisition related costs of \$187,000 for the three months ended September 30, 2017 were included in general and administrative expenses. Subsequent to July 7, 2017, Cesca has recorded revenues of approximately \$47,000 associated with the operations of SynGen. The amount of net loss specifically related to SynGen operations for the period beginning July 7, 2017, included in the condensed consolidated statements of operations and comprehensive loss is impracticable due to the fact that SynGen and its operations are no longer accounted for on a stand-alone basis.

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 of \$2,499,000. All outstanding SynGen stock options to purchase shares of SynGen common stock were cancelled.

Table of Contents**Cesca Therapeutics Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Preliminary Allocation of Consideration Transferred to Net Assets Acquired***

The following is the summary of the preliminary fair value of the assets acquired and the liabilities assumed by Cesca in the Transaction, reconciled to the consideration transferred.

ThermoGenesis issued 2,000,000 shares of its common stock that had a total fair value of \$2,499,000 based on an independent valuation. The final determination of the fair value of certain assets and liabilities will be completed within the 12-month measurement period from the date of acquisition as required. It is anticipated that the goodwill will be deductible for tax purposes. Any potential adjustments made could be material in relation to the preliminary values presented below:

| | | |
|--|-----------|--------------|
| Purchase Price: | | |
| Cash | | \$ 1,000,000 |
| 2,000,000 common shares of ThermoGenesis | | 2,499,000 |
| Fair value of assets acquired: | | |
| Inventories | 649,000 | |
| Developed technology | 318,000 | |
| Trade name | 26,000 | |
| In process technology | 1,296,000 | |
| Customer relationships | 41,000 | |
| Total intangible assets | 1,681,000 | |
| Property and equipment | 585,000 | |
| Total assets | 2,915,000 | |
| Fair value of liabilities assumed: | | |
| Other liabilities | 15,000 | |
| Net assets acquired | | (2,900,000) |
| Preliminary goodwill | | \$ 599,000 |

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. The following unaudited supplemental pro forma data for the quarters ended September 30, 2017 and 2016 present consolidated information as if the acquisition had been completed on July 1, 2016. The pro forma results were calculated by combining the results of Cesca Inc with the stand-alone results of SynGen Inc. for the

pre-acquisition periods:

| | Three Months Ended | |
|---|--------------------|----------------|
| | September 30, | |
| | 2017 | 2016 |
| Net revenues | \$3,069,000 | \$4,078,000 |
| Net loss | \$(2,439,000) | \$(23,141,000) |
| Basic and diluted net loss per common share | \$(0.22) | \$(3.80) |

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Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 merger, 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

Revolving Credit Agreement

On March 6, 2017, Cesca entered into the Credit Agreement with Boyalife Investment Fund II, Inc. (the “Lender”). The Lender 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 of Directors. The Credit Agreement grants to the Company the right to borrow up to \$5,000,000 in amounts of \$500,000 per advance on an unsecured basis (the “Loan”) at any time prior to March 6, 2022 (the “Maturity Date”). The Company has drawn down a total of \$5,000,000 as of September 30, 2017.

The Credit Agreement and the Convertible Promissory Note issued thereunder (the “Note”) provide that the principal and all accrued and 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, except that certain borrowed amounts used to pay legal expenses under the bill payment arrangement will not bear interest. The Note can be prepaid in whole or in part by the Company at any time without penalty. If the Note is not repaid in full on or before the Maturity Date, the Lender has the right after the Maturity Date to convert any unpaid principal and accrued interest into shares of the Company’s common stock at a conversion price equal to 90% of the average daily volume-weighted average trading price of the Company’s common stock during the 10 trading days immediately prior to the Maturity Date, provided that the number of shares issuable upon such conversion may not exceed 19.99% of the number of outstanding shares of common stock of the Company on the date of the Credit Agreement (unless the Company obtains stockholder approval for such issuance in the manner required by the Marketplace Rules of the Nasdaq Stock Market, Inc.).

On September 13, 2017, the Company entered into Amendment No. 1 to the Credit Agreement (the “Amended Credit Agreement”). The Amended Credit Agreement amends the Credit Agreement originally entered into by the Company

and Lender on March 6, 2017, by increasing the Company's maximum borrowing availability thereunder from \$5,000,000 to \$10,000,000. In connection with such amendment, the Company and Lender entered into an amended and restated convertible promissory note to reflect the new aggregate maximum principal amount of \$10,000,000.

The Maturity Date of the Note 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 Credit Agreement continuing to be true at all times and there being no continuing event of default under the Note. The Credit Agreement provides that if the Lender at any time in the future purchases the Company's blood and bone marrow processing device business, the Lender would refund to the Company legal fees expended by the Company in connection with certain litigation expenses funded by the Company with proceeds of the Loan. No default has occurred through the date of filing.

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Cesca Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company recorded interest expense of \$197,000 for the three months ended September 30, 2017 and had an interest payable balance of \$319,000 and \$122,000 at September 30, 2017 and June 30, 2017, respectively.

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[®] ("AutoXpres[®]") System and BioArchive[®] 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[®] Disposable Blood Processing Sets and use rights to the AXP[®] ("AutoXpres[®]") 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

During the three months ended September 30, 2017, the Company recorded \$751,000 of revenues from Boyalife and had an accounts receivable balance of \$751,000 and \$308,000 at September 30, 2017 and June 30, 2017, respectively.

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 Inc. (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. As of September 30, 2017, invoices totaling \$606,000 had been paid by Payor and are included in related party payable as the Company anticipates repaying this within a year.

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 September 30, 2017.

Table of Contents**Cesca Therapeutics Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****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 balance sheets. The change in the warranty liability for the three months ended September 30, 2017 is summarized in the following table:

| | |
|--|-----------|
| Balance at July 1, 2017 | \$588,000 |
| Warranties issued during the period | 40,000 |
| Settlements made during the period | (297,000) |
| Changes in liability for pre-existing warranties during the period | (4,000) |
| Balance at September 30, 2017 | \$327,000 |

Contingency

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 and without acknowledging any liability, the Company deposited \$1,000,000 with the Court and the consulting firm is in the process of dismissing the Company's CEO from the case, without liability. The Company intends to defend the lawsuit vigorously and no accrual has been recorded for this contingent liability as of September 30, 2017.

6. Derivative Obligations***Series A Warrants***

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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 and the following assumptions:

| | Series A | |
|------------------------------|-----------|--------|
| | September | June |
| | 30, | 30, |
| | 2017 | 2017 |
| Market price of common stock | \$3.56 | \$3.17 |
| Expected volatility | 102 % | 110 % |
| Contractual term (years) | 3.4 | 3.7 |
| Discount rate | 1.7 % | 1.66% |
| Dividend rate | 0 % | 0 % |
| Exercise price | \$8.00 | \$8.00 |

Table of Contents**Cesca Therapeutics Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

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 loss of \$13,000 and \$326,000 during the three months ended September 30, 2017 and 2016, respectively, representing the net change in the fair value of the derivative liability, which is presented as fair value change of derivative instruments, in the accompanying 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, 2017 and June 30, 2017:

| | Balance at September 30, 2017 | Level 1 | Level 2 | Level 3 |
|-----------------------|-------------------------------------|------------|------------|------------|
| Derivative obligation | \$ 743,000 | \$ - | \$ - | \$ 743,000 |

| | Balance at June 30, 2017 | Level 1 | Level 2 | Level 3 |
|-----------------------|--------------------------------|------------|------------|------------|
| Derivative obligation | \$ 730,000 | \$ - | \$ - | \$ 730,000 |

The following table reflects the change in fair value of the Company's derivative liabilities for the three months ended September 30, 2017:

| | Amount |
|---|------------|
| Balance – July 1, 2017 | \$ 730,000 |
| Change in fair value of derivative obligation | 13,000 |
| Balance – September 30, 2017 | \$ 743,000 |

Table of Contents**Cesca Therapeutics Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****7. Stockholders' Equity*****Stock Based Compensation***

The Company recorded stock-based compensation of \$132,000 and \$298,000 for the three months ended September 30, 2017 and 2016, 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 June 30, 2017 | 397,389 | \$ 5.80 | | |
| Granted | 40,000 | \$ 3.47 | | |
| Forfeited | (14,765) | \$ 3.52 | | |
| Expired | (2,439) | \$ 27.04 | | |
| Outstanding at September 30, 2017 | 420,185 | \$ 5.54 | 6 | \$ 182,000 |
| Vested and expected to vest at September 30, 2017 | 397,590 | \$ 5.66 | 6 | \$ 175,000 |
| Exercisable at September 30, 2017 | 278,487 | \$ 6.64 | 5.5 | \$ 128,000 |

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock. There were no options exercised during the three months ended September 30, 2017.

The fair value of the Company's stock options granted for the three months ended September 30, 2017 was estimated using the following weighted-average assumptions:

| | |
|-------------------------|-------|
| Expected life (years) | 4 |
| Risk-free interest rate | 1.7 % |
| Expected volatility | 108% |
| Dividend yield | 0 % |

Table of Contents**Cesca Therapeutics Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Common Stock Restricted Units***

The following is a summary of restricted stock activity during the three months ended September 30, 2017:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|-----------------------------------|------------------------|---|
| Balance at June 30, 2017 | 59,694 | \$ 4.62 |
| Granted | 10,000 | \$ 3.26 |
| Vested | (60,531) | \$ 4.54 |
| Forfeited | -- | -- |
| Outstanding at September 30, 2017 | 9,163 | \$ 3.65 |

Warrants

There was no warrant activity for the three months ended September 30, 2017. At September 30, 2017, there were 4,828,723 warrants outstanding with a weighted-average exercise price per share of \$9.37 and 4,130,192 warrants exercisable with a weighted-average exercise price per share of \$9.60. At September 30, 2017, the total intrinsic value of warrants outstanding and exercisable was \$0.

8. Segment Reporting

The Company has two reportable segments, which are the same as its operating 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 is a pioneer and market leader in the development and commercialization of automated technologies for cell-based therapeutics and bio-processing.

Table of Contents**Cesca Therapeutics Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The following table summarizes the operating results of the Company's reportable segments:

| | Three Months Ended September 30, 2017 | | |
|----------------------------------|--|---------------|---------------|
| | Clinical | | |
| | Development | Device | Total |
| Net revenues | \$ 126,000 | \$ 2,943,000 | \$ 3,069,000 |
| Cost of revenues | 120,000 | 2,018,000 | 2,138,000 |
| Gross profit | 6,000 | 925,000 | 931,000 |
| Operating expenses | 1,169,000 | 2,112,000 | 3,281,000 |
| Operating loss | \$(1,163,000) | \$(1,187,000) | \$(2,350,000) |
| Depreciation and amortization | \$ 75,000 | \$ 85,000 | \$ 160,000 |
| Stock-based compensation expense | \$ 85,000 | \$ 47,000 | \$ 132,000 |

| | Three Months Ended September 30, 2016 | | |
|----------------------------------|--|--------------|---------------|
| | Clinical | | |
| | Development | Device | Total |
| Net revenues | \$ 156,000 | \$ 3,611,000 | \$ 3,767,000 |
| Cost of revenues | 142,000 | 2,243,000 | 2,385,000 |
| Gross profit | 14,000 | 1,368,000 | 1,382,000 |
| Operating expenses | 1,964,000 | 1,366,000 | 3,330,000 |
| Operating profit (loss) | \$(1,950,000) | \$ 2,000 | \$(1,948,000) |
| Depreciation and amortization | \$ 139,000 | \$ 122,000 | \$ 261,000 |
| Stock-based compensation expense | \$ 190,000 | \$ 108,000 | \$ 298,000 |

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

Forward-Looking Statements

This report contains forward-looking statements. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements contained herein. When used in this report, the words "anticipate," "believe," "estimate," "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. Actual results, performance or achievements could differ materially from the results expressed in, or implied by these forward-looking statements. Readers should be aware of important factors that, in some cases, have affected, and, in the future, could affect actual results, and may cause actual results for the six months ended December 31, 2017 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. These factors include without limitation, the ability to obtain capital and other financing in the amounts and at the times needed to complete clinical trials and launch new products, market acceptance of new products, the nature and timing of regulatory approvals for both new products and existing products for which the Company proposes new claims, realization of forecasted revenues, expenses and income, initiatives by competitors, price pressures, failure to meet FDA regulated requirements governing the Company’s products and operations (including the potential for product recalls associated with such regulations), risks associated with initiating manufacturing for new products, failure to meet Foreign Corrupt Practice Act regulations, legal proceedings, and other risk factors listed from time to time in our SEC reports, including, in particular, those set forth in the Cesca Therapeutics Inc. Form 10-K for fiscal year ended June 30, 2017.

Cesca is a regenerative medicine company that develops, commercializes and markets a range of automated technologies for cell-based therapeutics. Cesca’s device subsidiary, ThermoGenesis, provides a full suite of solutions for automated clinical biobanking, point-of-care applications, and automation for immuno-oncology. Cesca is also leveraging its proprietary AutoXpress® technology platform to develop autologous stem cell-based therapies that address significant unmet needs in the vascular, cardiology and orthopedic markets.

On July 7, 2017, our then wholly-owned subsidiary, ThermoGenesis, acquired the business and substantially all of the assets of SynGen, a privately held Sacramento, California-based technology company that develops, markets, and sells advanced cell separation tools and accessories. In the transaction (the “SynGen Transaction”), ThermoGenesis acquired substantially all of SynGen’s operating assets, including its proprietary cell processing platform. In exchange, ThermoGenesis issued to SynGen shares of ThermoGenesis common stock that, after giving effect to the issuance, constitute 20% of ThermoGenesis’ outstanding common shares, and ThermoGenesis also made a one-time cash payment of \$1,000,000 to SynGen. Immediately prior to the SynGen Transaction, the Company contributed the assets, business, and current liabilities of its blood and bone-marrow processing device business to ThermoGenesis and will operate such business (together with the acquired business) through the ThermoGenesis subsidiary.

Prior to the SynGen Transaction, Cesca's device business was owned and operated directly by Cesca, and from and after the SynGen Transaction, Cesca's device business (together with the business acquired from SynGen) is and will be owned and operated by ThermoGenesis.

In August 2017, our Board of Directors approved changing our fiscal year from June 30 to a calendar year ending December 31. As a result, we will file a transition report on Form 10-K for the six month period ending December 31, 2017.

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Cesca's DeviceSegment

The operations and assets of Cesca's device segment are conducted through our ThermoGenesis subsidiary, which is a pioneer and market leader in the development and commercialization of automated technologies for cell-based therapeutics and bio-processing. The device segment's automated solution offerings include:

Clinical BioBanking

AXP® + BioArchive® provide automated isolation, collection and storage of cord blood stem cell concentrates.

Point-of-Care Solutions for Cell-Based Therapeutics

PXP™ allows for the rapid, automated processing of autologous peripheral or bone marrow derived stem cells at the point-of-care, such as surgical centers or clinics. By the end of 2017, we expect to file for Class II clearance from the U.S. FDA for our point-of-care system.

Cellular Processing for Immuno-Oncology Applications

CAR-TXpress ("CXP™") + BioArchive® allow for the automated manufacturing, expansion and storage of cellular therapies for immuno-oncology, including various T-cell and natural killer (NK) cell based therapies.

The device segment's product pipeline includes:

AutoXpress® System ("AXP") - a proprietary, automated system for the isolation and collection of hematopoietic stem cells from cord blood and peripheral blood. By the end of 2017, we expect to launch the AXP II System. The automated system is an upgrade to the AXP and is designed for the separation and processing of biological components and is intended for use in cord blood banking.

PXP™ Point-of-Care Applications - a proprietary, automated system for the rapid, automated processing of autologous peripheral or bone marrow derived stem cells for cell-based therapies at point-of-care situations, such as surgical centers or clinics.

CXP™ - a proprietary, automated system for the isolation and collection of cells derived from biological sources, for various laboratory based downstream applications.

BioArchive® System - an automated, cryogenic system used by cord blood banks for the cryopreservation and storage of cord blood stem cell concentrate for future use.

Cesca's Clinical DevelopmentSegment

Using its proprietary AutoXpress® technology platform, Cesca's clinical development segment is developing autologous (utilizing the patient's own cells) stem cell-based therapeutics that Cesca believes will address significant unmet medical needs for applications within the vascular, cardiology and orthopedic markets.

Vascular Diseases - Critical Limb Ischemia ("CLI") – Cesca is currently in late stage development of its proprietary, point-of-care, autologous stem cell-based therapeutic for the treatment of patients with CLI. The Company's 362 patient, multi-center pivotal Phase III Critical Limb Ischemia Rapid Stem Cell Treatment ("CLIRST") trial is designed to evaluate the safety and efficacy of autologous stem cell-based therapy to stimulate the regeneration of blood vessels, promote wound healing and prevent amputation. Previous clinical studies using Cesca's proprietary, point-of-care-technologies have successfully demonstrated the regeneration of blood vessels and improved blood circulation in the limbs, using a patient's own bone marrow derived stem cells. The Company is actively seeking strategic partners to co-develop CLIRST.

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Cardiology - Acute Myocardial Infarction – Cesca is developing a proprietary, point-of-care autologous stem cell-based therapy intended as an adjunct treatment for patients who have suffered an acute ST-elevated myocardial infarction (“STEMI”), the most serious type of heart attack. Such treatments are aimed at minimizing the adverse remodeling of the heart post-STEMI.

Orthopedics – OsteoArthritis (“OA”) - Cesca is in early stage development of an autologous stem cell based therapy intended to treat patients with cartilage tissue degeneration that may lead to progressive cartilage loss and painful joint diseases. Localized articular cartilage defects can potentially be repaired by transplantation of autologous cell therapy. Therapies in development using Cesca’s proprietary PXP™ system are expected to delay further deterioration and repair the damaged joint cartilage. Treatment is typically via a single procedure in the hospital or clinic.

Critical Accounting Policies

Management’s discussion and analysis of its financial condition and results of operations is based upon the condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a full discussion of our accounting estimates and assumptions that have been identified as critical in the preparation of the Company’s condensed consolidated financial statements, please refer to Cesca’s 2017 Annual Report on Form 10-K.

Results of Operations for the Three Months Ended September 30, 2017 as Compared to the Three Months Ended September 30, 2016

Net Revenues

Consolidated net revenues for the three months ended September 30, 2017 were \$3,069,000 compared to \$3,767,000 for three months ended September 30, 2016, a decrease of \$698,000. Device segment revenues decreased primarily due to a one-time shipment of our remaining inventory associated with a discontinued product line (Res-Q) and AXP disposables, which had lower sales due to a single end user customer purchasing larger than normal orders to stock up inventory levels in the quarter ended September 30, 2016. If it weren’t for these one-time events, revenues would have been higher than the quarter ended September 30, 2016. Clinical development revenues consist of sales generated by our Totipotent subsidiaries. These sales declined due to lower manual bagset sales. Offsetting these decreases for the device segment was an increase in sales of our BioArchive devices as we sold three during the quarter ended September 30, 2017 as compared to none in the quarter ended September 30, 2016. Recently, there has been a significant increase in BioArchive device sales. For the last two quarters ended September 30, 2017, we sold five BioArchive devices, as compared to only two devices in the seven previous quarters combined. We expect this trend

to continue, with approximately two to three devices sold per quarter for at least the next three to four quarters.

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Revenues were comprised of the following for the three months ended:

| | September 30, 2017 | September 30, 2016 |
|-------------------------------|-----------------------|-----------------------|
| Device Segment: | | |
| AXP | \$1,443,000 | \$1,857,000 |
| BioArchive | 1,117,000 | 905,000 |
| Manual Disposables | 334,000 | 273,000 |
| Bone Marrow | -- | 551,000 |
| Other | 49,000 | 25,000 |
| | 2,943,000 | 3,611,000 |
| Clinical Development Segment: | | |
| Manual Disposables | 7,000 | 71,000 |
| Bone Marrow | 92,000 | 19,000 |
| Other | 27,000 | 66,000 |
| | 126,000 | 156,000 |
| | \$3,069,000 | \$3,767,000 |

Gross Profit

The Company's consolidated gross profit is driven substantially by our device segment. Our device segment gross profit margin decreased from \$1,368,000 or 38% for the quarter ended September 30, 2016 to \$925,000 or 31% for the quarter ended September 30, 2017 primarily due to increases in our inventory reserves for the MXP product line, an increase in overhead expenses as a result of the merger with SynGen and our mix of products sold.

Sales and Marketing Expenses

Sales and marketing expenses were \$517,000 for the three months ended September 30, 2017, compared to \$481,000 for the three months ended September 30, 2016, an increase of \$36,000 or 7%. Predominantly all of the Company's sales and marketing expenses are generated by the device segment. The slight increase is primarily due to higher personnel costs from the SynGen acquisition.

Research and Development Expenses

Research and development expenses were \$1,063,000 for the three months ended September 30, 2017, compared to \$670,000 for the comparable fiscal 2017 period, an increase of \$393,000 or 59%. Research and development expenses in our device segment increased \$705,000, while our clinical development segment decreased \$312,000. The changes are due to additional headcount in the device segment from the SynGen acquisition, and a shift in existing personnel from the clinical development segment to the device segment as we are not funding clinical development projects until a strategic partner is located.

General and Administrative Expenses

General and administrative expenses include costs associated with accounting, finance, human resources, information system and executive functions.

Consolidated general and administrative expenses were \$1,701,000 for the three months ended September 30, 2017, compared to \$2,179,000 for the three months ended September 30, 2016, a decrease of \$478,000 or 22%. The decrease is primarily due to a decrease in legal expenses of approximately \$200,000 due to settlement of the SynGen litigation during the quarter ended September 30, 2017 and severance expenses of \$173,000 recorded in the quarter ended September 30, 2016 due to the elimination of positions in both segments.

Table of Contents***Non-U.S. GAAP Measures***

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

| | For the Three Months Ended September 30, 2017 | | |
|----------------------------------|---|---------------|---------------|
| | Clinical | | |
| | Development | Device | Total |
| Loss from operations | \$(1,163,000) | \$(1,187,000) | \$(2,350,000) |
| Add: | | | |
| Depreciation and amortization | 75,000 | 85,000 | 160,000 |
| Stock-based compensation expense | 85,000 | 47,000 | 132,000 |
| Adjusted EBITDA | \$(1,003,000) | \$(1,055,000) | \$(2,058,000) |

| | For the Three Months Ended September 30, 2016 | | |
|----------------------------------|---|-----------|---------------|
| | Clinical | | |
| | Development | Device | Total |
| Profit (loss) from operations | \$(1,950,000) | \$2,000 | \$(1,948,000) |
| Add: | | | |
| Depreciation and amortization | 139,000 | 122,000 | 261,000 |
| Stock-based compensation expense | 190,000 | 108,000 | 298,000 |
| Adjusted EBITDA | \$(1,621,000) | \$232,000 | \$(1,389,000) |

Adjusted EBITDA

The increase in our consolidated adjusted EBITDA loss from \$1,389,000 to \$2,058,000 and the difference in our device segment adjusted EBITDA from \$232,000 profit to \$1,055,000 loss is primarily due to the headcount and project expenses added during the quarter ended September 30, 2017 as a result of our SynGen acquisition. The decrease in the clinical development adjusted EBITDA loss from \$1,621,000 to \$1,003,000 is primarily due to the elimination or transfer of personnel to the device segment to work on those projects versus clinical studies.

Liquidity and Capital Resources

At September 30, 2017, the Company had cash and cash equivalents of \$2,464,000 and working capital of \$5,312,000. This compares to cash and cash equivalents of \$3,623,000 and working capital of \$6,658,000 at June 30, 2017. We have primarily financed operations through private and public placement of equity securities and our line of credit facility.

On July 7, 2017, our then wholly-owned subsidiary, ThermoGenesis, acquired the business and substantially all of the assets of SynGen, a privately held Sacramento, California-based technology company that develops, markets, and sells advanced cell separation tools and accessories. In the SynGen Transaction, ThermoGenesis acquired substantially all of SynGen's operating assets, including its proprietary cell processing platform. In exchange, ThermoGenesis issued to SynGen 2,000,000 shares of ThermoGenesis common stock which had a fair market value of \$2,499,000 based on an independent analysis and ThermoGenesis also made a one-time cash payment of \$1,000,000 to SynGen. As part of the Asset Acquisition Agreement, the two companies agreed to cease the mutual litigation.

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The Company has a Revolving Credit Agreement with Boyalife Investment Fund II, Inc. As of September 30, 2017, the Company had drawn down \$5,000,000 of the \$10,000,000 available under the Credit Agreement and drew down an additional \$1,700,000 in October 2017, \$1,000,000 of which was used for the bond deposited with the Court. Boyalife Investment Fund 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.

Based upon the additional funds available to draw down under the amended Credit Agreement, the Company's cash balance, historical trends, expected outflows and projections for revenues, management believes it will have sufficient cash to provide for its projected needs to maintain operations and working capital requirements for at least the next 12 months from the date of filing.

The Company will need additional funding to support its operations and its clinical development programs, in particular the CLIRST trial. Accordingly, management has been exploring additional funding sources, with a primary focus on 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.

Net cash used in operating activities for the three months ended September 30, 2017 was \$1,450,000 compared to \$2,009,000, for September 30, 2016. The improvement in net cash used in operating activities was primarily due to a limited number of above-average vendor payments during the quarter ended September 30, 2016.

Off-Balance Sheet Arrangements

As of September 30, 2017, the Company had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Cesca carried out an evaluation, under the supervision, and with the participation of management, including both the Company's Chief Executive Officer (principal executive officer) and Principal Accounting Officer (principal financial officer), of the effectiveness of the design and operation of Cesca's disclosure controls and procedures (as defined by Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of our fiscal quarter pursuant to Exchange Act Rule 13a-15. Disclosure controls and procedures cover controls and other procedures that are designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and the Principal Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, Cesca's Chief Executive Officer and Principal Accounting Officer have both concluded that the Company's disclosure controls and procedures were effective as of September 30, 2017.

There were no changes in Cesca's internal controls over financial reporting that occurred during the three months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Management believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company, have been detected.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

In the normal course of operations, the Company may have disagreements or disputes with distributors, vendors or employees. Such potential disputes are seen by management as a normal part of business. There have been no material changes since the disclosures set forth in the Company's 10-K, as amended, for fiscal year end June 30, 2017.

Item 1A. Risk Factors.

Readers should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in Cesca's Annual Report on Form 10-K for the fiscal year ended June 30, 2017, which could materially affect the Company's business, financial condition or future results. There have been no material changes from those risk factors. Additional risks and uncertainties not currently known or knowable to the Company or that management currently deems to be immaterial, may also have a materially adverse effect on Cesca's business, financial condition and/or operating results.

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

Cesca had no unregistered sales of equity securities during the three months ended September 30, 2017.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

An index of exhibits is found on page 25 of this report.

Table of Contents**Item 6. Exhibits.**

| Exhibit No. | Document Description | Incorporated by Reference |
|-------------|--|---|
| 10.1 | <u>Asset Acquisition Agreement, dated July 7, 2017, between SynGen Inc. and ThermoGenesis Corp.*</u> | Incorporated by reference to Exhibit 2.1 to Form 8-K filed with the SEC on July 10, 2017. |
| 10.2 | <u>Voting Agreement, dated July 7, 2017, among ThermoGenesis Corp., Cesca Therapeutics Inc., Bay City Capital Fund V, L.P., and Bay City Capital Fund V Co-Investment Fund, L.P.</u> | Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on July 10, 2017. |
| 10.3 | <u>Investors' Rights Agreement, dated July 7, 2017, among ThermoGenesis Corp., Bay City Capital Fund V, L.P., and Bay City Capital Fund V Co-Investment Fund, L.P.</u> | Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on July 10, 2017. |
| 10.4 | <u>Right of First Refusal and Co-Sale Agreement, dated July 7, 2017, among ThermoGenesis Corp., Cesca Therapeutics Inc., Bay City Capital Fund V, L.P., and Bay City Capital Fund V Co-Investment Fund, L.P.</u> | Incorporated by reference to Exhibit 10.3 to Form 8-K filed with the SEC on July 10, 2017. |
| 10.5 | <u>Amended and Restated Certificate of Incorporation of ThermoGenesis Corp.</u> | Incorporated by reference to Exhibit 10.4 to Form 8-K filed with the SEC on July 10, 2017. |
| 10.6 | <u>Amendment No. 1 to Revolving Credit Agreement, dated September 13, 2017, between Cesca Therapeutics Inc. and Boyalife Investment Fund II, Inc.</u> | Incorporated by reference to Exhibit 10.1 to Form 8-K/A filed with the SEC on September 21, 2017. |
| 10.7 | <u>Amended and Restated Convertible Promissory Note, dated September 13, 2017, issued by Cesca Therapeutics Inc. to Boyalife Investment Fund II, Inc.</u> | Incorporated by reference to Exhibit 10.2 to Form 8-K/A filed with the SEC on September 21, 2017. |
| 31.1 | <u>Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> | Filed herewith |
| 31.2 | <u>Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> | Filed herewith |
| 32 | <u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.</u> | Filed herewith |
| 101.INS | XBRL Instance Document‡ | |
| 101.SCH | XBRL Taxonomy Extension Schema Document‡ | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document‡ | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document‡ | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document‡ | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document‡ | |

Footnotes to Exhibit Index

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

*

Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

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Cesca Therapeutics Inc.

Signatures

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

Cesca Therapeutics Inc.

(Registrant)

Dated: November 14, 2017 /s/ Xiaochun (Chris) Xu, Ph.D.
Xiaochun (Chris) Xu, Ph.D.

Chief Executive Officer

(Principal Executive Officer)

Dated: November 14, 2017 /s/ Jeff Cauble
Jeff Cauble

Principal Financial and Accounting Officer

(Principal Financial Officer and Principal Accounting Officer)