THERMOGENESIS CORP
Form 10-Q
May 08, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2008.**

or

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

Commission File Number: 333-82900

ThermoGenesis Corp.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o No

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

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

(Do not check if a smaller reporting company)

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

o Yes þ 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 May 2, 2008
Common stock, $.001 par value	56,206,175

ThermoGenesis Corp.
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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ThermoGenesis Corp.
Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share and per share amounts)	March 31, 2008	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,152	$ 5,730
Short-term investments	17,891	27,649
Accounts receivable, net of allowance for doubtful accounts of $29 ($50 at June 30, 2007)	3,565	3,226
Inventories	4,662	5,046
Other current assets	243	415
Total current assets	37,513	42,066
Equipment at cost less accumulated depreciation of $2,900 ($2,605 at June 30, 2007)	1,635	1,602
Other assets	73	122
	$ 39,221	$ 43,790
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,476	$ 2,074
Accrued payroll and related expenses	404	525
Deferred revenue	721	761
Other current liabilities	1,467	947
Total current liabilities	5,068	4,307
Deferred revenue	1,142	1,647
Long-term portion of capital lease obligations	12	24
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized; none outstanding		
Common stock, $0.001 par value; 80,000,000 shares authorized; 55,701,175 issued and outstanding (55,500,524 at June 30, 2007)	56	56
Paid in capital in excess of par	120,268	118,384
Accumulated deficit	(87,325)	(80,628)
Total stockholders equity	32,999	37,812

	$ 39,221	$ 43,790

See accompanying notes to consolidated financial statements.

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ThermoGenesis Corp.
Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except share and per share amounts)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
Product and other revenues	$ 5,476	$ 4,791	$ 14,067	$ 11,891
Milestone payments and license fees	169	419	697	1,340
Net revenues	5,645	5,210	14,764	13,231
Cost of product and other revenues	4,144	3,346	10,052	8,741
Cost of milestone payments and license fees		92	92	217
Cost of revenues	4,144	3,438	10,144	8,958
Gross profit	1,501	1,772	4,620	4,273
Expenses:				
Selling, general and administrative	2,550	2,201	7,327	6,813
Research and development	1,902	1,034	5,015	2,969
Total operating expenses	4,452	3,235	12,342	9,782
Interest and other income, net	271	426	1,025	1,346
Net loss	($2,680)	($1,037)	($6,697)	($4,163)
Per share data:				
Basic and diluted net loss per common share	($0.05)	($0.02)	($0.12)	($0.08)
Shares used in computing per share data	55,701,175	55,266,175	55,687,286	55,103,539

See accompanying notes to consolidated financial statements.

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ThermoGenesis Corp.
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended March 31, 2008 and 2007

(in thousands)	2008	2007
Cash flows from operating activities:		
Net loss	($6,697)	($4,163)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	402	347
Stock based compensation expense	1,618	614
Accretion of discount on short-term investments	(782)	(969)
Loss on sale of equipment		9
Net change in operating assets and liabilities:		
Accounts receivable, net	(339)	(335)
Inventories	245	(1,911)
Other current assets	172	83
Other assets	49	(16)
Accounts payable	402	215
Accrued payroll and related expenses	(121)	(93)
Deferred revenue	(545)	(102)
Other current liabilities	522	320
Net cash used in operating activities	(5,074)	(6,001)
Cash flows from investing activities:		
Capital expenditures	(296)	(328)
Purchase of investments	(27,460)	(37,743)
Maturities of investments	38,000	49,000
Net cash provided by investing activities	10,244	10,929
Cash flows from financing activities:		
Payments on capital lease obligations	(14)	(13)
Exercise of stock options and warrants	266	1,140
Net cash provided by financing activities	252	1,127
Net increase in cash and cash equivalents	5,422	6,055
Cash and cash equivalents at beginning of period	5,730	3,527
Cash and cash equivalents at end of period	$ 11,152	9,582

Supplemental non-cash flow information:		
Transfer of inventory to equipment	$ 157	$ 124
Transfer of equipment to inventory	$ 18	$ 56

See accompanying notes to consolidated financial statements

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ThermoGenesis Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Organization and Basis of Presentation

In February 2008, the Company announced the formation of a wholly-owned subsidiary, Vantus Veterinary Stem Cell Laboratories (Vantus). Vantus involves a formal relationship with the Center for Equine Health and Stem Cell Regenerative Medicine Group at the University of California, Davis, School of Veterinary Medicine. Its initial focus will be the banking (harvesting, processing and preservation) of equine stem cells for use in treatment of orthopedic injuries in the performance equine market. The accompanying unaudited condensed consolidated financial statements of ThermoGenesis Corp. (ThermoGenesis or Company) include the accounts of the parent company, ThermoGenesis, and its wholly-owned subsidiary, Vantus. All significant intercompany balances and transactions have been eliminated in consolidation.

Interim Reporting

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. All sales, domestic and foreign, are made in U.S. dollars and therefore currency fluctuations are believed to have no impact on the Company s net revenues. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending June 30, 2008. These consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

The balance sheet at June 30, 2007, has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

Revenue Recognition

The Company recognizes revenue including multiple element arrangements, in accordance with the provisions of the Securities and Exchange Commission s (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* and the Financial Accounting Standards Board s (FASB) Emerging Issues Task Force (EITF) 00-21, *Revenue Agreements with Multiple Deliverable*s. Revenues from the sale of the Company s products are recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed or determinable, and collectibility 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. All foreign sales are denominated in U.S. dollars. Amounts billed in excess of revenue recognized are recorded as deferred revenue on the balance sheet.

The Company s foreign sales are generally through distributors. There is no right of return provided for distributors. 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.

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Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered item has value to the customer on a stand-alone basis and whether there is objective and reliable evidence of the fair value of the undelivered items. Revenue is recognized as specific elements indicated in sales contracts are executed. If an element is essential to the functionality of an arrangement, the entire arrangement s revenue is deferred until that essential element is delivered. The fair value of each undelivered element that is not essential to the functionality of the system is deferred until performance or delivery occurs. The fair value of an undelivered element is based on vendor specific objective evidence or third party evidence of fair value as appropriate. Costs associated with inconsequential or perfunctory elements in multiple element arrangements are accrued at the time of revenue recognition. The Company accounts for training and installation as a separate element of a multiple element arrangement. The Company therefore recognizes the fair value of training and installation services upon their completion when the Company is obligated to perform such services.

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

Milestone payments the Company receives under research and development arrangements are recognized as revenue upon achievement of the milestone events, which represent the culmination of the earnings process, and when collectibility is reasonably assured. Milestone payments are triggered by the results of the Company s development efforts. Accordingly, the milestone payments are substantially at risk at the inception of the contract, and the amounts of the payments assigned thereto are commensurate with the milestone achieved. Upon the achievement of a milestone event, which may include acceptance by the counterparty, the Company has no future performance obligations related to that milestone as the milestone payments received by the Company are nonrefundable. The direct costs, primarily labor, of product development contracts are deferred until the development revenue is recognized.

For licensing agreements pursuant to which the Company receives up-front licensing fees for products or technologies that will be provided by the Company over the term of the arrangements, the Company defers the up-front fees and recognizes the fees as revenue on a straight-line method over the term of the respective license. For license agreements that require no continuing performance on the Company s part, license fee revenue is recognized immediately upon grant of the license.

Shipping and handling fees billed to customers are included in product and other revenues, while the related costs are included in cost of product and other revenues.

Segment Reporting

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

Net Loss per Share

Net loss per share is computed by dividing the net loss to common stockholders 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, which consist of stock options and common stock restricted awards that were not included in diluted net loss per common share were 3,427,770 and 2,766,349 as of March 31, 2008 and 2007.

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Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosure about fair value measurements. SFAS No. 157 applies under other accounting standards that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2 Effective Date of FASB Statement No. 157 (FSP 157-2) which delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statement on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2.The Company is currently evaluating the impact of the provisions of SFAS No. 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 allows entities to voluntarily choose to measure many financial assets and financial liabilities at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the provisions of SFAS No. 159 on its consolidated financial statements.

In December 2007, the FASB ratified EITF Issue No. 07-1, Accounting for Collaborative Arrangements (EITF 07-1). EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. EITF 07-1 shall be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. The Company is currently assessing the potential impact, if any, the adoption of EITF 07-1 may have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (SFAS No. 141R) which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

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2. Investments

The following is a summary of held-to-maturity securities:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2008				
Mortgage backed securities of government sponsored enterprises	$ 13,912	$ 45		$ 13,957
U.S. Treasury obligations	3,979		$ 7	3,972
Total	$ 17,891	$ 45	$ 7	$ 17,929
Maturity Date:				
Less than 90 days	$ 13,912			$ 13,957
Due in 91-365 days	3,979			3,972
	$ 17,891			$ 17,929
June 30, 2007				
Mortgage-backed securities of government sponsored enterprises	$ 27,649	$ 2	$ 10	$ 27,641

The aggregate amount of unrealized losses and fair value of short term investments, which are not deemed to be other-than-temporarily impaired and less than twelve months are:

	Aggregate Fair Value	Unrealized Loss
March 31, 2008		
U.S. Treasury obligations	$ 3,972	$ 7

Management has concluded that the unrealized losses on these investments are temporary, as the duration of the decline in the value of the investments has been short; the extent of the decline, both in dollars and percentage of cost is not considered significant; and the Company has the ability and intent to hold the investments until at least substantially all of the cost of the investments is recovered.

3. Inventories

Inventories consisted of the following at:

(in thousands)	March 31, 2008	June 30, 2007
Raw materials	$ 1,754	$ 1,791
Work in process	1,691	1,166
Finished goods	1,217	2,089
	$ 4,662	$ 5,046

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4. Commitments and Contingencies

Warranty

The Company offers a one-year warranty for parts only on all of its non-disposable products. In addition, the Company s one-year warranty for the BioArchive® System includes labor and travel. 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.

Changes in the Company s product liability during the period are as follows:

(in thousands)	
July 1, 2007 balance	$ 302
Warranties issued during the period	241
Settlements made during the period	(312)
Changes in liability for pre-existing warranties during the period, including expirations	271
Balance at March 31, 2008	$ 502

As a result of various quality issues experienced by high usage customers of the AXP™ AutoXpress Platform (AXP) devices and docking stations, the Company made revisions to its estimated warranty liability for the nine month period ended March 31, 2008. The Company recorded a change in estimate, which increased the Company s cost of product and other revenues and net loss (no net loss per share impact) by $271. The Company did not record any significant change in estimate during the quarter and nine-month period ended March 31, 2007.

Import/Export Bonds

The Company imports and exports products and components as a routine part of its business, and must comply with the rules and regulations of both the U.S. Food and Drug Administration (FDA) and the US Department of Homeland Security Bureau of Customs and Border Protection (CBP). With products and components that require FDA approval but prior to the receipt of such approval, the Company enters the components into the United States under certain temporary import provisions and must provide documentation of re-export of such product or its destruction within specified time periods. If components or products have not been exported or destroyed within the period provided for by the regulations, the Port Director may make a demand in writing under the bond for the payment of defined damages. The Company has in the past used a continuous import bond in the face amount of $50 for these activities, which would provide payment of any damages up to the face amount of the bond. The Company was recently notified by CBP at the Port of San Francisco that it is in breach of the temporary import agreement for components sold within the US to our strategic partners who then export such components for use outside the United States. The matter is currently under review. However, the Company may be exposed to damages up to a maximum of the face amount of our continuous import bond for each year the non-compliant imports occurred, and the bond was in effect. For the quarter ended December 31, 2007, the Company has recorded an estimated loss contingency in the amount of $100, which is based on the face amounts of the bond described above. There have been no adjustments to the accrual for the quarter ended March 31, 2008. The estimated loss contingency is included in Selling, General & Administrative expenses in the condensed statements of operations.

5. Stockholder s Equity

Stock Based Compensation (in thousands)

The Company recorded stock-based compensation of $497 and $1,618 for the three and nine months ended March 31, 2008 and $32 and $614 for the three and nine months ended March 31, 2007.

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

(in thousands, except shares, share price and term)	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at June 30, 2007	2,470,917	$ 2.89	2.6	$ 1,046
Granted	1,003,000	$ 2.31		
Forfeited or Expired	(399,996)	$ 3.42		
Exercised	(200,651)	$ 1.33		
Outstanding at March 31, 2008	2,873,270	$ 2.73	2.4	$ 1
Vested and Expected to Vest at March 31, 2008	2,689,713	$ 2.73	2.4	$ 1
Exercisable at March 31, 2008	1,684,137	$ 2.71	1.8	$ 1

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common stock for the 25,000 options that were in-the-money at March 31, 2008. During the nine months ended March 31, 2008 and 2007, the aggregate intrinsic value of options exercised under the Company s stock option plans were $248 and $96, respectively, determined as of the date of option exercise.

6. Income Taxes

Effective July 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109 (SFAS 109). There was no impact on our financial statements upon adoption. Because of our historical significant net operating losses, we have not been subject to income tax since inception. The tax years 1993-2007 remain open to examination by the major taxing jurisdictions to which we are subject. The Company s policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense. To date, there have been no interest or penalties charged to the Company in relation to the underpayment of income taxes. There were no unrecognized tax benefits during all the periods presented.

We maintain deferred tax assets that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These deferred tax assets include net operating loss carryforwards, research credits and deferred revenue. The net deferred tax asset has been fully offset by a valuation allowance because of our history of losses. Utilization of operating losses and credits may be subject to annual limitation due to ownership change provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

7. Subsequent Event

In May 2008, the Company and GE Healthcare Bio-Sciences AB (GE) amended their international distribution agreement, effective July 1, 2008. Under the terms of the amendment GE will no longer sell the BioArchive system and related disposables, GE will remain the exclusive distributor for the AXP product line for cord blood applications in North America, Europe and Asia (excluding China) and there

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will be price increases for the AXP disposable bag sets sold to GE. The expiration date of the original agreement remains December 31, 2010, and will be automatically renewed for additional two year periods unless terminated by one of the parties 12 months prior to the end of the then current term.

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

Forward-Looking Statements

This report contains forward-looking statements which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. 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. The Company s actual results, performance or achievements could differ materially from the results expressed in, or implied by these forward-looking statements. The Company wishes to caution readers of the important factors, among others, that in some cases have affected, and in the future could affect the Company s actual results and could cause actual results for fiscal year 2008, and beyond, to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. These factors include without limitation, the ability to obtain capital and other financing in the amounts and at the times needed to complete clinical trials and product marketing for new products, market acceptance of new products, regulatory approval and time frames for such approval of new products and new claims for existing products, realization of forecasted income and expenses, initiatives by competitors, price pressures, the risks associated with initiating manufacturing for new products, and the risk factors listed from time to time in the Company s SEC reports, including, in particular, the factors and discussion in the Company s Form 10-K for its last fiscal year.

Overview

We are principally a leading supplier of innovative products that process, cryopreserve, store and administer therapeutic doses of adult stem cells for treatment of disease and injury. These stem cells typically originate from the blood or tissue from donated cord blood or the bone marrow of the patient to be treated. The Stem Cell therapy market is a broad, rapidly growing field of medicine that involves the collection, purification, manipulation and administration of stem cells, to treat malignant or genetic blood diseases, tailored to individual patients. This methodology of personalized treatment is considerably different than practices with generic conventional pharmaceutical drugs. Pharmaceutical drugs are produced in large quantities and are effective on most patients with similar underlying medical conditions. Additionally, these drugs typically consist of inert materials that can be stored in medicine cabinets at room temperature. In contrast, personalized cell therapies are manufactured one at a time, are intended for a single patient and must be used immediately or, if stored, require precision freezing and extremely low storage temperatures (-196°C in some cases) in order to preserve the viability of the cells.

In February 2008, the Company formed a wholly-owned subsidiary, Vantus Veterinary Stem Cell Laboratories (Vantus). Vantus involves a formal collaboration with the Center for Equine Health and Stem Cell Regenerative Medicine Group at the University of California, Davis, School of Veterinary Medicine. Its initial focus will be the banking (harvesting, processing and preservation) of equine stem cells for use in treatment of orthopedic injuries in the performance equine market.

In May 2008, the Company and GE Healthcare Bio-Sciences AB (GE) amended their international distribution agreement, effective July 1, 2008. Under the terms of the amendment GE will no longer sell the BioArchive system and related disposables, GE will remain the exclusive distributor for the AXP product line for cord blood applications in North America, Europe and Asia (excluding China) and there will be price increases for the AXP disposable bag sets sold to GE. The expiration date of the original agreement remains December 31, 2010, but will be automatically renewed for additional two year periods unless terminated by one of the parties 12 months prior to the end of the then current term.

Historically, our focus has been on our core ultra-rapid freezing technology, applied principally to freezers for blood and blood components and plasma thawers, which are our legacy products. Through our research programs we developed more advanced product platforms directed at stem cell therapies and wound care. Our stem cell products have been the principal drivers of our revenue growth over the past few years, and our legacy products have become an increasingly smaller component of revenue and are no longer strategically relevant to our growth.

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Our Products

The BioArchive System, an automated cryogenic device, is used by cord blood stem cell banks in more than 25 countries for cryopreserving and archiving cord blood stem cell units for transplant. GE Healthcare is the global distribution partner for the BioArchive System through June 30, 2008. The BioArchive System has initially been configured to automate the cryopreservation and archiving in liquid nitrogen of units of stem cells sourced from umbilical cord blood.

The AXP is an innovative product which automates the isolation and concentration of stem cells from cord blood into a fixed 20 ml volume in a functionally closed sterile environment. It includes a compact battery powered device and a proprietary disposable bag set. The AXP has been commercially available since March 2006, marketed under a Master File with the FDA. In October 2007, the Company received 510k clearance from the FDA for the use of the AXP in the processing of cord blood for cryopreservation. The AXP Platform replaces the current clinical process which is typically an 18-step manual method over a ninety (90) minute period with a semi-automated process requiring only thirty (30) minutes. The manual process requires the introduction of sedimentation agents or density gradient media into the cord blood and requires a clean room along with trained technicians to accomplish. The AXP Platform completes its processing without these agents or media with a higher cell recovery rate in a functionally closed bag set in thirty (30) minutes. Included in the set is a 25 ml freezing bag which can be archived in the BioArchive System. In February 2008, the Company initiated a voluntary recall of certain lots of the AXP disposable bag sets as some lots of the bag sets were distributed prior to the performance of pyrogen testing. This recall was not a result of any customer complaints or reports of patient safety issues. The Company has tested approximately 50% of the recalled bag set lots, all having passed with no exceptions. The Company expects to have completed testing of the remaining available lots in the near future.

The Company is developing an extension of the AXP, the MarrowXpressä Platform. This is a proprietary, automated device and companion sterile blood processing disposable for isolating stem cells from bone marrow in a closed system at or near the point of care. The initial focus will be in the use of bone marrow stem cells in the treatment of critical limb ischemia and myocardial ischemia. We are in the process of preparing a 510k submission and CE Mark application. The Company plans to sell the MarrowXpress directly to global customers.

The CryoSeal FS System (CryoSeal) produces a second-generation surgical sealant which harvests the two interactive protein component solutions of a fibrin sealant: (1) the wound healing proteins of fibrinogen, fibronectin, Factor VIII, von Willebrands Factor and Factor XIII and (2) the activating enzyme, thrombin, from the patient s own blood. When combined at the bleeding wound site, the two components form an adhesive gel that stops bleeding and bonds tissue. This advanced surgical sealant may be manufactured in either hospitals or blood centers and competes with conventional fibrin sealants, sourced from pools of plasma purchased from up to ten thousand individuals.

On July 30, 2007, the Company announced that it had received FDA clearance to market the CryoSeal FS System s autologous fibrin sealant, as an adjunct to hemostasis in liver resection surgery. In Japan, our distributor, Asahi Kasei Medical Co., Ltd. (Asahi) has completed enrollment in their pivotal clinical trial and filed their Premarket Application (PMA) approval equivalent in March 2005 with approval expected during fiscal 2009. The Company has received CE Mark approval for the system enabling its sale and use in Europe. However, we have not been able to meaningfully penetrate the market with this product and revenues have lagged expectations. Over the last several years while marketing the CryoSeal in numerous European countries, we and our distributors have faced substantial country specific regulatory, cost-reimbursement and product registration requirements that have negatively impacted our ability to sell the product and grow revenues. Compliance with these requirements has been more complicated than we anticipated, requiring far more time and the consumption of more of our resources than we originally projected.

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With a better appreciation today for the country specific expertise required to successfully market the CryoSeal, we are assessing strategic alternatives beyond our own regulatory and marketing capabilities to help us better navigate the regulatory and reimbursement pathways in each of our markets throughout the world. We are targeting to increase our market penetration for this product in Europe and in other areas of the world including Brazil, Korea, Mexico, Russia and Taiwan where our distributors may now register the CryoSeal following our recently received FDA approval.

We believe that there is a market for our 100% autologous CryoSeal System due to its safety advantages over conventional, non-autologous fibrin sealants that carry the risk of contamination by blood-borne pathogens from other donors, and that this market may extend beyond the typical wound care applications to include use of the technology in the delivery of stem cells for cell therapeutics. Therefore, we are evaluating alternatives for commercialization of our CryoSeal System including new strategic partnering and licensing, distribution channel partners, and the potential use of the technology in the delivery of stem cells.

The Thrombin Processing Device (TPD), a product line extension of the CryoSeal System, is a small stand alone disposable that isolates and captures activated autologous thrombin from approximately 11 ml of patient blood plasma. Thrombin is used as a topical hemostatic agent for minor bleeding sites, to treat pseudoaneurysms and to release growth factors from platelets.

The Company s legacy is in its ThermoLine products for ultra rapid freezing and thawing of blood components, which the Company distributes to blood banks and hospitals. We are currently evaluating our divestiture options for the ThermoLine consistent with our strategic direction emphasizing the cell therapy and surgical wound care market.

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

Critical Accounting Policies

Management s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventories, warranties, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition:

The Company recognizes revenue including multiple element arrangements, in accordance with the provisions of the SEC Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* and the Financial Accounting Standards Board s (FASB) Emerging Issues Task Force (EITF) 00-21, *Revenue Agreements with Multiple Deliverable*s. Revenues from the sale of the Company s products are recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the

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price is fixed or determinable, and collectibility 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. All foreign sales are denominated in U.S. dollars. Amounts billed in excess of revenue recognized are recorded as deferred revenue on the balance sheet.

The Company s foreign sales are generally through distributors. There is no right of return provided for distributors. 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 elements are divided into separate units of accounting if certain criteria are met, including whether the delivered item has value to the customer on a stand-alone basis and whether there is objective and reliable evidence of the fair value of the undelivered items. Revenue is recognized as specific elements indicated in sales contracts are executed. If an element is essential to the functionality of an arrangement, the entire arrangement s revenue is deferred until that essential element is delivered. The fair value of each undelivered element that is not essential to the functionality of the system is deferred until performance or delivery occurs. The fair value of an undelivered element is based on vendor specific objective evidence or third party evidence of fair value as appropriate. Costs associated with inconsequential or perfunctory elements in multiple element arrangements are accrued at the time of revenue recognition. The Company accounts for training and installation as a separate element of a multiple element arrangement. The Company therefore recognizes the fair value of training and installation services upon their completion when the Company is obligated to perform such services.

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

Milestone payments the Company receives under research and development arrangements are recognized as revenue upon achievement of the milestone events, which represent the culmination of the earnings process, and when collectibility is reasonably assured. Milestone payments are triggered by the results of the Company s development efforts. Accordingly, the milestone payments are substantially at risk at the inception of the contract, and the amounts of the payments assigned thereto are commensurate with the milestone achieved. Upon the achievement of a milestone event, which may include acceptance by the counterparty, the Company has no future performance obligations related to that milestone as the milestone payments received by the Company are nonrefundable. The direct costs, primarily labor, of product development contracts are deferred until the development revenue is recognized.

For licensing agreements pursuant to which the Company receives up-front licensing fees for products or technologies that will be provided by the Company over the term of the arrangements, the Company defers the up-front fees and recognizes the fees as revenue on a straight-line method over the term of the respective license. For license agreements that require no continuing performance on the Company s part, license fee revenue is recognized immediately upon grant of the license.

Stock-Based Compensation:

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), *Shared-Based Payments* (FAS 123(R)). Under FAS 123(R), compensation cost is calculated on the date of the grant using the Black

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Scholes-Merton option-pricing formula. The compensation expense is then amortized over the vesting period. The Company uses the Black-Scholes-Merton option-pricing formula in determining the fair value of the Company s options at the grant date and applies judgment in estimating the key assumptions that are critical to the model such as the expected term, volatility and forfeiture rate of an option. The Company s estimate of these key assumptions is based on historical information and judgment regarding market factors and trends. If actual results are not consistent with the Company s assumptions and judgments used in estimating the key assumptions, the Company may be required to record additional compensation expense, which could have a material impact on the Company s financial position and results of operations.

Allowance for Doubtful Accounts:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would be charged against earnings.

Warranty:

The Company provides for the estimated cost of product warranties at the time revenue is recognized. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company s warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from the Company s estimates, revisions to the estimated warranty liability could have a material impact on the Company s financial position, cash flows or results of operations.

Inventory Reserve:

The Company plans inventory procurement and production based on orders received, forecasted demand and supplier requirements. The Company writes down its inventories for estimated obsolescence or unmarketable inventories equal to the difference between the cost of inventories and its net realizable value based upon estimates about future demand from our customers and distributors and market conditions. Because some of the Company s products are highly dependent on government and third-party funding, current customer use and validation, and completion of regulatory and field trials, there is a risk that we will forecast incorrectly and purchase or produce excess inventory. As a result, actual demand may differ from forecasts, and such a difference may have a material adverse effect on future results of operations due to required write-offs of excess or obsolete inventory. This inventory risk may be further compounded for the CryoSeal family of products because they are at initial market introduction and market acceptance will depend upon the customer accepting the products as clinically useful, reliable, accurate and cost effective compared to existing and future products and completion of required clinical or field acceptance trials.

Results of Operations for the Three Months Ended March 31, 2008 as Compared to the Three Months Ended March 31, 2007

Net Revenues:

Revenues for the three months ended March 31, 2008 were $5,645,000 compared to $5,210,000 for the three months ended March 31, 2007, an increase of $435,000 or 8%. This is primarily due to an increase in shipments in the AXP product line, both devices and disposables, which contributed to an increase in revenues of approximately $500,000. The increase in shipments is due to higher levels of production from our subcontract manufacturers for fulfillment against outstanding customer backlog.

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The following represents the Company s cumulative BioArchive devices sold into the following geographies through the dates indicated:

	March 31,	
	2008	2007
United States	41	31
Asia	57	54
Europe	45	40
Rest of World	29	27
	172	152

The following represents the Company s revenues for disposables by product line for the three months ended:

	March 31,	
	2008	2007
AXP	$ 1,786,000	$ 1,413,000
BioArchive	1,044,000	861,000
CryoSeal	166,000	42,000
TPD	52,000	126,000
	$ 3,048,000	$ 2,442,000
Percentage of total Company revenues	54%	47%

Gross Profit:

The Company s gross profit was $1,501,000 or 27% of net revenues for the three months ended March 31, 2008, as compared to $1,772,000 or 34% for the corresponding fiscal 2007 period. The decrease in gross margin is primarily due to $386,000 in costs incurred by the Company as a result of the voluntary recall of AXP disposable bag sets. The incremental costs were for testing, materials and the destruction of bag sets which were not considered resalable. No bag set lots have failed the requisite testing performed on the recalled inventory.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses were $2,550,000 for the three months ended March 31, 2008, compared to $2,201,000 for the comparable fiscal 2007 period, an increase of $349,000 or 16%. The increase is due to higher legal fees, $300,000, associated with the GE Healthcare distribution agreement negotiations and for consultation during the voluntary recall effort. In addition, website development, product brochures and other start-up activities for Vantus drove higher marketing expenses.

Research and Development Expenses:

Included in this line item are Engineering, Regulatory Affairs, Scientific and Clinical Affairs.

Research and development expenses for the three months ended March 31, 2008, were $1,902,000 compared to $1,034,000 for the corresponding fiscal 2007 period, an increase of $868,000 or 84%. The increase is primarily due to stock compensation and salaries and benefits of approximately $600,000 related to the Chief Technology Architect, a position filled by the Company s former Chief Executive Officer as of August 1, 2007 as part of the succession plan. Also, expenses associated with the Vantus subsidiary, which was formed in February 2008, contributed approximately $300,000 to the overall increase in research and development expenses.

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Results of Operations for the Nine Months Ended March 31, 2008 as Compared to the Nine Months Ended March 31, 2007

Net Revenues:

Revenues for the nine months ended March 31, 2008 were $14,764,000, compared to $13,231,000 for the nine months ended March 31, 2007, an increase of $1,533,000 or 12%. The increase is primarily due to revenues from AXP disposables which increased $1,900,000 due to higher sales volume. This was offset by a decrease in development milestone payments and license fees of approximately $640,000.

The following represents the Company s revenues for disposables by product line for the nine months ended:

	March 31,	
	2008	2007
BioArchive	$ 2,627,000	$ 2,598,000
AXP	3,888,000	2,003,000
CryoSeal	746,000	297,000
TPD	256,000	338,000
	$ 7,517,000	$ 5,236,000
Percentage of total Company revenues	51%	40%

Gross Profit:

The Company s gross profit was $4,620,000 or 31% of net revenues for the nine months ended March 31, 2008, as compared to $4,273,000 or 32% for the corresponding fiscal 2007 period. The gross margin for the nine months ended March 31, 2008 was impacted by the costs associated with the voluntary recall as discussed above, offset by improvements to warranty expense for the BioArchive and CryoSeal devices.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses were $7,327,000 for the nine months ended March 31, 2008, compared to $6,813,000 for the comparable fiscal 2007 period, an increase of $514,000 or 8%. The increase is due to increased salaries and benefits for personnel and legal costs, $386,000, related to the discussions with GE Healthcare regarding the distribution agreement and consultation during the voluntary recall effort.

Research and Development Expenses:

Included in this line item are Engineering, Regulatory Affairs, Scientific and Clinical Affairs.

Research and development expenses for the nine months ended March 31, 2008, were $5,015,000 compared to $2,969,000 for the corresponding fiscal 2007 period, an increase of $2,046,000 or 69%. The increase is primarily due to stock compensation, salaries and benefits of approximately $1,500,000 related to the Chief Technology Architect, a position filled by the Company s former Chief Executive Officer as of August 1, 2007 as part of the succession plan. Also, expenses associated with the Vantus subsidiary of $300,000 and payments made to UC Davis of $130,000 in connection with an agreement to develop stem cell treatments contributed to the overall increase in research and development expenses.

Liquidity and Capital Resources

At March 31, 2008, the Company had cash, cash equivalents and short-term investments of $29,043,000 and working capital of $32,445,000. This compares to cash, cash equivalents and short-term investments of $33,379,000 and working capital of $37,759,000 at June 30, 2007. The cash was used to fund

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operations and other cash needs of the Company. In addition to product revenues, the Company has primarily financed operations through the private and public placement of equity securities and has raised approximately $108,000,000, net of expenses, through common and preferred stock financings and option and warrant exercises.

At March 31, 2008 the Company has $13,912,000 of short-term investments in mortgage-backed securities of government sponsored enterprises, specifically discounted notes issued by the Federal Home Loan Bank and the Federal National Mortgage Association. These securities are high-grade and all mature prior to the Company s year end of June 30, 2008. Due to the high credit quality and the maturity dates of these securities, the Company does not believe they will have a material negative impact on our financial condition.

Net cash used in operating activities for the nine months ended March 31, 2008 was $5,074,000, primarily due to the net loss of $6,697,000 which included the accretion of discount on short-term investments of $782,000, offset by depreciation and stock based compensation expense of $402,000 and $1,618,000, respectively. Deferred revenue utilized $545,000 of cash as a result of the amortization of previously received license fees.

We believe that our currently available cash, cash equivalents and short-term investments, will be sufficient to satisfy our operating and working capital requirements for at least the next twelve months. However, if we experience significant growth in the future, we may be required to raise additional cash through the issuance of new debt or additional equity.

Off-Balance Sheet Arrangements

As of March 31, 2008, the Company has no off-balance sheet arrangements.

Backlog

The Company s cancelable backlog at March 31, 2008 was $4,319,000.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

All sales, domestic and foreign, are made in U.S. dollars and therefore material fluctuations in foreign currency rates are believed to have no impact on the Company s net revenues. The Company has no long-term investments or long-term debt, other than a capital lease, and therefore is not subject to interest rate risk. Management does not believe that inflation has had or will have a significant impact on the Company s results of operations. The Company is not exposed to any market risk involving activities in derivative financial instruments, other financial instruments or derivative commodity instruments.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Principal Executive Officer along with the Company s Principal Financial Officer, of the effectiveness of the design and operation of the Company 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. Based upon that evaluation, the Company s Chief Executive Officer along with the Company s Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective.

There were no changes in the Company s internal controls over financial reporting that occurred during the three months ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. The Company believes that a control

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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.

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. These disputes are seen by the Company s management as a normal part of business, and there are no pending actions currently or no threatened actions that management believes would have a significant material impact on the Company s financial position, results of operations or cash flows.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2007, which could materially affect our business, financial condition or future results. There have been no material changes from those risk factors. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits:

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

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

32 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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ThermoGenesis Corp.

Signatures

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

ThermoGenesis Corp.
(Registrant)

Dated: May 7, 2008

/s/ William R. Osgood
William R. Osgood
Chief Executive Officer
(Principal Executive Officer)

Dated: May 7, 2008

/s/ Matthew T. Plavan
Matthew T. Plavan
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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Exhibit Index

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

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

32 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.