

CESCA THERAPEUTICS INC.
Form 10-K
March 26, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended: December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

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)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	Nasdaq Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K, is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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

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

As of June 29, 2018, the aggregate market value of the common equity held by non-affiliates of the registrant was approximately \$5,726,000 based on the closing sales price as reported on the NASDAQ Stock Market. As of March 25, 2019, there were 22,149,147 shares of common stock outstanding.

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CESCA THERAPEUTICS INC.

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2018

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact included in this Annual Report, are forward-looking statements. Reference is made in particular to the description of our plans and objectives for future operations, assumptions underlying such plans and objectives, and other forward-looking statements included in this Annual Report. Such statements may be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intend,” “continue,” “plan,” “predict,” “seek,” “would,” “could,” “potential,” “ongoing,” or similar terms, variations of such terms, or the negative of such terms, and include, but are not limited to, statements regarding projected results of operations, capital expenditures, earnings, management’s future strategic plans, development of new technologies and services, litigation, regulatory matters, market acceptance and performance of our services, the success and effectiveness of our technologies and services, our ability to retain and hire key personnel, the competitive nature of and anticipated growth in our markets, market position of our services, marketing efforts and partnerships, liquidity and capital resources, our accounting estimates, and our assumptions and judgments. Such statements are based on management’s current expectations, estimates and projections about our industry, management’s beliefs, and certain assumptions made by us, all of which are subject to change.

These forward looking statements are not guarantees of future results and are subject to a number of risks, uncertainties and assumptions that are difficult to predict and that could cause actual results to differ materially and adversely from those described in the forward-looking statements, including:

- the sufficiency and source of capital required to fund our operations and in furtherance of our business plan;
- our ability to remain listed on NASDAQ and remain in compliance with its listing standards;
- the global perception of the clinical utility of banked cord blood and the amount of investment in research and development supporting clinical data for additional applications;
- delays in commencing or completing clinical testing of products;
- the success of any collaborative arrangements to commercialize our products;
- our reliance on significant distributors or end users;
- the availability and sufficiency of commercial scale manufacturing facilities and reliance on third party contract manufacturers; and
- our ability to protect our patents and trademarks in the U.S. and other countries.

These forward-looking statements speak only as of the date of this Annual Report and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based, except as otherwise required by law. Additional factors that could cause such results to differ materially from those described in the forward-looking statements are set forth in connection with the forward-looking statements.

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TRADEMARKS

This Annual Report contains references to our trademarks and to trademarks belonging to other entities. Solely for convenience, trademarks and trade names referred to in this Annual Report, including logos, artwork and other visual displays, may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

PART I

Transition Period

In August 2017, the Company changed its fiscal year from June 30 to December 31. As a result, the Company previously filed a Transition Report on Form 10-KT to report the results of the six month transition period from July 1, 2017 to December 31, 2017. This Annual Report on Form 10-K includes financial statements as of and for (i) the calendar year ended December 31, 2018; (ii) the six month transition period ended December 31, 2017 (sometimes referred to as the "transition period ended December 31, 2017"); and (iii) the fiscal year ended June 30, 2017 (which is sometimes referred to as "fiscal 2017").

ITEM 1. BUSINESS

Cesca Therapeutics Inc. ("Cesca Therapeutics," "Cesca," the "Company," "we," "our," "us"), a Delaware corporation founded 1986, develops, commercializes and markets a range of automated technologies for cell-based therapies. Since the 1990's, Cesca has been a pioneer in, and one of the leading developers and suppliers of automation technologies for the isolation, purification and storage of stem cells for the cord blood banking industry. In July 2017, a Cesca subsidiary, ThermoGenesis Corp. (ThermoGenesis), completed the strategic acquisition of the business and substantially all of the assets of SynGen Inc., a research and development company for automated cellular processing, in exchange for a 20% interest in ThermoGenesis. ThermoGenesis used these acquired assets, together with its own proprietary technology, to develop a proprietary CAR-TXpress™ platform that addresses the critical unmet need for better chemistry, manufacturing and controls (CMC) for the emerging cellular immuno-therapy field, in particular, the emerging chimeric antigen receptor T cell (CAR-T) market.

Cellular immunotherapy has become the "next pillar" of cancer treatment, in addition to the traditional surgical removal, radiation and chemotherapy. Cellular immunotherapy stimulates the patient's own cellular immune system to fight

cancer cells, and is fairly well-tolerated. Unlike chemotherapy and radiation, cellular immunotherapy is designed to leave healthy cells unscathed. In 2017, two CAR-T cell based therapies were approved by the U.S. Food and Drug Administration (the “FDA”). Kymriah[®] manufactured by Novartis was approved for the treatment of children with acute lymphoblastic leukemia (ALL) and Yescarta[®] manufactured by Kite Pharma was approved for adults with advanced lymphomas. Both CAR-T therapies have reported over 80% response rate in the intended-to-treat cancer patient group. In 2018, the FDA issued a second approval for Kymriah for adults with certain types of non-Hodgkin lymphoma. In addition, both therapies were approved by the European Commission in 2018. At the end of 2018, there were over 600 CAR-T cell related immune-oncology clinical trials globally registered on the National Institute of Health’s (“NIH”) website, clinicaltrials.gov. These trials target a wide variety of hematopoietic and solid tumors. However, the current high cost and low capacity to manufacture CAR-T cells are significant barriers affecting future applications and affordability of these new immunotherapies.

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In November 2017, the Company introduced its CAR-TXpress™ platform, a proprietary low-cost, functionally closed and semi-automated system for CAR-T cell manufacturing. The CAR-TXpress™ platform addresses critical unmet needs for improving CMC for the emerging CAR-T immuno-oncology field. CAR-TXpress™ eliminates the use of ficoll and replaces the use of magnetic beads for T cell isolation speeding up time-consuming steps using traditional methods in the cell manufacturing process. Such improvement may drastically reduce processing time and increase efficiency of the manufacturing process, which is intended to drive down the overall manufacturing cost as well as increase the manufacturing capacity for future CAR-T drug makers.

Through our subsidiary ThermoGenesis, the Company is developing the X-Series of devices and reagent kits as part of the CAR-TXpress™ platform. The initial X-Series products are intended for research use and/or non-commercial manufacturing of cell-based products for clinical research. The Company started to launch the X-Series products in May 2018, with initial shipments sent to research laboratories and key opinion leaders in the CAR-T research space. The Company is also developing commercial manufacturing devices and reagent kits for cGMP manufacturing of CAR-T for drug developers. More details of the X-Series products are described in the “Product” section below.

In addition to selling the “off-the-shelf” X-Series products, we also plan on entering into the CAR-T third party cellular process development and manufacturing service business by collaborating with, and possibly establishing our own contract development and manufacturing organizations (CDMO) in the U.S. and China, the two leading markets with the highest numbers of active CAR-T clinical trials. For each first two approved CAR-T drug products, analysts estimate that each product could exceed \$1 billion. Analysts also estimate that cost of goods (COGS) for these new therapies exceed \$100,000 per patient presenting a significant challenge for health care payors and patients. Given the number of ongoing clinical trials registered globally, we believe this represents a significant growth opportunity for our CAR-TXpress™ platform to address the COGS issue for these exciting potential new treatments.

In the stem cell and regenerative medicine field, through ThermoGenesis, Cesca continues to provide automation technologies for cord blood banking and autologous stem cell applications. Our AutoXpress® (AXP®) technology platform is a leading automated stem cell isolation device product for the cord blood banking industry. ThermoGenesis’ BioArchiv® device is the industry’s only automated; controlled-rate-freezing, liquid nitrogen freezer intended for the cryopreservation and single-cassette based storage of cord blood samples. The BioArchive device was introduced over 20 years ago and currently there are over 300 devices in operation worldwide.

On January 1, 2019, the Company entered into a reorganization of the business and equity ownership of ThermoGenesis. Pursuant to the reorganization, the assets acquired by ThermoGenesis from SynGen Inc. in July 2017 (the “Cell Processing Business”), were contributed to a newly formed Delaware subsidiary of ThermoGenesis named CARTXpress Bio, Inc. (“CARTXpress”), and the 20% interest in ThermoGenesis owned by a third party was exchanged for a 20% interest in CARTXpress. As a result of the reorganization, (i) the Company holds, through ThermoGenesis, an 80% equity interest in CARTXpress and its Cell Processing Business and (ii) the Company has become the owner of 100% of ThermoGenesis and its remaining business and assets.

Cesca is an affiliate, through common controlling ownership, of the Boyalife Group, founded by the Chairman of our Board, Dr. Xiaochun (Chris) Xu in 2009.

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Our Business Strategy

Our business strategy is to leverage our over 25 years of expertise, our strong intellectual property portfolio and significant know-how in the automated cellular processing field to develop automated cellular processing devices and processes for the quickly evolving cell-based therapy (“CBT”) field, including the emerging field of CAR-T therapies. Our CAR-TXpress platform addresses many of the critical unmet needs for improving CAR-T cell manufacturing and reducing drug cost. The platform can also be used for many other CBT’s. Our intention is to aggressively pursue these new growth opportunities in this emerging field of CBT, while continuing to support the performance and competitiveness of our flagship product lines in the cord blood and stem cell banking arena.

We currently are pursuing business opportunities through two separate business divisions which focus on device and clinical applications, respectively.

In the Device division:

Through our subsidiary, ThermoGenesis

Launch X-Series devices and reagents for research use only, including the X-Mini™ X-Auto™ kits for cellular isolation and purification and non-commercial manufacturing of cell-based products for clinical research.

Develop and launch our X-Series devices and reagents for clinical use, including our X-Clini™ kit for cGMP commercial manufacturing of CAR-T cells for drug developers and manufacturers.

Expand into contract development and manufacturing services for immune-oncology through internal and external efforts, including but not limited to partnerships, licensing, or co-development transactions.

Sustain our market leadership position in automated devices for the separation and concentration of stem cell preparation for the cord blood banking market.

Continue supporting product registration and marketing of automated devices for the separation and concentration of bone marrow-derived stem cell preparation for the point-of-care clinical application market.

In the Clinical Development division:

Partner our clinical development programs, including our Critical Limb Ischemia Rapid Stem Cell Treatment (CLIRST) phase III clinical trial, with third parties to maximize the value of our existing clinical development programs while eliminating our costs for running clinical trials.

Recent Key Events and Accomplishments

Introduced the CAR-TXpress™ platform. In November 2017, we formally introduced the CAR-TXpress™ cellular manufacturing platform technology at the CAR-TCR Summit in Boston. CAR-TXpress™ is a proprietary, ficoll-free, magnetic beads free, functionally closed cellular processing platform that addresses the critical unmet need for improving manufacturing capacity and cost control for the emerging CAR-T cell based immune-oncology market.

Launched the AXP II system for advanced cord blood processing. We completed the commercial launch of the AXP II system for the advanced, isolation, collection and storage of hematopoietic stem cell concentrates from cord blood and peripheral blood. AXP II introduced important enhancements to the AXP device, docking station, and proprietary XpressTRAK® software that together represent a significant advancement in automated cord blood processing.

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Expanded into CDMO business through exclusive license agreement in Asia. In March 2018, we entered into an exclusive license agreement with IncoCell, a wholly-owned subsidiary of the Boyalife Group, to implement our CDMO strategy for China and other regional countries in Asia. As of the end of 2017, more than 400 active CAR-T cell clinical trials were registered with clinicaltrials.gov, one third were originated from the U.S. and one third from China. IncoCell currently operates a 160,000 sq. ft. cGMP facility in Tianjin, China.

Released the X-Mini™ cell selection kit for the CAR-T research market. The X-Mini cell selection kit isolates targeted cell subsets from blood and blood products, and is an off-the-shelf kit developed by ThermoGenesis for the research and development of CAR-T and other cell-based therapies. Designed for the isolation of CD3+ T cells from a starting population of peripheral blood mononuclear cells (PMBCs) it provides the flexibility to allow users to select any cell population for which they have a primary antibody. The kit provides tangible advantages to research laboratories through its unique combination of attributes, including ease of use, high cell recovery and reproducibility.

Launched the PXP system for automated processing of bone marrow cells. In July 2018, ThermoGenesis launched the PXP system for point of care use in surgical centers and clinics. The PXP system is an automated, closed system that harvests a precise volume of cell concentrate from a sample of bone marrow aspirate. It can generate a concentration of bone marrow in less than 20 minutes, with consistently high mononuclear cell (MNC) and CD34+ progenitor cell recovery rates and greater than 98% depletion of contaminating RBCs. The system addresses many of the short-coming of other available systems, including red blood cell contamination in the resulting cell concentrate that is thought to diminish the efficacy of cell based treatments, allowing clinicians to rapidly achieve very high stem and progenitor cell recovery rates with negligible RBC contamination.

Filed an Additional Patent Application for Car-T Technology. On March 14, 2019 we filed a patent application for the high throughput CAR-T cell manufacturing, addressing key issues to enhance cellular purification and activation. Two of our previously filed patents have been issued by the US Patent and Trade Office (USPTO). This patent filing will strengthen our intellectual property portfolio in the immune-oncology field.

Raised \$7.5 Million in Equity Financing. In three separate equity offerings during 2018, the Company issued 13,741,303 equity units (including both shares of common stock and pre-funded warrants).

Acquired the remaining ownership stake in ThermoGenesis and formed a new ThermoGenesis subsidiary, CARTXpress Bio, Inc. – On January 1, 2019, pursuant to the terms of a reorganization and share agreement, Cesca acquired from Bay City Capital (Bay City) the remaining 20% of equity in Cesca's device subsidiary, ThermoGenesis. In exchange, Bay City acquired a 20% ownership stake in a newly-formed subsidiary of ThermoGenesis, CARTXpress Bio, Inc. ThermoGenesis owns the remaining 80% of equity in CARTXpress Bio, Inc. As a result, ThermoGenesis is now a wholly-owned subsidiary of Cesca. As part of the reorganization, the Company's cord blood banking business, including the AutoXpress Platform and BioArchive device business, remained in ThermoGenesis, while the X-Series Platform, including X-Lab, X-Wash, X-Mini, and X-BACS, was contributed to CARTXpress Bio, Inc. There was no gain or loss on the reorganization and the non-controlling interest will now be in the CARTXpress Bio, Inc. subsidiary.

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Our X-Series Products

Immuno-Oncology Products

In November 2017, ThermoGenesis announced the development of a proprietary CAR-TXpress™ platform that addresses the critical unmet need to improve CMC manufacturing for the emerging CAR-T therapies for cancer patients. CAR-TXpress™ eliminates the use of ficoll and magnetic beads for cell isolation procedures, and reduces processing time and increases cell recovery rates. The CAR-TXpress™ platform includes the following X-Series products:

X-LAB® for Cell Isolation – a semi-automated, functionally-closed, ficoll-free, system for the rapid isolation of different target cells from various sources including blood and blood products.

X-BACS™ for Cell Purification – a semi-automated, “functionally closed” system that employs a single-use sterile, injection molded plastic disposable cartridge in which streptavidin coated lipid microbubbles and biotinylated antibodies bind to, and make buoyant, target cells (such as CD3+ T-cells) so they separate from non-target cells during centrifugation with great efficiency. Simultaneously, the non-target cells are automatically transferred to a separate cartridge chamber leaving a highly-purified and viable population of target cells for research or clinical use.

X-WASH® for Washing and Reformulation – a semi-automated, functionally-closed system that washes and volume-reduces fresh or thawed cells or cell cultures to a user-defined final volume.

BioArchive® for Cryogenic Cellular Product Storage – an automated, controlled-rate-freezing, liquid nitrogen freezer intended for the cryopreservation and single-cassette based storage of clinical samples. The BioArchive® provides customers who need to store therapeutic cell populations in cryogenic storage (-196°C) with a solution that combines the individualized controlled rate freezing of each sample, robotic storage and retrieval of each sample and real-time chain of custody management.

ThermoGenesis is also developing a series of “off the shelf” dispensable kits that are comprised of different combinations of X-Series products depending on different customer use cases. These X-Mini™ X-Maxi™ and X-Auto™ kits are currently intended for research use and non-commercial manufacturing of cell-based products for clinical research. The Company is also developing the X-Clini™ dispensable reagent kit intended for cGMP commercial manufacturing processes for the of CAR-T drug developers. ThermoGenesis is also in active discussions with potential global distribution partners for the X-Series kits.

In addition to selling the X-Series products, we anticipate that we will enter the contract development manufacturing organization space utilizing our proprietary and patented technology. The U.S. and China are currently the two largest markets for active clinical trials for CAR-T and therefore we expect to target these two regions for our manufacturing operations. In March 2018, Cesca entered into an exclusive license agreement with IncoCell, a wholly-owned subsidiary of the Boyalife Group, to implement a CDMO strategy in China and other regions in Asia. Cesca's CDMO business model is to introduce our CAR-TXpress™ automated manufacturing solutions on both a fee-for-service or co-development basis.

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Stem Cell Bio-banking and Regenerative Medicine

Cesca is also leveraging its proprietary AutoXpress® technology platform for stem cell banking and for the development of autologous (utilizing the patient's own cells) stem cell-based therapies that address significant unmet needs in the vascular, cardiology and orthopedic markets.

AXP® for Stem Cell Banking – a proprietary, automated system for the isolation, collection and storage of hematopoietic stem cell concentrates derived from cord blood and peripheral blood.

VXP® for Critical Limb Ischemia (CLI) – Cesca has a proprietary point-of-care, autologous (donor and recipient are the same individual) stem cell-based therapy under development which is intended for the treatment of patients with CLI. The FDA has cleared the Company to proceed with a 362 subject, multi-center pivotal Phase III CLIRST study, which is designed to evaluate the safety and efficacy of Cesca's autologous stem cell-based therapy in patients with no-option or poor option late stage CLI. Previous clinical studies using Cesca's proprietary, point-of-care-technologies have demonstrated the regeneration of blood vessels and improved blood circulation in the limbs, using a patient's own bone marrow derived stem cells.

VXP® for Acute Myocardial Infarction – Cesca has a proprietary, point-of-care autologous stem cell-based therapy under development which is 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.

PXP® for 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.

Our Clinical Programs

Our therapeutic development initiatives, focused in the fields of cardiovascular diseases and orthopedic cartilage regeneration, are based on our proprietary MXP® platform for the point-of-care harvesting, processing, and delivery of cells from the patient's own peripheral blood or bone marrow. A key advantage of our point-of-care system is that it is

capable of delivering high cell viability and potency through a short intra-operative procedure, including bone marrow collection, target cell selection, characterization of the final cell concentrate, and re-injection into the patient. Based on our point-of-care platform, our CLI clinical program has received FDA clearance to initiate a phase III clinical trial to demonstrate efficacy in “no-option” or “poor-option” CLI patients. In addition to vascular diseases, we are also conducting early phase studies in orthopedic and wound healing areas. We are actively looking for strategic partners to co-develop our clinical programs.

Sales and Distribution Channels

We market and sell our products through independent distributors, except in North America and India, where we sell direct to end-user customers.

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Research and Development

Our research and development activities for 2018 were geared towards expanding the automated platform for the immune-oncology applications while maintaining our bio-banking and point-of-care automation solutions. In November 2017, we introduced the CAR-TXpress™ platform, which is the first functionally closed system for CAR-T cellular processing and manufacturing. We also improved our AXP®, BioArchive® and MXP® platforms with a focus on both performance improvements and ease of use. Emphasis was also placed on enhancing the capabilities of our contract manufacturing partners and building on our product quality leadership position.

Collectively, research and development expenses for the year ended December 31, 2018, six months ended December 31, 2017 and year ended June 30, 2017 were \$3,012,000, \$2,246,000 and \$2,497,000, respectively. Research and development activities include expenses associated with the engineering, regulatory, scientific and clinical affairs functions.

Manufacturing

We expect to continue to use contract manufacturers for high volume, disposable products and in-house manufacturing for low volume, high complexity devices. In addition, we are exploring the potential for the development of in-house capabilities relating specifically to pilot scale disposable manufacturing in support of our clinical programs.

In addition, we built a 1,000 square foot manufacturing clean room in our Rancho Cordova facility. The in-house clean room has expanded our manufacturing capacity for X-series cartridges, allowing us to meet our increased demand.

Quality System

Our quality system is compliant with domestic and international standards and is appropriate for the specific devices we manufacture. Our corporate quality policies govern the methods used in, and the facilities and controls used for, the design, manufacture, packaging, labeling, storage, installation, and servicing of all finished devices intended for human use. Such policies are intended to ensure that the products we market are safe, effective, and otherwise in compliance with the FDA Quality System Regulation (QSR) (21 C.F.R. Part 820) and the applicable rules of other governmental agencies.

We and our contract manufacturers are subject to inspections by the FDA and other regulatory agencies to ensure compliance with applicable regulations, codified in the FDA's Quality System Regulations (QSRs). Compliance requirements relate to manufacturing processes, product testing, documentation control and other quality assurance procedures. Our facilities have undergone International Organization of Standards (ISO) 13485:2012 and EU Medical Device Directive (MDD) (93/42/EEC) inspections and we have obtained approval to CE-Mark our products. We believe we are on schedule for transitioning to the Medical Device Single Audit Program in 2019.

Regulatory Scheme and Strategy

The development, manufacture and marketing of our cell therapy products, as well as the design and implementation of our clinical trials, are subject to regulation by the FDA as well as the equivalent agencies of other countries including the countries of the European Union and India.

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The trials we conduct in India are compliant with the applicable rules of the Indian Council for Medical Research, Ministry of Health Order No. V.25011/375/2010-HR and requisite institutional ethics committee (IEC) and institutional committee for stem cell research and therapy (IC-SCRT) approvals. Both the U.S. and E.U. regulatory agencies are experienced in dealing with and accepting Indian clinical trial data. GCP necessitates review and approval by an Institutional Review Board (IRB) before initiation of a study, continuing review of an ongoing study by an IRB, and the documented receipt of a freely given informed consent prior to participation in the study from each subject participant.

We have a quality and regulatory compliance management system that meets the requirements of the ISO 13485: 2003 standard, the FDA's QSRs, the EU MDD, Canadian Medical Device Regulations (SOR 98-282), and all other applicable local, state, national and international regulations.

Medical Devices. The FDA regulates medical devices to ensure their safety and efficacy under the Federal Food Drug and Cosmetic (FD&C) Act. Medical devices are defined by language within the FD&C Act which essentially states that a product is considered a medical device if it is intended to provide a diagnosis or basis for treatment. Once a company determines that its product is a medical device, it is required to comply with a number of federal regulations. These include the following:

510(k) clearance or PMA approval from the FDA, prior to commercialization (unless the device is classified as "exempt");

Registration of the company and listing of the medical device with the FDA (within 30 days prior to commercialization);

Establishment and adherence to the FDA's labeling requirements; and

Establishment and adherence to the FDA's Quality Systems and Medical Device Reporting regulations.

The FDA classifies medical devices into three groups: Class I, II or III. These are stratified from lowest to highest safety risk, and regulatory controls increase based on Class.

Class I Devices

Some of our products are considered to pose little or no risk when used as directed and has been deemed by the FDA to be "exempt" from FDA approval or clearance processes prior to commercialization. While pre-marketing FDA review is not mandatory for Exempt Class I medical devices, the manufacturer's compliance with QSR is nevertheless a requirement.

Class II Devices

Several of our products, including the BioArchive and the AXP are categorized as U.S. Class II medical devices and require premarket notification, also known as a section 510(k) clearance, prior to commercialization. Data submitted as part of a 510(k) process must demonstrate a device is “substantially equivalent” with a predicate device that is already on the market. Once 510(k) clearance has been secured, the new medical device may be marketed for its intended use and distributed in the U.S.

Class III Devices

If a product is considered a Class III device, as is the case with the Point-of-care CLI System, the FDA approval process is more stringent and time-consuming, and includes the following:

- Extensive pre-clinical laboratory and animal testing;
- Submission and approval of an IDE application prior to the conduct of a clinical study;
- Human clinical studies (or trials) to establish the safety and efficacy of the medical device for the intended use; and
- Submission and approval of a PMA application to the FDA.

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Pre-clinical testing typically involves in vitro laboratory analysis and in vivo animal studies to obtain information related to such things as product safety, feasibility, biological activity and reproducibility. The results of pre-clinical studies are submitted to the FDA as part of an IDE application and are reviewed by the Agency before human clinical trials can begin. We use external third parties, as well as our own facility in Gurgaon, India (GLP Compliant) to conduct pre-clinical studies.

Higher risk clinical trials conducted inside the U.S. are subject to FDA IDE regulation (21 C.F.R. Part 812), or an IND application (21 C.F.R. Part 312). Clinical trials conducted outside the U.S., and the data collected therefrom are allowed in accordance with applicable FDA requirements. The FDA or the Sponsor may suspend a clinical trial at any time if either believes that study participants may be exposed to an unacceptable health risk.

For certain Class III devices, data generated during product development, pre-clinical studies, and human clinical studies must be submitted to the FDA as a PMA application in order to secure approval for commercialization in the U.S. The FDA may deny the approval of a PMA application if applicable regulatory criteria are not satisfied and in some cases may mandate additional clinical testing. Product approvals, once obtained, can be withdrawn if compliance with regulatory standards is not maintained or if safety concerns arise after the product reaches the market. The FDA might also require post-marketing testing and surveillance programs to monitor the safety and efficacy of a medical device and has the power to forbid or limit future marketing of the product based on the results of such programs.

Other U.S. Regulatory Information

Medical device manufacturers must register with the FDA and submit their manufacturing facilities to biennial inspections to ensure compliance with applicable regulations. Failure to comply with FDA requirements can result in withdrawal of marketing clearances, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production or loss of distribution rights. In addition, device manufacturing facilities in the state of California must be registered with the California State Food and Drug Branch of the California Department of Public Health and submit to an annual inspection by the State of California to ensure compliance with applicable state regulations. We are also subject to a variety of environmental laws as well as workplace safety, hazardous material, and controlled substances regulations.

If we are successful in securing Medicare reimbursement, we will be subject to federal and state laws, such as the Federal False Claims Act, state false claims acts, the illegal remuneration provisions of the Social Security Act, the federal anti-kickback laws, state anti-kickback laws, and the federal “Stark” laws, that govern financial and other arrangements among healthcare providers, their owners, vendors and referral sources, and that are intended to prevent healthcare fraud and abuse. Among other things, these laws prohibit kickbacks, bribes and rebates, as well as other direct and indirect payments or fee splitting arrangements that are designed to induce the referral of patients to a particular provider for medical products or services payable by any federal healthcare program, and prohibit presenting a false or misleading claim for payment under a federal or state program. They also prohibit some physician self-referrals. These laws are liberally interpreted and aggressively enforced by multiple state and federal

agencies and law enforcement (including individual “qui tam” plaintiffs) and such enforcement is increasing. For example, the Affordable Care Act increased funding for federal enforcement actions and many states have established their own Medicare/Medicaid Fraud Units and require providers to conspicuously post the applicable Unit’s hotline number. Possible sanctions for violation of any of these restrictions or prohibitions include loss of eligibility to participate in federal and state reimbursement programs and civil and criminal penalties.

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Also, federal transparency requirements, sometimes referred to as the “Sunshine Act” under the Patient Protection and Affordable Care Act, require manufacturers of drugs, devices, biologics and medical supplies that are reimbursable under Medicare, Medicaid, or the Children’s Health Insurance Program to report to the Department of Health and Human Services information related to physician payments and other transfers of value and physician ownership and investment interests.

Changes in these laws at all levels of government are frequent and could increase our cost of doing business. If we fail to comply, even inadvertently, with any of these requirements, we could be required to alter our operations, refund payments to the government, lose our licensure or accreditation, enter into corporate integrity, deferred prosecution or similar agreements with state or federal government agencies, and become subject to significant civil and criminal penalties.

International Regulatory Requirements

International regulatory requirements differ somewhat from those of the U.S. In the EU, a single regulatory approval process has been created and approval is represented by CE-Marking. To be able to affix the CE-Mark to our medical devices and distribute them in the EU, we must meet minimum standards for safety and quality (known as the essential requirements) and comply with one or more conformity rules. A notified body assesses our quality management system and compliance with the Medical Device Directive. Marketing authorization can be revoked by the applicable governmental agency or notified body in the event of an unsuccessful quality system annual audit.

In India, the regulatory body having oversight of medical devices, therapies, and cell banking is the Central Drugs Standard Control Organization (CDSCO), and specifically the Drugs Controller General India office. Our marketing and facilities licenses are subject to revocation by the applicable state Drug Controller in Haryana or DCGI.

Patents and Proprietary Rights

We believe that patent protection is important for our products and current and proposed business. We currently have over thirty issued patents globally. The patent positions can be uncertain because they involve interpretation of complex factual information and an evolving legal environment. The coverage sought in a patent application can be denied or significantly reduced either before or after the patent is issued. There can be no assurance that any of our pending patent applications will actually result in an issued patent. Furthermore, there can be no assurance that any existing or future patent will provide significant protection or commercial advantage, or that any existing or future patent will not be circumvented by a more basic patent. Generally, patent applications can be maintained in secrecy for at least 18 months after their earliest priority date. In addition, publication of discoveries in the scientific or patent literature often lags behind actual discoveries. Therefore, we cannot be certain that we were the first to invent or the first to file a patent application for the subject matter covered by each of our pending U.S. and foreign patent applications.

If a third party files a patent application relating to an invention claimed in our patent application, we may be required to participate in an interference or derivation proceeding conducted by the U.S. Patent and Trademark Office to determine who owns the patent. Such proceeding could involve substantial uncertainties and cost, even if the eventual outcome is favorable to us. There can be no assurance that our patents, if issued, would be upheld as valid in court.

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Licenses

The following are certain material agreements involving our business.

Fortis Healthcare Limited (Fortis)

On October 12, 2017, we signed an agreement with Fortis which replaced the previous agreement that expired on August 1, 2017. The services agreement covers the areas of cord blood banking, point of care technology sales and support, bone marrow transplant and clinical/patient management of clinical trials for our internally developed therapeutics. We have significantly reduced our activities under this agreement and are in discussions with Fortis as to our future activities.

CBR Systems, Inc. (CBR)

Effective May 15, 2017 we entered into a Manufacturing and Supply Agreement with CBR which replaced the prior December 31, 2013 Sale and Purchase Agreement in which we agreed to supply CBR with the AXP[®] cord blood processing system and disposables. The term of the current agreement is for 3 years and will automatically renew in one-year increments unless either party provides written notice of intention not to renew six months prior to the end of the term.

In June 2010, we entered into a License and Escrow Agreement in order to alleviate CBR's concerns about potential long-term supply risk. We are the sole supplier of critical devices and disposables used in the processing of cord blood samples in CBR's operations. Under the License and Escrow Agreement, we granted CBR a perpetual, non-exclusive, royalty-free license to certain intellectual property necessary for the manufacture of AXP[®] devices and disposables. The license is for the sole and limited purpose of ensuring continued supply of the AXP[®] and related disposables for use by CBR. The licensed intellectual property is held in escrow and available to CBR only in the event of a default under the agreement. Effective May 15, 2017 we entered into a Sixth Amended and Restated Technology License and Escrow Agreement with CBR. This amendment, among other things, changes the circumstances that constitute a "Default" thereunder and conditions the circumstances under which CBR may, upon a default by the Company, purchase licensed products from other manufacturers and suppliers. The events or conditions of default include: a cash balance coupled with short-term investments net of debt or borrowed funds that are payable within one year of less than two million dollars at any month end or we fail to provide products pursuant to the Manufacturing and Supply Agreement. We were in compliance with the License and Escrow Agreement at December 31, 2018.

Boyalife W.S.N.

On August 21, 2017, ThermoGenesis entered into an International Distributor Agreement with Boyalife W.S.N., a Chinese corporation and affiliate. 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[®] (AutoXpress[®]) System and BioArchive System in the People's Republic of China (excluding Hong Kong and Taiwan), Singapore, Indonesia, and the Philippines (the "Territories"). The agreement replaced our prior distribution agreement with Golden Meditech, which expired in August 2017 and had granted similar exclusive distribution rights in the Territories. Boyalife W.S.N. is an affiliate of Dr. Xiaochun Xu, 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 AutoXpress[®] 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.

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Employees

As of December 31, 2018, we and our subsidiaries had 53 employees, 46 of whom were employed in the U.S. and 7 of whom were employed in India. We also utilize temporary employees throughout the year to address business needs and significant fluctuations in orders and product manufacturing. None of our employees are covered by a collective bargaining agreement, nor have we experienced any work stoppage.

Foreign Sales and Operations

See footnote 11 of our Notes to Consolidated Financial Statements for information on our sales and operations outside of the U.S.

Where you can Find More Information

We are required to file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other information, including our proxy statement, with the Securities and Exchange Commission (SEC). The public can obtain copies of these materials by accessing the SEC's website at <http://www.sec.gov>. In addition, as soon as reasonably practicable after these materials are filed with or furnished to the SEC, we will make copies available to the public free of charge through its website, www.cescatherapeutics.com. The information on its website is not incorporated into, and is not part of, this Annual Report on Form 10-K or our other filings with the SEC.

ITEM 1A. RISK FACTORS

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are not aware of or focused on or that we currently deem immaterial may also impair our business operations. This Annual Report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

Risks Related to Our Business

A Third Party Owns 20% of Our Subsidiary, CARTXpress Bio, Inc., and Holds Certain Minority Investor Rights Therein. These Rights Could Limit or Delay Our Ability to Take Certain Major Actions Relating to CARTXpress Bio, Inc. In January 2019, ThermoGenesis contributed its X-series business into a newly-formed subsidiary of ThermoGenesis, CARTXpress Bio, Inc. Pursuant to the terms of a reorganization and share exchange agreement, Cesca acquired a 20% equity ownership in ThermoGenesis from Bay City. In exchange, Bay City acquired a 20% ownership in CARTXpress Bio, Inc. As a result of these transactions, ThermoGenesis became a wholly-owned subsidiary of Cesca, and ThermoGenesis owns 80% of the outstanding equity of CARTXpress Bio, Inc., while Bay City owns the remaining 20% of the outstanding equity of CARTXpress Bio, Inc. While we continue to indirectly own 80% of the outstanding capital stock of CARTXpress Bio, Inc., Bay City was granted certain minority investor rights in CARTXpress Bio, Inc. These rights include board representation rights, a right of first refusal over sales of CARTXpress Bio, Inc. stock by us, co-sale rights with respect to any sale of CARTXpress Bio, Inc. stock by us, certain piggyback and Form S-3 registration rights in the event that CARTXpress becomes a publicly traded company at any time in the future and other rights as detailed in the Investors' Rights Agreement. In addition, the board of directors of CARTXpress Bio, Inc. is comprised of three persons, two of whom are designated by us and one of whom is designed by Bay City. The foregoing minority investor rights in CARTXpress Bio, Inc. could limit or delay our ability or flexibility to take certain major actions or make major decisions relating to CARTXpress Bio, Inc. that might be beneficial to our stockholders, unless such actions or decisions have the consent or support of Bay City. Accordingly, the minority investor rights in CARTXpress Bio, Inc. could have a negative impact on the market price of our common stock.

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We May Not be Able to Successfully Recognize the Anticipated Benefits from the SynGen Asset Acquisition or Retain Key Acquisition Employees. On July 7, 2017, our ThermoGenesis subsidiary 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. The success of the SynGen asset acquisition depends on our ability to leverage the intellectual property, other assets, and acquired personnel of SynGen in order to increase our sales and profitability. In order to successfully achieve this, we will need to integrate the businesses and employees of SynGen and ThermoGenesis and motivate such employees. This will place significant demands on our management, our operational and financial systems, our infrastructure, and our other resources. If we do not effectively manage this process, our ability to grow the consolidated business in the manner anticipated by the acquisition will suffer, and we may lose key employees that we acquired from SynGen.

Our Controlling Stockholder Has Significant Influence Over Us Which Could Limit Your Ability to Influence the Outcome of Key Transactions, Including a Change of Control, and Could Negatively Impact the Market Price of Our Common Stock By Discouraging Third Party Investors. As of December 31, 2018, approximately 32% of our outstanding common stock is owned by Boyalife (Hong Kong) Limited. In addition, pursuant to the terms of the Amended Nomination Agreement we entered into with Boyalife (Hong Kong) Limited in April 2018, Boyalife (Hong Kong) Limited has the right to designate a number of members of our Board of Directors that is in proportion to the “Boyalife Ownership Percentage”, which is Boyalife (Hong Kong) Limited’s and its affiliates’ combined percentage ownership of outstanding common stock, treating as outstanding any shares of common stock underlying convertible securities that are immediately exercisable by Boyalife (Hong Kong) Limited and its affiliates’ (including under the debt facility) without any further payment (Boyalife Ownership Percentage). The Amended Nomination Agreement will terminate according to its terms when and if the Boyalife Ownership Percentage falls below 20%.

Boyalife (Hong Kong) Limited is 100% owned by Yishu Li, the spouse of Dr. Xiaochun Xu, our CEO and chairman of our board of directors. As a result of their ownership and ability to designate members of our Board of Directors, Boyalife (Hong Kong) Limited (including Dr. Xu and his spouse Ms. Li) are able to exercise significant influence over all matters affecting us, including the election of directors, formation and execution of business strategy and approval of mergers, acquisitions and other significant corporate transactions, which may have an adverse effect on our stock price and ability to execute our strategic initiatives. They may have conflicts of interest and interests that are not aligned with those of other investors in all respects. As a result of the concentrated ownership of our common stock, Dr. Xu and Ms. Li, acting together, are able to control all matters requiring stockholder approval, including the election of directors, the adoption of amendments to our certificate of incorporation and bylaws, and approval of a sale of our Company, and other significant corporate transactions. This concentration of ownership may delay or prevent a change in control and may have a negative impact on the market price of our common stock by discouraging third party investors from investing or making tender offers for our shares.

In addition, a company owned and controlled by Dr. Xu is a material creditor of our company. We are a party to a revolving debt facility with Boyalife Asset Holding II, Inc., a company owned and controlled by Dr. Xu, which has a maximum borrowing availability of \$10.0 million and an outstanding balance as of December 31, 2018 of \$7.2 million in principal and \$1.5 million in accrued interest. The debt facility matures on March 6, 2022, with accrued interest due annually on the last day of each calendar year. Because this debt facility is secured by all of our shares in our ThermoGenesis subsidiary, an event of default under the debt facility would have a material adverse impact on our

interest in ThermoGenesis if the lender under the debt facility elected to foreclose on such security interest.

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We Utilize Debt Financing from Outside the U.S. and an Inability to Obtain Funds when Requested Could Adversely Impact Operations. We use debt financing for working capital and other cash requirements. Our ability to use this funding source may be impacted by reasons such as default or foreign government policies that restrict or prohibit transferring funds. In the event that we were not able to obtain funds as needed, it could result in delays to project funding or non-compliance with cash based covenants.

Our Potential Cell Therapy Products and Technologies Are In Early Stages Of Development.

The development of new cell therapy products is a highly risky undertaking, and there can be no assurance that any future research and development efforts we may undertake will be successful. Our potential products in vascular, orthopedic, hematological/oncological and wound care indications will require extensive additional research and development and regulatory approval before any commercial introduction. There can be no assurance that any future research, development and clinical trial efforts will result in viable products or meet efficacy standards.

We May Be Unable to Obtain Marketing Approval from the FDA For Our 510(k) Devices which may Delay or Reduce Future Sales. At the end of 2016, the Company received approval from the U.S. Food and Drug Administration (“FDA”) for the Company’s amended pivotal study protocol for treatment of Critical Limb Ischemia (“CLI”). The amended CLI clinical trial is designed to demonstrate the safety and efficacy of the Company’s point-of-care system for the treatment of CLI patients with limited or no treatment options. The changes approved by the FDA are intended to increase patient enrollment by expanding the patient pool from Rutherford Category 5 patients only, to also include Rutherford Category 4 patients, or patients with a less severe form of the disease. The study population has been expanded to include patients who are poor candidates for either surgery or endovascular therapies. The sample size of the CLI trial was increased from 224 to 362 patients. With the FDA approval of our amended phase III clinical trial protocol of CLI, the company is actively looking for an external strategic partner to move forward with the CLI clinical trial program. The marketing approval of point-of-care device for the treatment of CLI indication is subject to a successful strategic partnership, successful completion of our phase III study with statistical significant results and acceptance of the results by the FDA for the disease indication. Our inability to successfully complete any of the above mentioned steps can affect our ability to obtain marketing approval in the United States.

Delays In The Commencement Or Completion Of Clinical Testing Of Our Products Could Result In Increased Costs To Us And Delay Our Ability To Generate Revenues. Delays in the commencement or completion of clinical testing could significantly impact our product development costs. We do not know whether current or planned clinical trials will begin on time or be completed on schedule, if at all. The commencement of clinical trials can be delayed for a variety of reasons, including delays in:

- Obtaining regulatory approval to commence a clinical trial;
- Having the necessary funding in place to conduct the clinical trial;
- Reaching agreement on acceptable terms with prospective contract research organizations and clinical trial sites for Phase II and III trials;
- Obtaining proper devices for any or all of the product candidates;

Obtaining institutional review board approval to conduct a clinical trial at a prospective site; and
Recruiting participants for a clinical trial.

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In addition, once a clinical trial has begun, it may be suspended or terminated by us or the FDA or other regulatory authorities due to a number of factors, including:

- Failure to conduct the clinical trial in accordance with regulatory requirements;
- Inspection of the clinical trial operations or clinical trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- Failure to achieve certain efficacy and/or safety standards;
- Reports of serious adverse events including but not limited to death of trial subjects; or
- Lack of adequate funding to continue the clinical trial.

Our clinical therapy candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs that we expect to pursue.

We May Seek To Enter Into Collaborative Arrangements To Develop and Commercialize Products Which May Not Be Successful. We may seek to enter into collaborative arrangements to develop and commercialize some of our potential products and product candidates both in North America and international markets. There can be no assurance that we will be able to negotiate collaborative arrangements on favorable terms or at all or that current or future collaborative arrangements will be successful.

A Significant Portion of Revenue is Derived from Customers Outside the United States. We may Lose Revenues, Market Share, and Profits due to Exchange Rate Fluctuations and Political and Economic Changes Related to its Foreign Business. For the year ended December 31, 2018, sales to customers outside the U.S. comprised approximately 50% of revenues. This compares to 67% for the six months ended December 31, 2017 and 54% for the year ended June 30, 2017. Our foreign business is subject to economic, political and regulatory uncertainties and risks that are unique to each area of the world. Fluctuations in exchange rates may also affect the prices that foreign customers are willing to pay, and may put us at a price disadvantage compared to other competitors. Potentially volatile shifts in exchange rates may negatively affect our financial position and results.

The Loss of a Significant Distributor or End User Customer may Adversely Affect Financial Condition and Results of Operations. Revenues from a significant customer comprised 22% of revenues for the year ended December 31, 2018. The loss of a large end user customer or distributor may decrease revenues.

We may be Exposed to Liabilities under the Foreign Corrupt Practices Act and any Determination that we Violated these Laws could have a Material Adverse Effect on our Business. We are subject to the Foreign Corrupt Practices Act (FCPA), and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute, for the purpose of obtaining or retaining business. It is our policy to implement safeguards to discourage these practices by our employees. However,

our existing safeguards and any future improvements may prove to be less than effective and our employees, consultants, sales agents or distributors may engage in conduct for which we might be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition.

Adverse Results of Legal Proceedings could have a Material Adverse Effect on Us. We are subject to, and may in the future be subject to, a variety of legal proceedings and claims that arise out of the ordinary conduct of our business. Results of legal proceedings cannot be predicted with certainty. Irrespective of their merits, legal proceedings may be both lengthy and disruptive to our operations and may cause significant expenditure and diversion of management attention. We may be faced with significant monetary damages or injunctive relief against us that could have a material adverse effect on a portion of our business operations or a material adverse effect on our financial condition and results of operations.

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Our Pending Litigation with a Strategic Consulting Firm could have a Material Adverse Effect on Us. In fiscal 2016, the Company signed an engagement letter with a strategic consulting firm (“Mavericks”). Included in the engagement letter was a success fee due upon the successful conclusion of certain transactions. On May 4, 2017, a lawsuit was filed against the Company and its CEO by the consulting firm as the consulting firm argues that it is owed a transaction fee of \$1,000,000 under the terms of the engagement letter due to the conversion of the Boyalife debentures in August 2016. In October 2017, to streamline the case by providing for the dismissal of claims against the Company’s CEO based on alter ego theories and without acknowledging any liability, the Company deposited \$1,000,000 with the Court. The Company filed a Motion for Summary Judgment, which was denied by the Court on June 26, 2018. On September 24, 2018, Mavericks filed an amended complaint, adding back the Company’s CEO as a named defendant, as well as Boyalife Investment, Inc. (a dissolved company) and Boyalife (Hong Kong) Limited under new theories of liability, namely intentional interference with contract and inducement of breach of contract. No trial date has been set. Although we deny liability in this case and intend to defend it vigorously, there is no assurance that the outcome of the case and resulting legal fees will not have a material adverse effect on our financial condition.

Risks Related to Our Operations

Our Ability to Conduct a CLIRST III Clinical Trial Is Substantially Dependent on Our Ability to Enter into a Strategic Partnership and There Are No Assurances That Such Funding Source will Materialize. We will need additional funding to commence the CLIRST III clinical trial and we are actively looking for a strategic partner to co-sponsor the trial with us. We cannot assure that such funding will be available on a timely basis, in needed quantities, or on terms favorable to us, if at all.

We Do Not Have Commercial-Scale Manufacturing Capability And Have Minimal Commercial Manufacturing Experience. We operate GMP manufacturing facilities for both devices and cellular production; however, they are not of sufficient size for medium to large commercial production of product candidates. We will not have large scale experience in manufacturing, and currently lack the resources and the capability to manufacture any of our product candidates on a clinical or commercial scale. Accordingly, we expect to depend on third-party contract manufacturers for the foreseeable future. Any performance failure on the part of our contract manufacturers could delay clinical development, regulatory approval or commercialization of our current or future products, depriving us of potential product revenues and resulting in additional losses.

We Have Limited Sales, Marketing and Distribution Capabilities which May Limit our Ability to Significantly Increase Sales Quickly. We have limited internal capabilities in the sales, marketing, and distribution areas. There can be no assurance that we will be able to establish sales, marketing, and distribution capabilities internally or make arrangements with current collaborators or others to perform such activities or that such effort will be successful. If we decide to market any of our new products directly, we must either partner, acquire or internally develop a marketing and sales force with technical expertise and with supporting distribution capabilities. The acquisition or development of a sales, marketing and distribution infrastructure would require substantial resources, which may not be available to us or, even if available, divert the attention of our management and key personnel, and have a negative impact on further product development efforts.

Our Inability to Protect our Patents, Trademarks, Trade Secrets and other Proprietary Rights could Adversely Impact our Competitive Position. We believe that our patents, trademarks, trade secrets and other proprietary rights are important to our success and our competitive position. Accordingly, we commit substantial resources to the establishment and protection of our patents, trademarks, trade secrets and proprietary rights. We use various methods, including confidentiality agreements with employees, vendors, and customers, to protect our trade secrets and proprietary know-how for our products. We currently hold patents for products, and have patents pending in certain countries for additional products that we market or intend to market. However, our actions to establish and protect our patents, trademarks, and other proprietary rights may be inadequate to prevent imitation of our products by others or to prevent others from claiming violations of their trademarks and proprietary rights by us. If our products are challenged as infringing upon patents of other parties, we may be required to modify the design of the product, obtain a license, or litigate the issues, all of which may have an adverse business effect on us.

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We may be Subject to Claims that our Products or Processes Infringe the Intellectual Property Rights of Others, which may Cause us to Pay Unexpected Litigation Costs or Damages, Modify our Products or Processes or Prevent us from Selling our Products. Although it is our intention to avoid infringing or otherwise violating the intellectual property rights of others, third parties may nevertheless claim that our processes and products infringe their intellectual property and other rights. Our strategies of capitalizing on growing international demand as well as developing new innovative products across multiple business lines present similar infringement claim risks both internationally and in the U.S. as we expand the scope of our product offerings and markets. We compete with other companies for contracts in some small or specialized industries, which increase the risk that the other companies will develop overlapping technologies leading to an increased possibility that infringement claims will arise. Whether or not these claims have merit, we may be subject to costly and time-consuming legal proceedings, and this could divert management's attention from operating our business. In order to resolve such proceedings, we may need to obtain licenses from these third parties or substantially re-engineer or rename our products in order to avoid infringement. In addition, we might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer or rename our products successfully.

We Commercially, in Co-Branding with Fortis Healthcare, Bank and Store Private Cord Blood Stem Cells in our TotipotentRX GMP Facility. We could be Subject to Unexpected Litigation Costs or Damages for Loss of One or More Family Owned Units of Cord Blood or if one of the Cord Blood Units We Store Causes Bodily Injury. We face an inherent business risk of exposure to product liability claims if our products or product candidates are alleged or found to have caused injury or cannot be used for some reason within our control and are found to result in injury or death. While we believe that our current liability insurance coverage is adequate for our present clinical and commercial activities we may not be able to maintain insurance on acceptable terms or at all. If we are unable to obtain insurance or any claims against us substantially exceed our coverage, then our business could be adversely impacted.

We may not be able to Protect our Intellectual Property in Countries Outside the United States. Intellectual property law outside the United States is uncertain and in many countries is currently undergoing review and revisions. The laws of some countries do not protect our patent and other intellectual property rights to the same extent as United States laws. This is particularly relevant to us as a significant amount of our current and projected future sales are outside of the United States. Third parties may attempt to oppose the issuance of patents to us in foreign countries by initiating opposition proceedings. Opposition proceedings against any of our patent filings in a foreign country could have an adverse effect on our corresponding patents that are issued or pending in the United States. It may be necessary or useful for us to participate in proceedings to determine the validity of our patents or our competitors' patents that have been issued in countries other than the U.S. This could result in substantial costs, divert our efforts and attention from other aspects of our business, and could have a material adverse effect on our results of operations and financial condition.

Any Failure to Achieve and Maintain the High Design and Manufacturing Standards that our Products Require may Seriously Harm our Business. Our products require precise, high-quality manufacturing. Achieving precision and quality control requires skill and diligence by our personnel as well as our vendors. Our failure to achieve and maintain these high manufacturing standards, including the incidence of manufacturing errors, design defects or component failures could result in patient injury or death, product recalls or withdrawals, delays or failures in product

testing or delivery, cost overruns or other problems that could seriously hurt our business. Additionally, the large amount of AXP disposable inventory certain distributors and end-users maintain may delay the identification of a manufacturing error and expand the financial impact. A manufacturing error or defect, or previously undetected design defect, or uncorrected impurity or variation in a raw material component, either unknown or undetected, could affect the product. Despite our very high manufacturing standards, we cannot completely eliminate the risk of errors, defects or failures. If we or our vendors are unable to manufacture our products in accordance with necessary quality standards, our business and results of operations may be negatively affected.

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Our Revenues and Operating Results may be Adversely Affected as a Result of our Required Compliance with the Adopted EU Directive on the Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment, as well as other Standards Around the World. A number of domestic and foreign jurisdictions seek to restrict the use of various substances, a number of which have been or are currently used in our products or processes. For example, the EU Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive now requires that certain substances, which may be found in certain products we have manufactured in the past, be removed from all electronics components. Other countries, such as China, have enacted or may enact laws or regulations similar to RoHS. Eliminating such substances from our manufacturing processes requires the expenditure of additional research and development funds to seek alternative substances for our products, as well as increased testing by third parties to ensure the quality of our products and compliance with the RoHS Directive. While we have implemented a compliance program to ensure our product offerings meet these regulations, there may be instances where alternative substances will not be available or commercially feasible, or may only be available from a single source, or may be significantly more expensive than their restricted counterparts. Therefore, we have focused our compliance efforts on those products and geographical areas in which we have the highest revenue potential. Our failure to comply with past, present and future similar laws could result in reduced sales of our products, substantial product inventory write-offs, reputation damage, penalties and other sanctions, any of which could harm our business and operating results.

Compliance with Government Regulations Regarding the Use of “Conflict Minerals” may Result in Additional Expense and Affect our Operations. The SEC has adopted a final rule to implement Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which imposes new disclosure requirements regarding the use of “conflict minerals” mined from the Democratic Republic of Congo and adjoining countries. These minerals include tantalum, tin, gold and tungsten. We may incur significant costs associated with complying with the new disclosure requirements, including but not limited to costs related to determining which of our products may be subject to the rules and identifying the source of any “conflict minerals” used in those products. Additionally, implementing the new requirements could adversely affect the sourcing, supply and pricing of materials used in the manufacture of our products. We may also face reputational challenges if we are unable to verify through our compliance procedures the origins for all metals used in our products.

Our Products may be Subject to Product Recalls which may Harm our Reputation and Divert our Managerial and Financial Resources. The FDA and similar governmental authorities in other countries have the authority to order the mandatory recall of our products or order their removal from the market if the governmental entity finds our products might cause adverse health consequences or death. The FDA may also seize product or prevent further distribution. A government-mandated or voluntary recall by us could occur as a result of component failures, manufacturing errors or design defects (including labeling defects). In the past, we have initiated voluntary recalls of some of our products and we could do so in the future. Any recall of our products may harm our reputation with customers, divert managerial and financial resources and negatively impact our profitability.

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We are Dependent on our Suppliers and Manufacturers to Meet Existing Regulations. Certain of our suppliers and manufacturers are subject to heavy government regulations, including FDA QSR compliance, in the operation of their facilities, products and manufacturing processes. Any adverse action by the FDA against our suppliers or manufacturers could delay supply or manufacture of component products required to be integrated or sold with our products. Although we attempt to mitigate this risk through inventory held directly or through distributors, and audit our suppliers, there are no assurances we will be successful in identifying issues early enough to allow for corrective action or transition to an alternative supplier, or in locating an alternative supplier or manufacturer to meet product shipment or launch deadlines. As a result, our sales, contractual commitments and financial forecasts may be significantly affected by any such delays.

Dependence on Suppliers for Disposable Products and Custom Components May Impact the Production Schedule. We obtain certain disposable products and custom components from a limited number of suppliers. If the supplier raises the price or discontinues production, we may have to find another qualified supplier to provide the item or re-engineer the item. In the event that it becomes necessary for us to find another supplier, we would first be required to qualify the quality assurance systems and product quality of that alternative supplier. Any operational issues with re-engineering or the alternative qualified supplier may impact the production schedule, therefore delaying revenues, and this may cause the cost of disposables or key components to increase.

Failure to Meet the Financial Covenant in our Technology License and Escrow Agreement could Decrease our AXP Revenues. Under our license and escrow agreement with CBR Systems, Inc. if we fail to meet the financial covenant of 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, they may take possession of the escrowed intellectual property and initiate manufacturing of the applicable device and disposables. If this were to occur, our revenues would be negatively impacted. In order to remain compliant, we may have to complete additional financings or provide consideration to the counter party to modify the obligations.

Failure to Retain or Hire Key Personnel may Adversely Affect our Ability to Sustain or Grow our Business. Our ability to operate successfully and manage our potential future growth depends significantly upon retaining key research, technical, clinical, regulatory, sales, marketing and managerial personnel. Our future success partially depends upon the continued services of key technical and senior management personnel. Our future success also depends on our continuing ability to attract, retain and motivate highly qualified managerial and technical personnel. The inability to retain or attract qualified personnel could have a significant negative effect upon our efforts and thereby materially harm our business and future financial condition.

Most of Our Operations Are Conducted At A Single Location. Any Disruption At Our Facilities Could Delay Revenues Or Increase Our Expenses. Our U.S. device operations are conducted at a single location although we contract the manufacturing of certain devices, disposables and components. We take precautions to safeguard our facilities, through insurance, health and safety protocols, and off-site storage of computer data. However, a natural disaster, such as a fire, flood or earthquake, could cause substantial delays in our operations, damage or destroy our manufacturing equipment or inventory, and cause us to incur additional expenses. The insurance we maintain against fires, floods,

and other natural disasters may not be adequate to cover our losses in any particular case.

Failure to Maintain and/or Upgrade Our Information Technology Systems May Have an Adverse Effect on Our Operations. We rely on various information technology systems to manage our operations, and we evaluate these systems against our current and expected requirements. We have purchased a new ERP system and are in the implementation process. Until the new system fully implemented, any information technology system disruptions, if not anticipated and appropriately mitigated, could have an adverse effect on our business and operations.

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If we Fail to Maintain Proper and Effective Internal Controls, our Ability to Produce Accurate and Timely Financial Statements Could be Impaired, which Could Harm our Operating Results, our Ability to Operate our Business and Investors' Views of Us. We are required to establish and maintain adequate internal control over financial reporting, which are processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. We are also required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, which (among other things) requires public companies to conduct an annual review and evaluation of their internal control over financial reporting. However, as a “smaller reporting company,” we are not required to obtain an auditor attestation regarding our internal control over financial reporting. If, in the future, we require an attestation report from our independent registered public accounting firm and that firm is unable to provide an unqualified attestation report on the effectiveness of our internal controls over financial reporting, investor confidence and, in turn, our stock price could be materially adversely affected.

Security Breaches and Other Disruptions Could Compromise our Information and Expose us to Liability, Which Would Cause our Business and Reputation to Suffer. In the ordinary course of the Company’s business, the Company collects and stores sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners and personally identifiable information of the Company’s employees on its networks. The secure processing, maintenance and transmission of this information is critical to the Company’s operations and business strategy. Despite the Company’s security measures, its information, technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise the Company’s networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings or regulatory penalties and could disrupt the Company’s operations and the services it provides to customers, damage the Company’s reputation, and cause a loss of confidence in the Company’s products and services, which could adversely affect the Company’s business.

Risks Related to Our Industry

Our Business is Heavily Regulated, Resulting in Increased Costs of Operations and Delays in Product Sales. Many of our products require FDA approval or clearance to sell in the U.S. and will require approvals from comparable agencies to sell in foreign countries. These authorizations may limit the U.S. or foreign markets in which our products may be sold. Further, our products must be manufactured under requirements of our quality system for continued CE-Marking so they can continue to be marketed and sold in Europe. These requirements are similar to the QSR of both the FDA and California Department of Public Health. Failure to comply with or incorrectly interpret these quality system requirements and regulations may subject us to delays in production while we correct deficiencies found by the FDA, the State of California, or our notifying body as a result of any audit of our quality system. If we are found to be out of compliance, we could receive a Warning Letter or an untitled letter from the FDA or even be temporarily shut down in manufacturing and product sales while the non-conformances are rectified. Also, we may have to recall products and temporarily cease their manufacture and distribution, which would increase our costs and reduce our revenues. The FDA may also invalidate our PMA or 510(k) if appropriate regulations relative to the PMA or 510(k) product are not met. The notified bodies may elect to not renew CE-Mark certification. Any of these events would negatively impact our revenues and costs of operations.

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Changes in Governmental Regulations May Reduce Demand for our Products or Increase our Expenses. We compete in many markets in which we and our customers must comply with federal, state, local and international regulations, such as environmental, health and safety and food and drug regulations. We develop, configure and market our products to meet customer needs created by those regulations. Any significant change in regulations could reduce demand for our products or increase our expenses. For example, many of our instruments are marketed to the industry for enabling new regenerative therapies. Changes in the FDA's regulation of the devices and products directed at regenerative medicine, and development process for new therapeutic applications could have an adverse effect on the demand for these products.

To Sell in International Markets, We will be Subject to Regulation in Foreign Countries. In cooperation with our distribution partners, we intend to market our current and future products both domestically and in many foreign markets. A number of risks are inherent in international transactions. In order for us to market our products in certain non-U.S. jurisdictions, we need to obtain and maintain required regulatory approvals or clearances and must comply with extensive regulations regarding safety, manufacturing processes and quality. These regulations, including the requirements for approvals or clearances to market, may differ from the FDA regulatory scheme. International sales also may be limited or disrupted by political instability, price controls, trade restrictions and changes in tariffs. Additionally, fluctuations in currency exchange rates may adversely affect demand for our products by increasing the price of our products in the currency of the countries in which the products are sold.

There can be no assurance that we will obtain regulatory approvals or clearances in all of the countries where we intend to market our products, or that we will not incur significant costs in obtaining or maintaining foreign regulatory approvals or clearances, or that we will be able to successfully commercialize current or future products in various foreign markets. Delays in receipt of approvals or clearances to market our products in foreign countries, failure to receive such approvals or clearances or the future loss of previously received approvals or clearances could have a substantial negative effect on our results of operations and financial condition.

Operating In Foreign Jurisdictions Subjects Us to Regulation by Non-U.S. Authorities. We have operations in India, and as such are subject to Indian regulatory agencies. A number of risks are inherent in conducting business and clinical operations overseas. In order for us to operate as a majority owned foreign corporation in India, we are subject to financial regulations imposed by the Reserve Bank of India. This includes the rules specific to the capital funding, pledging of assets, repatriation of funds and payment of dividends from and to the foreign subsidiaries and from and to us in the U.S.

In order for us to manufacture and/or market our services and products in India, we need to obtain and maintain required regulatory approvals or clearances and must comply with extensive regulations regarding safety, manufacturing processes and quality. These regulations, including the requirements for approvals or clearances to market, and/or export may differ from the FDA regulatory scheme. Additionally, in order for us to complete clinical trials, clinical trial services and cell banking in India, and other foreign jurisdictions, we need to obtain and maintain approvals and licenses which comply with extensive regulations of the appropriate regulatory body.

International operations also may be limited or disrupted by political, economic or social instability, price controls, trade restrictions and changes in tariffs as ordered by various governmental agencies. Additionally, fluctuations in currency exchange rates may adversely affect the cost of production for our products by increasing the price of materials and other inputs for our products in the currency of the countries in which the products are sold.

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If Our Competitors Develop and Market Products That Are More Effective Than Our Product Candidates Or Obtain Regulatory and Market Approval For Similar Products Before We Do, Our Commercial Opportunity May Be Reduced Or Eliminated. The development and commercialization of new pharmaceutical products which target cardiovascular, orthopedic, chronic dermal wounds and other conditions addressed by our current and future products is competitive, and we will face competition from numerous sources, including major biotechnology and pharmaceutical companies worldwide. Many of our competitors have substantially greater financial and technical resources and development, production and marketing capabilities than we do. In addition, many of these companies have more experience than we do in pre-clinical testing, clinical trials and manufacturing of compounds, as well as in obtaining FDA and foreign regulatory approvals. As a result, there is a risk that one of the competitors will develop a more effective product for the same indications for which we are developing a product or, alternatively, bring a similar product to market before we can. With regards to the BioArchive and AXP Systems, numerous larger and better-financed medical device manufacturers may choose to enter this market.

Changes in Healthcare Policy Could Subject us to Additional Regulatory Requirements that may Delay the Commercialization of our Products and Increase our Costs. The U.S. government and other governments have shown significant interest in pursuing healthcare reform. Any government-adopted reform measures could adversely impact the pricing of our diagnostic products and tests in the U.S. or internationally and the amount of reimbursement available from governmental agencies or other third-party payors. The continuing efforts of the U.S. and foreign governments, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce healthcare costs may adversely affect our ability to set prices for our products and services that we believe are fair, which may impact our ability to generate revenues and achieve and maintain profitability.

New laws, regulations and judicial decisions, or new interpretations of existing laws, regulations and judicial decisions, that relate to healthcare availability, methods of delivery or payment for products and services, or sales, marketing or pricing, may limit our potential revenue or force us to revise our research and development programs. The pricing and reimbursement environment may change in the future and become more challenging for several reasons, including policies advanced by the current executive administration in the U.S., new healthcare legislation or fiscal challenges faced by government health administration authorities. Specifically, in both the U.S. and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably.

For example, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (PPACA), have substantially changed the way healthcare is financed by both government health plans and private insurers. The PPACA contains a number of provisions that are expected to impact our business and operations in ways that may negatively affect our revenues in the future. While it is too early to predict all the specific effects the PPACA or any future healthcare reform legislation will have on our business, such provisions could materially adversely affect our business, prospects and financial condition.

The Food and Drug Administration Amendments Act of 2007 gives the FDA enhanced post-marketing authority, including the authority to require post-marketing studies and clinical studies of products, labeling changes based on

new safety information, and compliance with risk evaluations and mitigation strategies approved by the FDA. The FDA's exercise of this authority could result in delays or increased costs during product development, clinical studies and regulatory review, increased costs to assure compliance with post-approval regulatory requirements, and potential restrictions on the sale and/or distribution of approved products, all of which could materially adversely affect our business, prospects and financial condition.

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Product Liability and Uninsured Risks May Adversely Affect the Continuing Operations. We operate in an industry susceptible to significant product liability claims. We may be liable if any of our products or services cause injury, illness, or death. These claims may be brought by individuals seeking relief or by groups seeking to represent a class. We also may be required to recall certain of our products should they become damaged or if they are defective. We are not aware of any material product liability claims against us. However, product liability claims may be asserted against us in the future based on events we are not aware of at the present time. We maintain a product liability policy and a general liability policy that includes product liability coverage. However, a product liability claim against us could have a material adverse effect on our business or future financial condition.

Risks Related to Operating Results and Financial Markets

We Have Incurred Net Losses and We Anticipate that our Losses will Continue. We have not been profitable for a significant period. For the year ended December 31, 2018, we had a net loss of \$40,940,000. For the six months ended December 31, 2017, we had a net loss of \$2,770,000. For fiscal year ended June 30, 2017, we had a net loss of \$29,095,000 and an accumulated deficit at December 31, 2018 of \$227,435,000. The report of our independent auditors on our December 31, 2018 financial statements includes an explanatory paragraph indicating there is substantial doubt about our ability to continue as a going concern. We will continue to incur significant costs as we develop and market our current products and related applications. Although we are executing our business plan to develop, market and launch new products, continuing losses may impair our ability to fully meet our objectives for new product sales or threaten our ability to continue as a going concern in future years.

We Will Need to Raise Additional Capital to Fund our Operations and in Furtherance of Our Business Plan. Due to our recurring losses from operations and the expectation that we will continue to incur losses in the future, we will be required to raise additional capital to complete the development and commercialization of our current product candidates. We have historically relied upon private and public sales of our equity, as well as debt financings to fund our operations. In order to raise additional capital, we may seek to sell additional equity and/or debt securities or obtain a credit facility or other loan, which we may not be able to do on favorable terms, or at all. Our ability to obtain additional financing will be subject to a number of factors, including market conditions, our operating performance and investor sentiment. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue the development and/or commercialization of one or more of our product candidates, restrict our operations or obtain funds by entering into agreements on unfavorable terms.

We may Incur Significant Non-operating, Non-cash Charges Resulting from Changes in the Fair Value of Warrants. Our Series A warrants are a derivative instrument; as such they have been recorded at their respective relative fair values at the issuance date and will be recorded at their respective fair values at each subsequent balance sheet date. Any change in value between reporting periods will be recorded as a non-operating, non-cash charge at each reporting date. The impact of these non-operating, non-cash charges could have an adverse effect on the Company's financial results. The fair value of the warrants is tied in large part to our stock price. If the stock price increases between reporting periods, the warrants become more valuable. As such, there is no way to forecast what the non-operating, non-cash charges will be in the future or what the future impact will be on our financial statements.

Risks Related to Our Common Stock

If the Price of our Common Stock does not Meet the Requirements of the NASDAQ Capital Market (NASDAQ), Our Shares may be Delisted. Our Ability to Publicly or Privately Sell Equity Securities and the Liquidity of Our Common Stock Could be Adversely Affected if We Are Delisted. The listing standards of NASDAQ provide, among other things, that a company may be delisted if the bid price of its stock drops below \$1.00 for a period of 30 consecutive business days. Delisting from NASDAQ could adversely affect our ability to raise additional financing through the public or private sale of equity securities, would significantly affect the ability of investors to trade our securities and would negatively affect the value and liquidity of our common stock. Delisting could also have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities. On June 28, 2018 we received written notice from the Nasdaq Listing Qualifications Department (“NASDAQ”) notifying the Company that it was not in compliance with the minimum bid price requirements set forth in NASDAQ Listing Rule 5550(a)(2) for continued listing on the Capital Market, due to the bid price of the Company’s common stock closing below the minimum \$1 per share for the thirty (30) consecutive business days prior to the date of the Notification Letter. In accordance with listing rules, the Company was afforded 180 days, or until December 24, 2018, to regain compliance. The Company was unable to regain compliance with the bid price requirement by December 24, 2018. However, on December 28, 2018, the Company received a notice from NASDAQ granting the Company an additional 180 calendar days, or until June 24, 2019, to regain compliance with the minimum \$1.00 bid price per share requirement for continued listing on the Capital Market. NASDAQ determined that the Company is eligible for the second compliance period due to the Company meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the Capital Market, with the exception of the bid price requirement, and the Company’s written notice of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary.

Liquidity of our Common Stock. Although there is a public market for our common stock, trading volume has been historically low, which could impact the stock price and the ability to sell shares of our common stock. We can give no assurance that an active and liquid public market for the shares of the common stock will continue in the future. In addition, future sales of large amounts of common stock could adversely affect the market price of our common stock and our ability to raise capital. The price of our common stock could also drop as a result of the exercise of options for common stock or the perception that such sales or exercise of options could occur. These factors could also have a negative impact on the liquidity of our common stock and our ability to raise funds through future stock offerings.

We do not Pay Cash Dividends. We have never paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. Instead, we intend to apply earnings, if any, to the expansion and development of our business. Thus, the liquidity of your investment is dependent upon your ability to sell stock at an acceptable price. The price can go down as well as up and may limit your ability to realize any value from your investment, including the initial purchase price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease a facility with approximately 28,000 square feet of space located in Rancho Cordova, California. The facility is used by both our Clinical Development and Device Segments and is devoted to warehouse space, manufacturing of products, office space, a biologics lab, and a research and development lab. The lease expires May 31, 2019.

In Gurgaon India we lease approximately 1,500 square feet for an office facility for our Clinical Development Segment. The lease expires September 14, 2023 however; either party can terminate the lease after September 2019 with three months' notice.

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Additionally, in Gurgaon India, as part of our agreement with Fortis Healthcare, we occupy and manage a 2,800 square foot cord blood banking and cellular therapy processing facility in the Fortis Memorial Research Institute.

We believe our facilities are adequate for our present needs and expect them to remain adequate for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of operations, we may have disagreements or disputes with distributors, vendors or employees. Such potential disputes are seen by management as a normal part of business and while the outcome of such disagreements and disputes cannot be predicted with certainty, except as described below, we do not believe that any pending legal proceedings are material. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

In July 2015, the Company signed an engagement letter with Mavericks Capital LLC and Mavericks Capital Securities LLC, a strategic consulting firm (collectively, "Mavericks"). The engagement letter included a success fee payable upon the successful conclusion of certain strategic transactions. On May 4, 2017, Mavericks filed a lawsuit against the Company and its CEO, Dr. Xiaochun Xu, in the California Superior Court, alleging that it was owed a transaction fee of \$1,000,000 under the terms of the engagement letter resulting from the conversion of certain Boyalife debentures in August 2016. In October 2017, to streamline the case by providing for the dismissal of Dr. Xu as an individual defendant and without acknowledging any liability, the Company deposited \$1,000,000 with the California Superior Court. Mavericks agreed to dismiss Mr. Xu from the case, without liability. Subsequently, the Company filed a Motion for Summary Judgment, which was denied by the California Superior Court on June 26, 2018. On September 24, 2018, Mavericks filed an amended complaint, reinstating Dr. Xu as a named defendant, as well as Boyalife Investment, Inc. (a dissolved company) and Boyalife (Hong Kong) Limited, under new theories of liability, namely intentional interference with contractual relations and inducement of breach of contract. No trial date has been set. The Company intends to defend the lawsuit vigorously.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER
5. MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock, \$0.001 par value, is listed on the NASDAQ Capital Market under the symbol KOOL.

We have not paid cash dividends on our common stock and do not intend to pay a cash dividend in the foreseeable future. There were approximately 173 stockholders of record on February 28, 2019, not including beneficial owners who own their stock in street name through Cede & Co. and others.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable for Smaller Reporting Companies.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
7. OF OPERATIONS

Certain statements contained in this section and other parts of this Annual Report on Form 10-K which are not historical facts are forward looking statements and are subject to certain risks and uncertainties. Our actual results may differ significantly from the projected results discussed in the forward looking statements. Factors that might affect actual results include, but are not limited to, those discussed in ITEM 1A "RISK FACTORS" and other factors identified from time to time in our reports filed with the SEC. The following discussion should be read in conjunction with our consolidated financial statements contained in this Annual Report.

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Overview

Cesca develops and commercializes a range of automated technologies for cell-banking, cell-processing, and cell-based therapeutics. Since the 1990's Cesca has been a pioneer in, and a leading provider of automated systems that isolate, purify and cryogenically store units of hematopoietic stem and progenitor cells for the cord blood banking industry. In July 2017, Cesca's subsidiary, ThermoGenesis Corp. ("ThermoGenesis"), completed a strategic acquisition of the business and substantially all of the assets of SynGen Inc. ("SynGen"), a research and development company for automated cellular processing. Following this acquisition, ThermoGenesis operates Cesca's device business and SynGen's automated cellular processing business.

Following the acquisition of SynGen we utilized the SynGen assets, together with our own proprietary technology, to develop a novel proprietary CAR-TXpress™ platform that addresses the critical unmet need for better efficiency and cost-effectiveness for the emerging immune-oncology field, in particular, the chimeric antigen receptor T cell ("CAR-T") market. Since the first quarter of 2018, the Company developed and launched three X-Series products, which provide superior performance in the processing of immunotherapy drugs: X-Lab®, X-Wash®, and X-BACS™.

In June 2018, we undertook a restructuring initiative to reduce our operating expenses. The restructuring resulted in a reduction of approximately 25% of the Company's workforce in various functions. This action; combined with other cost savings initiatives is expected to reduce annual operating costs by approximately \$2,500,000. We incurred a restructuring charge of \$260,000 during the second quarter of fiscal 2018, and \$36,000 during the third quarter of fiscal 2018, recorded as a component of general and administrative expense.

Cesca now has two separately reported business segments: A "Device Segment" and a "Clinical Development Segment." The Device Segment develops and commercializes automated systems that provide GMP, clinical grade cell-banking, cell-processing, and cell-based therapeutics commercialized by Cesca's subsidiary, ThermoGenesis. The Clinical Development Segment is developing autologous (utilizing the patient's own cells) cell-based therapeutics that address significant unmet medical needs for the vascular, cardiology and orthopedic markets.

Cesca's Device Segment

Cesca's Device Segment offers automated devices and technologies for cell-banking, point-of-care applications, and cell-processing. The automated solution offerings include:

AutoXpress Platform for Clinical Bio-Banking Applications, which provides automated isolation, harvest, controlled-rate freezing and cryogenic storage of cord blood stem and progenitor cells for treatment of patients in need, and includes the following products:

AXP® System – The innovative AXP System defines a new processing standard for isolating and retrieving over 97% of the stem and progenitor cells from collections of umbilical cord blood in an automated, fully closed, sterile system in 30 minutes. AXP is self-powered, microprocessor-controlled, and contains flow control optical sensors to achieve precise separation

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BioArchive® Cryopreservation System – The BioArchive Cryopreservation System is the industry’s leading, fully automated, robotic, liquid nitrogen controlled-rate-freezing (CRF) and cryogenic storage system for stem cell samples and clinical products. Using proven, computer-controlled technology, it provides the ultimate performance and protection for today’s invaluable cord blood samples and future cell therapeutic products. BioArchive is the preferred system for the highest quality cord blood banks worldwide. A complete technical Master-File has been provided to the FDA to support those highest quality cord blood banks which have been able to qualify for, and obtain, a Biological License from the FDA to allow their cord blood units to be used to treat patients with blood cancers.

POCXpress Platform for Point-of-Care Applications allows for the rapid, automated processing of autologous peripheral blood or bone marrow aspirate derived stem cells at the point-of-care, such as surgical centers or clinics and includes the following products:

MXP® System – Built based on similar technology as our proprietary AXP System, MXP is an automated, fully closed, sterile system that volume-reduces bone marrow to a user-defined volume in less than 1 hour, while retaining over 90% of the MNCs. The MXP is self-powered, microprocessor-controlled, and contains flow control optical sensors to achieve precise separation.

PXP® System – The PXP System is our newly launched point-of-care device. PXP is an automated, closed system that harvests a precise volume of cell concentrate from bone marrow aspirates. PXP can generate a concentration of bone marrow in less than 20 minutes, with consistently high MNC and CD34⁺ stem cell progenitor recovery rates and greater than 98% depletion of contaminating red blood cells (RBCs). Processing data is captured using our proprietary DataTrak™ software to assist with Good Manufacturing Practice (GMP) process monitoring and reporting information.

CAR-TXpress™ Platform for Immuno-Oncology Applications addresses the critical unmet need for chemistry, manufacturing and controls (CMC) improvement of the emerging CAR-T therapies for cancer patients. CAR-TXpress eliminates the need of using the labor intensive and “open system” ficoll MNC purification process and traditional magnetic bead T-Cell selection process, thereby dramatically reducing processing time and increasing efficiency of the manufacturing process, which should reduce the overall manufacturing cost. The CAR-TXpress platform includes the following X-Series products:

X-Lab® System for Cell Isolation – a semi-automated, functionally-closed, ficoll-free, system for the rapid isolation of mononuclear cells (“MNCs”) with, or without, platelets from collected units of peripheral blood, cord blood, bone marrow aspirate or leukapheresis. On November 13, 2018 the Company announced that ThermoGenesis had filed a Device Master File (“MAF”) with the FDA for the X-LAB. The MAF contains all the relevant information that the FDA will need to allow principal investigators to include Cesca’s systems in their investigational new drug applications.

X-BACS™ System for Cell Purification – a semi-automated, functionally-closed system employs a microbubble/antibody reagent to isolate target cells by buoyancy-activated cell sorting (BACS). These microbubble/antibody reagents bind to user-selected target cells to increase their buoyancy and provide a complete separation from non-target cells during centrifugation and allowing the harvest of a highly-purified population of target cells, with high recovery efficiency and cell viability.

X-Wash® System for Washing and Reformulation – a semi-automated, functionally-closed system that separates, washes, and volume-reduces units of fresh or thawed units of blood, bone marrow, leukapheresis or cell cultures and presents these washed cells in a predetermined small volume.

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Cesca's Clinical Development Segment

Using our proprietary automated point-of-care cellular processing technologies, Cesca's Clinical Development Segment is developing autologous (utilizing the patient's own cells) stem cell-based therapeutics that will address significant unmet medical needs for the vascular, cardiology and orthopedic markets that include:

VXP® for Critical Limb Ischemia (CLI) – Cesca has a proprietary point-of-care, autologous stem cell-based therapy under development which is intended for the treatment of patients with CLI. The FDA has cleared the Company to proceed with a 362 subject, multi-center pivotal Phase III CLIRST study, which is designed to evaluate the safety and efficacy of Cesca's autologous stem cell-based therapy in patients with no-option or poor option late stage CLI. Previous clinical studies using Cesca's proprietary, point-of-care-technologies have demonstrated the regeneration of blood vessels and improved blood circulation in the limbs, using a patient's own bone marrow derived stem cells.

VXP® for Acute Myocardial Infarction – Cesca has a proprietary, point-of-care autologous stem cell-based therapy under development which is intended as an adjunct treatment for patients who have suffered an acute STEMI, the most serious type of heart attack. Such treatments are aimed at minimizing the adverse remodeling of the heart post-STEMI.

PXP® for 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.

Table of Contents**Results of Operations*****Year Ended December 31, 2018 Compared to Year Ended December 31, 2017 (unaudited)***

The following table summarizes the results of operations for the years ended December 31, 2018 and 2017 (unaudited). The results for the year ended December 31, 2017 were compiled from the two quarters ending March 31, 2017 and June 30, 2017, and the six months ended December 31, 2017.

	Year Ended December 31, 2018	Year Ended December 31, 2017 (Unaudited)
Total net revenues	\$9,672,000	\$12,766,000
Cost of revenues	7,479,000	7,706,000
Gross profit	2,193,000	5,060,000
Expenses:		
Sales and marketing	1,359,000	1,691,000
Research and development	3,012,000	3,379,000
General and administrative	8,286,000	8,173,000
Impairment charges	33,081,000	310,000
Total operating expenses	45,738,000	13,553,000
Loss from operations	(43,545,000)	(8,493,000)
Other income (expense):		
Interest expense	(2,697,000)	(672,000)
Fair value change of derivative instruments	596,000	246,000
Other income and (expenses)	(24,000)	(13,000)
Total other expense	(2,125,000)	(439,000)
Loss before benefit for income taxes	(45,670,000)	(8,932,000)
Benefit for income taxes	4,730,000	2,911,000
Net loss	\$(40,940,000)	\$(6,021,000)

Net Revenues

Consolidated net revenues for the year ended December 31, 2018 were \$9,672,000 compared to \$12,766,000 for the year ended December 31, 2017, a decrease of \$3,094,000 or 24%. Device Segment revenues decreased in the AXP product line primarily due to the distributor change in the China market. BioArchive device sales decreased due to seven less device sales and other decreased due to the ending of a royalty payment agreement in the prior year. The decreases were offset by an increase in our CAR-TXpress products driven by the adoption of the products by new customers. Clinical development revenues consist of sales generated by our Totipotent subsidiary. Other revenues declined due to lower storage of cord blood at the Novacord cord blood bank.

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	Year Ended	Year Ended
	December 31,	December 31,
	2018	2017
Device Segment:		
AXP	\$4,393,000	\$6,374,000
BioArchive	3,098,000	4,464,000
Manual Disposables	976,000	920,000
CAR-TXpress	907,000	151,000
Other	95,000	405,000
	9,469,000	12,314,000
Clinical Development Segment:		
Bone Marrow	135,000	219,000
Other	68,000	233,000
	203,000	452,000
	\$9,672,000	\$12,766,000

Gross Profit

The Company's gross profit was \$2,193,000 or 23% of net revenues for the year ended December 31, 2018, compared to \$5,060,000 or 40% for the year ended December 31, 2017. The decrease in gross profit is primarily driven by higher overhead costs due to the SynGen acquisition and lower overhead absorption due to reduced procurement. Additionally, the prior year gross profit margin percentage was higher due to the reversal of inventory reserves for products sold.

Sales and Marketing Expenses

Consolidated sales and marketing expenses were \$1,359,000 for the year ended December 31, 2018, as compared to \$1,691,000 for the year ended December 31, 2017, a decrease of \$332,000 or 20%. Predominantly all of the Company's sales and marketing expenses are generated by the Device Segment. The decrease was in the Device Segment and driven by consultant fees incurred during the prior year for the transition of the SynGen operations and a decrease in commissions as revenues decreased.

Research and Development Expenses

Consolidated research and development expenses were \$3,012,000 for the year ended December 31, 2018, compared to \$3,379,000 for the year ended December 31, 2017, a decrease of \$367,000 or 11%. The decrease is primarily driven by a decline in personnel costs due to the June 2018 reorganization.

General and Administrative Expenses

Consolidated general and administrative expenses for the year ended December 31, 2018 were \$8,286,000, compared to \$8,173,000 for the year ended December 31, 2017, an increase of \$113,000. The increase is driven by the loss on disposal of equipment during fiscal 2018.

Impairment Charges

The Company incurred impairment charges of \$33,081,000 during the year ended December 31, 2018 as compared to impairment charges of \$310,000 during the year ended December 31, 2017. During the three months ended June 30, 2018, the Company experienced a significant and sustained decline in its stock price resulting in its market capitalization falling significantly below the recorded value of its consolidated assets. The Company performed a quantitative assessment which determined that the carrying amount for the Company's goodwill and indefinite lived intangible assets relating to the clinical protocols exceeded its estimated fair value. As a result, impairment charges of \$12,695,000 to goodwill and \$14,507,000 to intangible assets were recorded to the Clinical Development Segment. Also, the Company has scaled back its' operating activities in India during the three months ended December 31, 2018, resulting in the impairment of the remaining goodwill and substantially all of the intangible assets including the remainder of the clinical protocols, associated with the acquisition of our Totipotent subsidiaries. Impairment charges of \$500,000 to goodwill and \$5,379,000 to intangible assets were recorded for the three months ended December 31, 2018.

Table of Contents***Benefit for Income Taxes***

The income tax benefit increased to \$4,730,000 in the year ended December 31, 2018 as compared to \$2,911,000 in the year ended December 31, 2017. The increase was due to the impairment of the indefinite lived intangible assets for the clinical protocols and goodwill. The Company's deferred tax liability is tied to the intangible assets and goodwill. The impairment caused the deferred tax liability to decrease which resulted in an income tax benefit for the period.

Six Months Ended December 31, 2017 Compared to Six Months Ended December 31, 2016 (unaudited)***Net Revenues***

Consolidated net revenues for six months ended December 31, 2017 were \$6,013,000 compared to \$7,772,000 for the six months ended December 31, 2016, a decrease of \$1,759,000. Device Segment revenues decreased primarily as a result of a single end user customer purchasing one-time larger than normal orders of AXP disposables to stock up inventory levels in the six months ended December 31, 2016, the distributor change in the China market and a one-time shipment of our remaining inventory associated with a discontinued product line (Res-Q) in the prior year six-month period. 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 eight during the six months ended December 31, 2017 as compared to none in the six months ended December 31, 2016.

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

	December 31, 2017	December 31, 2016
Device Segment:		
AXP	\$2,475,000	\$4,814,000
BioArchive	2,642,000	1,496,000
Manual Disposables	476,000	590,000
Bone Marrow	53,000	582,000
Other	79,000	64,000
	5,827,000	7,546,000
Clinical Development Segment:		
Bone Marrow	138,000	30,000
Other	48,000	196,000
	186,000	226,000
	\$6,013,000	\$7,772,000

Gross Profit

Consolidated gross profit was \$2,155,000 or 36% of revenues for the six months ended December 31, 2017 compared to \$2,934,000 or 38% of revenues for six months ended December 31, 2016. Our Device Segment gross profit margin decreased from \$2,938,000 or 39% to \$2,174,000 or 37% for the six months ended December 31, 2016 as compared to the six months ended December 31, 2017, respectively. The decrease was primarily due to higher overhead costs as a result of the SynGen acquisition.

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Sales and Marketing Expenses

Consolidated sales and marketing expenses were \$935,000 for the six months ended December 31, 2017, compared to \$775,000 for the six months ended December 31, 2016, an increase of \$160,000 or 21%. Predominantly all of the Company's sales and marketing expenses are generated by the Device Segment. The increase is primarily due to higher personnel costs related to filling previously open positions and the transition of the X-Series product lines to ThermoGenesis as a result of the SynGen acquisition.

Research and Development Expenses

Research and development expenses include costs associated with our engineering, regulatory, scientific and clinical functions.

Consolidated research and development expenses for six months ended December 31, 2017, were \$2,246,000 compared to \$1,364,000 for 2016, an increase of \$882,000 or 65%. Research and development expenses in our Device Segment increased \$1,574,000, while our Clinical Development Segment decreased \$702,000. The changes are due to additional headcount and expenses in the Device Segment related to the development of our CAR-TXpress platform which we acquired as a result of the SynGen acquisition, and a shift in existing personnel from the Clinical Development Segment to the Device Segment as we are minimally funding clinical development projects until a strategic partner is located.

General and Administrative Expenses

Consolidated general and administrative expenses for the six months ended December 31, 2017 were \$3,572,000, compared to \$6,316,000 for 2016, a decrease of \$2,744,000 or 43%. The decrease is driven by severance and accelerated stock expenses of approximately \$1.8 million for the termination of the former CEO in November 2016, the elimination of positions and a decrease in legal expenses of approximately \$1 million primarily due to settlement of the SynGen litigation.

Interest Expense

The decrease in interest expense to \$541,000 for the six months ended December 31, 2017 from \$10,537,000 for 2016 was primarily due to the conversion in the quarter ended September 30, 2016 of all outstanding principal and non-cash interest accrued and otherwise payable under the debentures of \$7,379,000 and additional non-cash interest expense of \$3,153,000 recorded based on the fair market value of the common stock issued upon conversion.

Benefit for Income Taxes

The deferred income tax benefit of \$2,238,000 is due to the recent income tax reform measure which changed the federal income tax rate for all corporations to 21%. The Company's deferred tax liability related to indefinite life intangible assets was re-measured at the 21% rate.

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Liquidity and Capital Resources

At December 31, 2018 and 2017, we had cash and cash equivalents of \$2,400,000 and \$3,513,000, respectively. At December 31, 2018 and 2017, we had working capital of \$2,261,000 and \$5,990,000. We have primarily financed operations through private and public placement of equity securities and our line of credit facility.

On August 28, 2018, the Company completed a private placement transaction with an accredited investor, in which the Company sold 1,000,000 shares of Common Stock for a purchase price of \$0.18 per share and 2,965,000 pre-funded warrants for a purchase price of \$0.17 per pre-funded warrant. Each pre-funded warrant is immediately exercisable for one share of Common Stock at an exercise price of \$0.01 per share and will remain exercisable until exercised in full. The Company received \$684,000 in gross proceeds, net proceeds of \$623,000 after deducting offering expenses of \$61,000. As of December 31, 2018, none of the pre-funded warrants issued in the August 2018 private placement have been exercised.

On May 18, 2018, the Company completed a public offering of 6,475,001 units (the “Units”) and 2,691,666 pre-funded units (the “Pre-Funded Units”) for a purchase price of \$0.60 per unit, resulting in aggregate gross proceeds of approximately \$5,500,000, and net proceeds of \$4,820,000 after deducting offering expenses of \$680,000. Each Unit consisted of one share of Common Stock, and one common warrant to purchase one share of Common Stock, and each Pre-Funded Unit consisted of one pre-funded warrant to purchase one share of Common Stock and one common warrant to purchase one share of Common Stock. The common warrants included in the Units and Pre-Funded Units were immediately exercisable at a price of \$0.60 per share of Common Stock, subject to adjustment in certain circumstances, and will expire five years from the date of issuance. As of June 30, 2018, all 2,691,666 Pre-Funded Units issued in the May 2018 public offering have been exercised.

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

On December 1, 2017, the Company closed a public offering of common stock consisting of an aggregate of 898,402 shares of common stock at a price to the public of \$3.00 per share for aggregate offering proceeds of \$2.7 million. After deducting the offering expenses the net proceeds in the offering were \$2,368,000.

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 (the “SynGen Transaction”). 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 \$2,528,000 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 mutual litigation.

The Company has a Revolving Credit Agreement with Boyalife Asset Holding II, Inc. As of December 31, 2018, the Company had drawn down \$7,200,000 of the \$10,000,000 available under the Revolving Credit Agreement. Future draw-downs may be limited for various reasons including default or foreign government policies that restrict or prohibit transferring funds. At the time of this filing, we are currently unable to draw down on the line of credit. This may change in the near future but there is no assurance that the line of credit will become available at such time when it is needed. 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.

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On August 22, 2016, the Company elected to convert all outstanding principal and interest accrued and otherwise payable under the Company's Secured Convertible Debentures aggregating \$23,903,000 dating back to Cesca's February 2016 financing. Upon conversion, 6,102,941 shares of common stock were issued and the debentures plus all related security interests and liens were terminated.

On August 3, 2016, the Company sold 600,000 shares of common stock at a price of \$4.10 per share. The net proceeds to the Company from the sale and issuance of the shares, after deducting the offering expenses borne by the Company, were \$2,092,000.

The Company has incurred recurring operating losses and as of December 31, 2018 had an accumulated deficit of \$227,435,000. These recurring losses raise substantial doubt about the Company's ability to continue as a going concern within one year after the issuance date. The Company anticipates requiring additional capital to grow the device business, to fund other operating expenses and to make interest payments on the line of credit with Boyalife Asset Holding II, Inc. The Company's ability to fund its cash needs is subject to various risks, many of which are beyond its control. The Company plans to seek additional funding through bank borrowings or public or private sales of debt or equity securities or strategic partnerships. The Company cannot guarantee that such funding will be available on a timely basis, in needed quantities or on terms favorable to the Company, if at all.

We generally do not require extensive capital equipment to produce or sell our current cord blood banking products. During the year ended December 31, 2018, we spent \$1,238,000 primarily for machinery and equipment, construction of an on-site cleanroom and information technology upgrades.

One customer had an accounts receivable balance of \$494,000 or 33% and \$172,000 or 7% at December 31, 2018 and 2017, respectively. One distributor had an accounts receivable balance of \$229,000 or 15% and \$12,000 at December 31, 2018 and 2017, respectively. A second distributor had an accounts receivable balance of \$220,000 or 15% and \$464,000 or 18% at December 31, 2018 and 2017, respectively. A related party distributor had an accounts receivable balance of \$0 and \$862,000 or 34% at December 31, 2018 and 2017, respectively.

Revenues from one customer totaled \$2,120,000 or 22%, \$560,000 or 9% and \$3,263,000 or 22% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. Revenues from one distributor totaled \$861,000 or 9%, \$520,000 or 9% and \$1,048,000 or 7% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. Revenues from a related party distributor totaled \$664,000 or 7%, \$1,679,000 or 28% and \$308,000 or 2% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. Revenues from one distributor totaled \$461,000 or 5%, \$480,000 or 8% and \$2,842,000 or 20% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. The Company did not renew the contract with this distributor in August 2017 and replaced it with a different distributor.

We manage the concentration of credit risk with these customers through a variety of methods including, letters of credit with financial institutions, pre-shipment deposits, credit reference checks and credit limits. Although management believes that these customers are sound and creditworthy, a severe adverse impact on their business operations could have a corresponding material effect on their ability to pay timely and therefore on our net revenues, cash flows and financial condition.

Critical Accounting Policies

The preparation of these consolidated financial statements requires us 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, we evaluate our estimates, including those related to stock-based compensation, depreciation, fair values of intangibles and goodwill, bad debts, inventories, warranties, contingencies and litigation. We base our 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.

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

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which generally range from three to ten years. Clinical protocols are not expected to provide economic benefit until they are introduced to the marketplace or licensed to an independent entity and are therefore not yet subject to amortization. Each period the Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

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

Revenue Recognition

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

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

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

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

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

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

Disaggregation of Revenue

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

Device Sales

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

Service Revenue

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

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

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Clinical Services

Service revenue in our Clinical Development Segment includes point of care procedures and cord blood processing and storage. Point of care procedures are recognized when the procedures are performed. Cord blood processing and storage is recognized as the performance obligations are satisfied. Processing revenue is recognized when that performance obligation is completed immediately after the baby's birth, with storage revenue recorded as deferred revenue and recognized ratably over time for up to 21 years. As of December 31, 2018, the total deferred cord blood storage revenue is \$257,000 and is included in other non-current liabilities in the condensed consolidated balance sheets. The customer may pay for both services at the time of processing. The amount of the transaction price allocated to each of the performance obligations is determined by using the standalone selling price of each component.

Performance Obligations

There is no right of return provided for distributors or customers. For all distributors, the Company has no control over the movement of goods to the end customer. The Company's distributors control the timing, terms and conditions of the transfer of goods to the end customer. Additionally, for sales of products made to distributors, the Company considers a number of factors in determining whether revenue is recognized upon transfer of title to the distributor, or when payment is received. These factors include, but are not limited to, whether the payment terms offered to the distributor are considered to be non-standard, the distributor history of adhering to the terms of its contractual arrangements with the Company, the level of inventories maintained by the distributor, whether the Company has a pattern of granting concessions for the benefit of the distributor, and whether there are other conditions that may indicate that the sale to the distributor is not substantive. Additionally, the Company currently recognizes revenue primarily on the sell-in method with its distributors.

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

Contract Balances

The Company records a receivable when the titles of goods have transferred, maintenance contracts have been fully executed or when services have been rendered. Generally, all sales are contract sales (with either an underlying contract or purchase order). The Company does not have any material contract assets. When invoicing occurs prior to revenue recognition a contract liability is recorded (as deferred revenue on the Balance Sheet).

Revenues 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.

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Stock-Based Compensation

We use the Black-Scholes-Merton option-pricing formula in determining the fair value of our options at the grant date and apply judgment in estimating the key assumptions that are critical to the model such as the expected term, volatility and forfeiture rate of an option. Our estimate of these key assumptions is based on historical information and judgment regarding market factors and trends. If any of the key assumptions change significantly, stock-based compensation expense for new awards may differ materially in the future from that recorded in the current period. The compensation expense is then amortized over the vesting period.

Income Taxes

Our estimates of income taxes and the significant items resulting in the recognition of deferred tax assets and liabilities reflect our assessment of future tax consequences of transactions that have been reflected in the financial statements or tax returns for each taxing jurisdiction in which we operate. We base our provision for income taxes on our current period results of operations, changes in deferred income tax assets and liabilities, income tax rates, and changes in estimates of uncertain tax positions in the jurisdictions in which we operate. We recognize deferred tax assets and liabilities when there are temporary differences between the financial reporting basis and tax basis of assets and liabilities and for the expected benefits of using net operating loss and tax credit loss carryforwards. We establish valuation allowances when necessary to reduce the carrying amount of deferred income tax assets to the amounts that we believe are more likely than not to be realized. We evaluate the need to retain all or a portion of the valuation allowance on recorded deferred tax assets. When a change in the tax rate or tax law has an impact on deferred taxes, we apply the change based on the years in which the temporary differences are expected to reverse. As we operate in more than one state, changes in the state apportionment factors, based on operational results, may affect future effective tax rates and the value of recorded deferred tax assets and liabilities. We record a change in tax rates in the consolidated financial statements in the period of enactment.

Income tax consequences that arise in connection with a business combination include identifying the tax basis of assets and liabilities acquired and any contingencies associated with uncertain tax positions assumed or resulting from the business combination. Deferred tax assets and liabilities related to temporary differences of an acquired entity are recorded as of the date of the business combination and are based on our estimate of the appropriate tax basis that will be accepted by the various taxing authorities and its determination as to whether any of the acquired deferred tax liabilities could be a source of taxable income to realize our pre-existing deferred tax assets.

Inventory Valuation

We state inventories at lower of cost or market value determined on a first-in, first-out basis. We provide write-downs of inventory when conditions indicate that the selling price could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes, which it includes as a component of cost of revenues. Additionally, we provide valuation allowances for excess and slow-moving inventory on hand that are not expected to be sold to reduce the carrying amount of slow-moving inventory to its estimated net realizable value. The valuation allowances are based upon estimates about future demand from our customers and distributors and market conditions. Because some of our 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 inventories. As a result, actual demand may differ from forecasts and we may be required to record additional inventory valuation allowances that could adversely impact our gross margins. Conversely, favorable changes in demand could result in higher gross margins when those products are sold.

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Warranty

We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our 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 our estimates, revisions to the estimated warranty liability could have a material impact on our financial position, cash flows or results of operations.

Recent Accounting Standards

See footnote 2 “Summary of Significant Accounting Policies” to the Notes to the Consolidated Financial Statements contained in Item 8.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the SEC Act of 1934 and are not required to provide information under this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

Cesca Therapeutics Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Cesca Therapeutics Inc. (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, stockholders’ equity and cash flows for the year ended December 31, 2018, transitional six months ended 2017 and the year ended June 30, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the year ended December 31, 2018, the transitional six months ended December 31, 2017 and the year ended June 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring losses and as of December 31, 2018 had an accumulated deficit of \$227,435,000. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum LLP

We have served as the Company's auditor since 2015.

Marcum LLP

New York, NY

March 26, 2019

Table of Contents**Cesca Therapeutics Inc.****Consolidated Balance Sheets**

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,400,000	\$3,513,000
Accounts receivable, net of allowance for doubtful accounts of \$419,000 (\$274,000 at December 31, 2017)	1,495,000	1,687,000
Accounts receivable – related party	14,000	862,000
Inventories, net of reserves of \$258,000 (\$1,069,000 at December 31, 2017)	4,493,000	4,798,000
Prepaid expenses and other current assets	224,000	594,000
Total current assets	8,626,000	11,454,000
Restricted cash	1,000,000	1,000,000
Equipment and leasehold improvements, net	2,562,000	2,996,000
Goodwill	781,000	13,976,000
Intangible assets, net	1,591,000	21,629,000
Other assets	51,000	56,000
Total assets	\$14,611,000	\$51,111,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,423,000	\$2,079,000
Accrued payroll and related expenses	703,000	532,000
Deferred revenue	485,000	384,000
Related party payable	--	606,000
Interest payable – related party	1,513,000	657,000
Other current liabilities	1,241,000	1,206,000
Total current liabilities	6,365,000	5,464,000
Convertible promissory note – related party, less debt discount of \$6,026,000 (\$0 at December 31, 2017)	1,174,000	6,700,000
Derivative obligations	1,000	597,000
Noncurrent deferred tax liability	--	4,730,000
Other noncurrent liabilities	340,000	408,000
Total liabilities	7,880,000	17,899,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized, none issued and outstanding at December 31, 2018 and 2017	--	--

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Common stock, \$0.001 par value; 350,000,000 shares authorized; 21,649,147 issued and outstanding (10,872,428 at December 31,2017)	22,000	11,000
Paid in capital in excess of par	235,868,000	221,371,000
Accumulated deficit	(227,435,000)	(187,640,000)
Accumulated other comprehensive loss	(13,000)	(43,000)
Total Cesca Therapeutics Inc. stockholders' equity	8,442,000	33,699,000
Non-controlling interests	(1,711,000)	(487,000)
Total equity	6,731,000	33,212,000
Total liabilities and stockholders' equity	\$ 14,611,000	\$ 51,111,000

See accompanying notes to consolidated financial statements.

Table of Contents**Cesca Therapeutics Inc.****Consolidated Statements of Operations and Comprehensive loss**

	Year Ended	Six Months	Year Ended
	December	December	June 30,
	31,	31,	2017
	2018	2017	2017
Net revenues	\$9,003,000	\$4,334,000	\$14,217,000
Net revenues – related party	669,000	1,679,000	308,000
Total net revenues	9,672,000	6,013,000	14,525,000
Cost of revenues	7,479,000	3,858,000	8,686,000
Gross profit	2,193,000	2,155,000	5,839,000
Expenses:			
Sales and marketing	1,359,000	935,000	1,531,000
Research and development	3,012,000	2,246,000	2,497,000
General and administrative	8,286,000	3,572,000	10,870,000
Impairment charges	33,081,000	--	310,000
Total operating expenses	45,738,000	6,753,000	15,208,000
Loss from operations	(43,545,000)	(4,598,000)	(9,369,000)
Other income (expense):			
Interest expense	(2,697,000)	(541,000)	(20,519,000)
Fair value change of derivative instruments	596,000	133,000	(60,000)
Other income and (expenses)	(24,000)	(2,000)	180,000
Total other expense	(2,125,000)	(410,000)	(20,399,000)
Loss before benefit for income taxes	(45,670,000)	(5,008,000)	(29,768,000)
Benefit for income taxes	4,730,000	2,238,000	673,000
Net loss	(40,940,000)	(2,770,000)	(29,095,000)
Loss attributable to non-controlling interests	(1,224,000)	(487,000)	--
Net loss attributable to common stockholders	\$(39,716,000)	\$(2,283,000)	\$(29,095,000)
COMPREHENSIVE LOSS (December 31, 2017 restated)			
Net loss	\$(40,940,000)	\$(2,770,000)	\$(29,095,000)
Other comprehensive loss:			
Foreign currency translation adjustments	30,000	(5,000)	(1,000)
Comprehensive loss	(40,910,000)	(2,775,000)	\$(29,096,000)
Comprehensive loss attributable to non-controlling interests	(1,224,000)	(487,000)	--
Comprehensive loss attributable to common stockholders	\$(39,686,000)	\$(2,288,000)	\$(29,096,000)

Table of Contents**Cesca Therapeutics Inc.****Consolidated Statements of Stockholders' Equity**

	Common Stock		Paid in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' equity	Non-controlling interests in subsidiary	Total equity
	Shares	Amount	in excess of par					
Balance at June 30, 2016	3,010,687	\$3,000	\$188,569,000	\$(156,262,000)	\$(37,000)	\$32,273,000	--	\$32,273,000
Stock-based compensation expense, net of stock surrenders	125,368	--	1,445,000	--	--	1,445,000	--	1,445,000
Shares issued upon debt conversion	6,102,941	6,000	23,897,000	--	--	23,903,000	--	23,903,000
Issuance of common stock in financing, net of offering costs	600,000	1,000	2,091,000	--	--	2,092,000	--	2,092,000
Common stock issued to directors in lieu of cash	5,463	--	16,000	--	--	16,000	--	16,000
Common stock issued to employees for prior year bonus	71,409	--	204,000	--	--	204,000	--	204,000
Foreign currency translation	--	--	--	--	(1,000)	(1,000)	--	(1,000)
Net loss	--	--	--	(29,095,000)	--	(29,095,000)	--	(29,095,000)
Balance at June 30, 2017	9,915,868	10,000	216,222,000	(185,357,000)	(38,000)	30,837,000	--	30,837,000
Stock-based compensation expense, net of stock surrenders	52,825	--	239,000	--	--	239,000	--	239,000
Issuance of common stock in financing, net of	898,402	1,000	2,367,000	--	--	2,368,000	--	2,368,000

offering costs								
Fair value of subsidiary commonstock issued in acquisition	--	--	2,528,000	--	--	2,528,000	--	2,528,000
Exercise of stock options	5,333	--	15,000	--	--	15,000	--	15,000
Foreign currency translation	--	--	--	--	(5,000)	(5,000)	--	(5,000)
Net loss	--	--	--	(2,283,000)	--	(2,283,000)	(487,000)	(2,770,000)
Balance at December 31, 2017	10,872,428	11,000	221,371,000	(187,640,000)	(43,000)	33,699,000	(487,000)	33,212,000
Stock-based compensation expense	416	--	652,000	--	--	652,000	--	652,000
Issuance of common stock and pre-funded warrants in financing, net of offering costs	8,084,637	8,000	6,621,000	--	--	6,629,000	--	6,629,000
Exercise of warrants	2,691,666	3,000	24,000	--	--	27,000	--	27,000
Discount due to beneficial conversion features	--	--	7,200,000	--	--	7,200,000	--	7,200,000
Cumulative-effect adjustment from adoption of ASC 606	--	--	--	(79,000)	--	(79,000)	--	(79,000)
Foreign currency translation	--	--	--	--	30,000	30,000	--	30,000
Net loss	--	--	--	(39,716,000)	--	(39,716,000)	(1,224,000)	(40,940,000)
Balance at December 31, 2018	21,649,147	\$22,000	\$235,868,000	\$(227,435,000)	\$(13,000)	\$8,442,000	\$(1,711,000)	\$6,731,000

See accompanying notes to consolidated financial statements.

Table of Contents**Cesca Therapeutics Inc.****Consolidated Statements of Cash Flows**

	Year Ended	Six Months	Year Ended
	December	December	June 30,
	31,	31,	2017
	2018	2017	2017
Cash flows from operating activities:			
Net loss	\$(40,940,000)	\$(2,770,000)	\$(29,095,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	670,000	322,000	830,000
Stock-based compensation expense	652,000	291,000	1,461,000
(Recovery of) reserve for excess and slow-moving inventories	(11,000)	(162,000)	(203,000)
Bad debt expense	153,000	170,000	50,000
Amortization of debt discount	1,174,000	--	9,851,000
Amortization of debt issue costs	--	--	160,000
Change in fair value of derivative	(596,000)	(133,000)	60,000
Deferred income tax benefit	(4,730,000)	(2,238,000)	(673,000)
Non-cash accrued interest	--	--	10,373,000
Loss on disposal of equipment and leasehold improvements	1,360,000	8,000	176,000
Impairment of intangible asset	33,081,000	--	310,000
Net changes in operating assets and liabilities:			
Accounts receivable	1,045,000	987,000	(572,000)
Inventories	61,000	(367,000)	615,000
Prepaid expenses and other assets	370,000	(347,000)	24,000
Accounts payable	214,000	469,000	(1,062,000)
Related party payable	(606,000)	--	606,000
Accrued payroll and related expenses	172,000	148,000	(63,000)
Deferred revenue	24,000	(213,000)	(187,000)
Other current liabilities	922,000	481,000	26,000
Other noncurrent liabilities	2,000	37,000	98,000
Net cash (used in) operating activities	(6,983,000)	(3,317,000)	(7,215,000)
Cash flows from investing activities:			
Cash paid for business acquisition	--	(1,000,000)	--
Capital expenditures	(1,238,000)	(296,000)	(375,000)
Net cash (used in) investing activities	(1,238,000)	(1,296,000)	(375,000)
Cash flows from financing activities:			
Proceeds from convertible promissory note-related party	500,000	3,200,000	3,500,000
Payments on capital lease obligations	(45,000)	(29,000)	(84,000)
Proceeds from issuance of common stock and pre-funded warrants, net	6,629,000	2,368,000	2,092,000
Exercise of warrants	27,000	--	--
Exercise of options	--	15,000	--

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Cash paid for taxes on vested stock	--	(52,000)	(134,000)
Net cash provided by financing activities	7,111,000	5,502,000	5,374,000
Effects of foreign currency rate changes on cash and cash equivalents	(3,000)	1,000	4,000
Net increase (decrease) in cash, cash equivalents and restricted cash	(1,113,000)	890,000	(2,212,000)
Cash, cash equivalents and restricted cash at beginning of period	4,513,000	3,623,000	5,835,000
Cash, cash equivalents and restricted cash at end of period	\$3,400,000	\$4,513,000	\$3,623,000
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$667,000	\$4,000	\$6,000
Supplemental non-cash financing and investing information:			
Common stock issued for payment of convertible debenture and interest	--	--	\$23,903,000
Recording of beneficial conversion feature on debt	\$7,200,000	--	--
Transfer of inventories to equipment and leasehold improvements	\$420,000	--	--
Transfer of equipment to inventories	\$172,000	--	\$625,000
Acquisition of business:			
Inventories	--	\$649,000	--
Equipment	--	\$585,000	--
Intangible assets	--	\$1,528,000	--
Goodwill	--	\$781,000	--
Liabilities assumed	--	\$15,000	--
Subsidiary common stock issued for acquisition of net assets	--	\$2,528,000	--

See accompanying notes to consolidated financial statements.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business, Going Concern and Basis of Presentation

Organization and Basis of Presentation

Cesca Therapeutics Inc. (“Cesca Therapeutics,” “Cesca,” the “Company”), a Delaware corporation, develops, commercializes and markets a range of automated technologies for CAR-T and other cell-based therapies. The Company was founded in 1986 and is headquartered in Rancho Cordova, CA. ThermoGenesis Corp. (“ThermoGenesis”), its device subsidiary, provides the AutoXpress[®] and BioArchive[®] platforms for automated clinical bio-banking, 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 technology platforms to develop autologous cell-based therapies that address significant unmet needs in the vascular and orthopedic markets.

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

In August 2017, the Company changed its fiscal year from June 30 to December 31. As a result, this annual report on Form 10-K includes financial statements as of and for (i) the calendar year ended December 31, 2018 and (ii) the six months ended December 31, 2017; and for the fiscal year ended June 30, 2017. The period beginning on July 1, 2016 and ending on June 30, 2017 is referred in these financial statements as “fiscal 2017”.

Liquidity and Going Concern

The Company has a Revolving Credit Agreement (the “Credit Agreement”) with Boyalife Asset Holding II, Inc. (Refer to Note 6). As of December 31, 2018, the Company had drawn down \$7,200,000 of the \$10,000,000 available under the Credit Agreement. Future draw-downs may be limited for various reasons including default or foreign government policies that restrict or prohibit transferring funds. At the time of this filing, we are currently unable to draw down on the line of credit. This may change in the near future but there is no assurance that the line of credit will become available at such time when it is needed. Boyalife Asset Holding II, Inc. is a wholly owned subsidiary of Boyalife Group Inc., which is owned and controlled by the Company’s Chief Executive Officer and Chairman of the Board.

On August 28, 2018, the Company completed a private placement transaction with an accredited investor, in which the Company sold 1,000,000 shares of the Company's common stock, par value \$0.001 per share (Common Stock), for a purchase price of \$0.18 per share and 2,965,000 pre-funded warrants for a purchase price of \$0.17 per pre-funded warrant. Each pre-funded warrant is immediately exercisable for one share of Common Stock at an exercise price of \$0.01 per share and will remain exercisable until exercised in full. The Company received \$684,000 in gross proceeds, net proceeds of \$623,000 after deducting offering expenses of \$61,000. As of December 31, 2018, none of the pre-funded warrants issued in the August 2018 private placement have been exercised. In addition, subject to certain exceptions, in the event the Company sells or issues any shares of Common Stock or common stock equivalents through February 26, 2019, the Company is required to issue the selling stockholder a number of shares of Common Stock (or additional pre-funded warrants to purchase shares of Common Stock) equal to the number of shares the selling stockholder would have received had the purchase price for such shares been at such lower purchase price.

On May 18, 2018, the Company completed a public offering of 6,475,001 units (the "Units") and 2,691,666 pre-funded units (the "Pre-Funded Units") for a purchase price of \$0.60 per unit, resulting in aggregate gross proceeds of approximately \$5,500,000, and net proceeds of \$4,820,000 after deducting offering expenses of \$680,000. Each Unit consisted of one share of Common Stock, and one common warrant to purchase one share of Common Stock, and each Pre-Funded Unit consisted of one pre-funded warrant to purchase one share of Common Stock and one common warrant to purchase one share of Common Stock. The common warrants included in the Units and Pre-Funded Units were immediately exercisable at a price of \$0.60 per share of Common Stock, subject to adjustment in certain circumstances, and will expire five years from the date of issuance. As of June 30, 2018, all 2,691,666 Pre-Funded Units issued in the May 2018 public offering had been exercised.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Description of Business, Going Concern and Basis of Presentation (Continued)

Liquidity and Going Concern (Continued)

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

At December 31, 2018, the Company had cash and cash equivalents of \$2,400,000 and working capital of \$2,261,000. The Company has incurred recurring operating losses and as of December 31, 2018 had an accumulated deficit of \$227,435,000. These recurring losses raise substantial doubt about the Company's ability to continue as a going concern within one year after the issuance date. The Company anticipates requiring additional capital to grow the device business, to fund other operating expenses and to make interest payments on the line of credit with Boyalife Asset Holding II, Inc. The Company's ability to fund its cash needs is subject to various risks, many of which are beyond its control. The Company plans to seek additional funding through bank borrowings or public or private sales of debt or equity securities or strategic partnerships. The Company cannot guarantee that such funding will be available on a timely basis, in needed quantities or on terms favorable to the Company, if at all.

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

Principles of Consolidation

The consolidated financial statements include the accounts of Cesca, its majority-owned subsidiary, ThermoGenesis, and its wholly-owned subsidiary, TotipotentRX Cell Therapy, Pvt. Ltd. "TotipotentRX"). During the year ended December 31, 2018, TotipotentSC Scientific Product Pvt. Ltd., a wholly-owned subsidiary of the Company, merged into TotipotentRX. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Non-controlling 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 "non-controlling interest" in the Company's consolidated statements of operations. Net loss attributable to non-controlling interest reflects only its share of the after-tax earnings or losses of an affiliated company. The Company's consolidated balance sheets reflect non-controlling interests within the equity section.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and pursuant to the rules and regulations of the United States Securities Exchange Commission (SEC) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the allowance for doubtful accounts, slow-moving inventory reserves, depreciation, warranty costs, assumptions made in valuing equity instruments issued for services or acquisitions, deferred income taxes and related valuation allowance and the fair values of intangibles and goodwill. Actual results could materially differ from the estimates and assumptions used in the preparation of the Company's consolidated financial statements.

Revenue Recognition

Revenue is recognized based on the five-step process outlined in Accounting Standards Codification ("ASC") 606:

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

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

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

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

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

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Device Sales

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

Service Revenue

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

Clinical Services

Service revenue in our Clinical Development Segment includes point of care procedures and cord blood processing and storage. Point of care procedures are recognized when the procedures are performed. Cord blood processing and storage is recognized as the performance obligations are satisfied. Processing revenue is recognized when that performance obligation is completed immediately after the baby's birth, with storage revenue recorded as deferred revenue and recognized ratably over time for up to 21 years. As of December 31, 2018, the total deferred cord blood storage revenue is \$257,000 and is included in other non-current liabilities in the consolidated balance sheets. The customer may pay for both services at the time of processing. The amount of the transaction price allocated to each of the performance obligations is determined by using the standalone selling price of each component.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****2. Summary of Significant Accounting Policies (Continued)**

The following table summarizes the revenues of the Company's reportable segments for the year ended December 31, 2018:

	Year Ended December 31, 2018			
	Device	Service	Other	Total
	Revenue	Revenue	Revenue	Revenue
Device Segment:				
AXP	\$4,131,000	\$262,000	\$--	\$4,393,000
BioArchive	1,792,000	1,306,000	--	3,098,000
Manual Disposables	976,000	--	--	976,000
CAR-TXpress	907,000	--	--	907,000
Other	--	--	95,000	95,000
Total Device Segment	7,806,000	1,568,000	95,000	9,469,000
Clinical Development Segment:				
Bone Marrow	--	135,000	--	135,000
Other	38,000	30,000	--	68,000
Total Clinical Development	38,000	165,000	--	203,000
Total	\$7,844,000	\$1,733,000	\$95,000	\$9,672,000

There is no right of return provided for distributors or customers. For all distributors, the Company has no control over the movement of goods to the end customer. The Company's distributors control the timing, terms and conditions of the transfer of goods to the end customer. Additionally, for sales of products made to distributors, the Company considers a number of factors in determining whether revenue is recognized upon transfer of title to the distributor, or when payment is received. These factors include, but are not limited to, whether the payment terms offered to the distributor are considered to be non-standard, the distributor history of adhering to the terms of its contractual arrangements with the Company, the level of inventories maintained by the distributor, whether the Company has a pattern of granting concessions for the benefit of the distributor, and whether there are other conditions that may indicate that the sale to the distributor is not substantive..

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

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****2. Summary of Significant Accounting Policies (Continued)***Contract Balances*

Generally, all sales are contract sales (with either an underlying contract or purchase order). The Company does not have any material contract assets. When invoicing occurs prior to revenue recognition a contract liability is recorded (as deferred revenue on the consolidated balance sheet). Revenues recognized during the year ended December 31, 2018 that were included in the beginning balance of deferred revenue were \$384,000. Short term deferred revenues was \$485,000 and \$384,000 at December 31, 2018 and 2017, respectively. Long term deferred revenue, included in other noncurrent liabilities, was \$303,000 and \$331,000 at December 31, 2018 and 2017, respectively.

Backlog of Remaining Customer Performance Obligations

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

	2019	2020	2021	2022 and beyond	Total
Service revenue	\$1,035,000	\$369,000	\$112,000		\$1,516,000
Clinical revenue	14,000	14,000	14,000	\$210,000	252,000
Total	\$1,049,000	\$383,000	\$126,000	\$210,000	\$1,768,000

Revenues are net of normal discounts. Shipping and handling fees billed to customers are included in net revenues, while the related costs are included in cost of revenues.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. The Company's cash and cash equivalents is maintained in checking accounts, money market funds and certificates of deposits with reputable financial institutions that may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The Company has cash and cash equivalents of \$11,000 and \$71,000 at December 31, 2018 and 2017 in India. The Company has not experienced any

realized losses on the Company's deposits of cash and cash equivalents.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation

The Company's reporting currency is the US dollar. The functional currency of the Company's subsidiaries in India is the Indian rupee (INR). Assets and liabilities are translated into US dollars at period end exchange rates. Revenue and expenses are translated at average rates of exchange prevailing during the periods presented. Cash flows are also translated at average exchange rates for the period, therefore, amounts reported on the consolidated statement of cash flows do not necessarily agree with changes in the corresponding balances on the consolidated balance sheet. Equity accounts other than retained earnings are translated at the historic exchange rate on the date of investment. A translation gain (loss) of \$30,000, \$(5,000) and \$(1,000) was recorded for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively, as a component of other comprehensive income.

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which generally range from three to ten years. Clinical protocols are not expected to provide economic benefit until they are introduced to the marketplace or licensed to an independent entity and are therefore not yet subject to amortization. Each period the Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

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

Fair Value of Financial Instruments

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 for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

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: Other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company's receivables are recorded when billed and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Company estimates the allowance for doubtful accounts based on historical collection trends, age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that a specific receivable balance may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. A customer's receivable balance is considered past-due based on its contractual terms. Past-due receivable balances are written-off when the Company's internal collection efforts have been unsuccessful in collecting the amount due.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at the lower of cost or net realizable value and include the cost of material, labor and manufacturing overhead. Cost is determined on the first-in, first-out basis. The Company writes-down inventory to its estimated net realizable value when conditions indicate that the selling price could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes, which it includes as a component of cost of revenues. Additionally, the Company provides valuation allowances for excess and slow-moving inventory on hand that are not expected to be sold to reduce the carrying amount of slow-moving inventory to its estimated net realizable value. The valuation allowances are based upon estimates about future demand from its 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 the Company will forecast incorrectly and purchase or produce excess inventories. As a result, actual demand may differ from forecasts and the Company may be required to record additional inventory valuation allowances that could adversely impact its gross margins. Conversely, favorable changes in demand could result in higher gross margins when those products are sold.

Equipment and Leasehold Improvements

Equipment consisting of office furniture, computer, machinery and equipment is recorded at cost less accumulated depreciation. Repairs and maintenance costs are expensed as incurred. Depreciation for office furniture, computer, machinery and equipment is computed under the straight-line method over the estimated useful lives. Leasehold improvements are amortized under the straight-line method over their estimated useful lives or the remaining lease period, whichever is shorter. When equipment and leasehold improvements is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and the impact of any resulting gain or loss is recognized within general and administrative expenses in the consolidated statement of operations for the period.

Warranty

The Company provides for the estimated cost of product warranties at the time revenue is recognized. The Company's warranty obligation is calculated based on estimated product failure rates, material usage and estimated service

delivery costs incurred in correcting a product failure.

Debt Discount and Issue Costs

The Company amortizes debt discount and debt issue costs over the life of the associated debt instrument, using the straight-line method which approximates the interest rate method.

Derivative Financial Instruments

In connection with the sale of convertible debt and equity instruments, the Company may also issue freestanding warrants. If freestanding warrants are issued and accounted for as derivative instrument liabilities (rather than as equity), the proceeds are first allocated to the fair value of those instruments. The remaining proceeds, if any, are then allocated to the convertible instrument, usually resulting in that instrument being recorded at a discount from its face amount. Derivative financial instruments are initially measured at their fair value using a Binomial Lattice Valuation Model and then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company has three stock-based compensation plans, which are described more fully in Note 10.

Valuation and Amortization Method – The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing formula. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The formula does not include a discount for post-vesting restrictions, as we have not issued awards with such restrictions.

Expected Term – For options which the Company has limited available data, the expected term of the option is based on the simplified method. This simplified method averages an award's vesting term and its contractual term. For all other options, the Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior.

Expected Volatility – Expected volatility is based on historical volatility. Historical volatility is computed using daily pricing observations for recent periods that correspond to the expected term of the options.

Expected Dividend – The Company has not declared dividends and does not anticipate declaring any dividends in the foreseeable future. Therefore, the Company uses a zero value for the expected dividend value factor to determine the fair value of options granted.

Risk-Free Interest Rate – The Company bases the risk-free interest rate used in the valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with the same expected term.

Estimated Forfeitures – When estimating forfeitures, the Company considers voluntary and involuntary termination behavior as well as analysis of actual option forfeitures.

Research and Development

Research and development costs, consisting of salaries and benefits, costs of clinical trials, costs of disposables, facility costs, contracted services and stock-based compensation from the engineering, regulatory, scientific and clinical affairs departments, that are useful in developing and clinically testing new products, services, processes or techniques, as well as expenses for activities that may significantly improve existing products or processes are expensed as incurred. Costs to acquire technologies that are utilized in research and development and that have no future benefit are expensed when incurred.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Acquired In-Process Research and Development

Acquired in-process research and development (clinical protocols) that the Company acquires through business combinations represents the fair value assigned to incomplete research projects which, at the time of acquisition, have not reached technological feasibility. The amounts are capitalized and are accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project, the Company will make a determination as to the then useful life of the intangible asset, generally determined by the period in which the substantial majority of the cash flows are expected to be generated and begin amortization. The Company tests clinical protocols for impairment at least annually, or more frequently if impairment indicators exist, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the clinical protocols intangible asset is less than its carrying amount. If the Company concludes it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value of the clinical protocol intangible asset with its carrying value is performed. If the fair value is less than the carrying amount, an impairment loss is recognized in operating results.

Patent Costs

The costs incurred in connection with patent applications, in defending and maintaining intellectual property rights and litigation proceedings are expensed as incurred.

Credit Risk

Currently, the Company primarily manufactures and sells cellular processing systems and thermodynamic devices principally to the blood and cellular component processing industry and performs ongoing evaluations of the credit worthiness of the Company's customers. The Company believes that adequate provisions for uncollectible accounts have been made in the accompanying consolidated financial statements. To date, the Company has not experienced significant credit related losses.

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

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

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

The tax years 1999-2018 remain open to examination by the major taxing jurisdictions to which the Company is subject; however, there is no current examination. 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 was no unrecognized tax benefits during the periods presented.

The Company's estimates of income taxes and the significant items resulting in the recognition of deferred tax assets and liabilities reflect the Company's assessment of future tax consequences of transactions that have been reflected in the financial statements or tax returns for each taxing jurisdiction in which the Company operates. The Company bases the provision for income taxes on the Company's current period results of operations, changes in deferred income tax assets and liabilities, income tax rates, and changes in estimates of uncertain tax positions in the jurisdictions in which the Company operates. The Company recognizes deferred tax assets and liabilities when there are temporary differences between the financial reporting basis and tax basis of assets and liabilities and for the expected benefits of using net operating loss and tax credit loss carryforwards. The Company establishes valuation allowances when necessary to reduce the carrying amount of deferred income tax assets to the amounts that the Company believes are more likely than not to be realized. The Company evaluates the need to retain all or a portion of the valuation allowance on recorded deferred tax assets. When a change in the tax rate or tax law has an impact on deferred taxes, the differences are expected to reverse. As the Company operates in more than one state, changes in the state apportionment factors, based on operational results, may affect future effective tax rates and the value of recorded deferred tax assets and liabilities. The Company records a change in tax rates in the consolidated financial statements in the period of enactment.

Income tax consequences that arise in connection with a business combination include identifying the tax basis of assets and liabilities acquired and any contingencies associated with uncertain tax positions assumed or resulting from the business combination. Deferred tax assets and liabilities related to temporary differences of an acquired entity are recorded as of the date of the business combination and are based on the Company's estimate of the appropriate tax basis that will be accepted by the various taxing authorities and its determination as to whether any of the acquired deferred tax liabilities could be a source of taxable income to realize the Company's pre-existing deferred tax assets.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****2. Summary of Significant Accounting Policies (Continued)*****Net Loss per Share***

Net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding plus the pre-funded warrants. For the purpose of calculating basic net loss per share, the additional shares of common stock that are issuable upon exercise of the pre-funded warrants have been included since the shares are issuable for a negligible consideration and have no vesting or other contingencies associated with them. There were 2,965,000 pre-funded warrants included in the year ended December 31, 2018 calculation. The calculation of the basic and diluted earnings per share is the same for all periods presented, as the effect of the potential common stock equivalents noted below is anti-dilutive due to the Company's net loss position for all periods presented. Anti-dilutive securities consisted of the following at December 31:

	December 31, 2018	December 31, 2017	June 30, 2017
Common stock equivalents of convertible promissory note and accrued interest	48,405,556	--	--
Vested Series A warrants	404,412	404,412	404,412
Unvested Series A warrants ⁽¹⁾	698,529	698,529	698,529
Warrants – other	16,162,267	3,725,782	3,725,782
Stock options	3,023,639	1,156,027	397,388
Restricted stock units	--	416	59,694
Total	68,694,403	5,985,166	5,285,805

The unvested Series A warrants were subject to vesting based upon the amount of funds actually received by the 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.

Reclassifications

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

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Standards

In July 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-11, “*Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features; (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception*”. ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The guidance in ASU 2017-11 can be applied using a full or modified retrospective approach. The Company has elected to early adopt ASU 2017-11 effective April 1, 2018. Prior to April 1, 2018, the Company did not have any convertible instruments with embedded conversion features that contained a down round provision, so prior periods will not be impacted. On April 16, 2018, the Company signed the Amended and Restated Credit Agreement with Boyalife Asset Holding II, Inc. The agreement is a convertible instrument which has an embedded conversion feature containing a down round provision. Adoption of ASU 2017-11 resulted in the exclusion of the down round feature in determining if the embedded conversion feature was indexed to the Company’s own stock. Refer to Note 6 for additional information.

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

On January 1, 2018, the Company adopted ASU No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*” (“ASC606”) and related updates. Using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for the reporting period beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic

accounting under “Revenue Recognition” (Topic 605). The Company recorded a net increase to accumulated deficit of \$79,000 as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact related to service obligations requiring deferral. ASC 606 requires the Company to defer costs related to obligations on service contracts with limited performance obligations. Under previous guidance, these service obligations were amortized on a straight-line basis.

Recently Adopted Accounting Standards

In January 2017, the FASB issued ASU 2017-04 “*Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*” which removes Step 2 from the goodwill impairment test. It is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for an interim or annual goodwill impairment test performed with a measurement date after January 1, 2017. The Company has elected to early adopt ASU 2017-04 effective October 1, 2018. Adoption of the new standard did not have a material impact on the financial statements of the Company.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

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

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

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards (Continued)

In February 2016, the FASB issued ASU 2016-02 “*Leases*,” which increases transparency and compatibility among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted the standard on January 1, 2019.

The new standard requires lessees to recognize both the right-of-use assets and lease liabilities in the balance sheet for most leases, whereas under previous GAAP only finance lease liabilities (previously referred to as capital leases) were recognized in the balance sheet. In addition, the definition of a lease has been revised which may result in changes to the classification of an arrangement as a lease. Under the new standard, an arrangement that conveys the right to control the use of an identified asset by obtaining substantially all of its economic benefits and directing how it is used as a lease, whereas the previous definition focuses on the ability to control the use of the asset or to obtain its output. Quantitative and qualitative disclosures related to the amount, timing and judgements of an entity’s accounting for leases and the related cash flows are expanded. Disclosure requirements apply to both lessees and lessors, whereas previous disclosures related only to lessees. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. Lessor accounting is also largely unchanged.

The new standard provides a number of transition practical expedients, which the Company has elected, including:

A “package of three” expedients that must be taken together and allow entities to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases, and

An implementation expedient which allows the requirements of the standard in the period of adoption with no restatement of prior periods.

The adoption of the new standard is not expected to result in material right of use asset or lease obligation for operating leases recorded in the Company’s consolidated balance sheet on January 1, 2019, primarily due to the lack of existing lease contracts, or other contracts that meet the standard for consideration as a lease under the definitions

discussed above. The Company only has limited operating leases for office space and equipment at its headquarters.

The impact of adopting the new standard on retained earnings as of January 1, 2019 is expected to be immaterial.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 acquired substantially all of SynGen’s operating assets, including its proprietary cell processing platform technology (the “Transaction”).

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

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 \$208,000 for the six months ended December 31, 2017 were included in general and administrative expenses.

The consideration for the Transaction consisted of \$1,000,000 in cash and ThermoGenesis’ issuance at closing to SynGen of an aggregate of 2,000,000 shares of its common stock, constituting a 20% interest, which had a fair market value utilizing the income approach of \$2,528,000. It is anticipated that the goodwill will be deductible for tax purposes. The 2,000,000 shares of common stock were transferred to Bay City Capital Fund V, L.P. and an affiliated fund (“Bay City”).

Allocation of Consideration Transferred to Net Assets Acquired

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

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****3. Acquisition of SynGen (Continued)***Allocation of Consideration Transferred to Net Assets Acquired (Continued)*

Purchase Price:		
Cash		\$ 1,000,000
2,000,000 common shares of ThermoGenesis		2,528,000
Fair value of assets acquired:		
Inventories	649,000	
Developed technology	318,000	
Trade name	26,000	
In process technology	1,143,000	
Customer relationships	41,000	
Total intangible assets	1,528,000	
Equipment	585,000	
Total assets	2,762,000	
Fair value of liabilities assumed:		
Other liabilities	15,000	
Net assets acquired		(2,747,000)
Goodwill		\$ 781,000

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. For the year ended December 31, 2018 and six months ended December 31, 2017 Cesca has recorded revenues of approximately \$907,000 and \$107,000, respectively, 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 consolidated statements of operations and comprehensive loss is impracticable to calculate due to the fact that SynGen and its operations are no longer accounted for on a stand-alone basis. The following unaudited supplemental pro forma data for the six months ended December 31, 2017 and the year ended June 30, 2017 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:

Six Months Year Ended

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	Ended	June 30
	December	
	31	
	2017	2017
Net revenues	\$6,013,000	\$15,592,000
Net loss	\$(2,600,000)	\$(30,701,000)
Basic and diluted net loss per common share	\$(0.21)	\$(3.39)

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.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****4. Intangible Assets and Goodwill**

During the year ended December 31, 2018, the Company experienced a significant and sustained decline in its stock price. The decline resulted in the Company's market capitalization falling significantly below the recorded value of its consolidated net assets. As a result, the Company performed a quantitative assessment as of June 30, 2018 and computed a fair value for its intangible assets and goodwill. In performing the assessment, the Company used current market capitalization, discounted future cash flows, internal forecasts and other factors as the best evidence of fair value. These assumptions represent Level 3 inputs. The assessment determined that the carrying amount for the Company's goodwill exceeded the estimated fair value. Additionally, the Company's indefinite-lived intangible assets, relating to the clinical protocols was also determined to be impaired. Also, the Company has significantly reduced its operating activities in India and impaired the remaining goodwill and substantially all of the intangible assets including the remainder of the clinical protocols, associated with the acquisition of our Totipotent subsidiaries.

The Company recorded an impairment charge of \$13,195,000 to goodwill and \$19,886,000 to intangible assets during the year ended December 31, 2018, as shown in the following table.

	Intangible Assets	Goodwill
Balance at December 31, 2017, net	\$21,629,000	\$13,976,000
Amortization and foreign exchange (current year)	(152,000)	--
Impairment loss	(19,886,000)	(13,195,000)
Balance at December 31, 2018, net	\$1,591,000	\$781,000

Also, there was a \$310,000 impairment of the covenants not to compete intangible assets during the year ended June 30, 2017 as the assumed revenues that were in the fair value estimate have been delayed due to the delay in the clinical trial.

Intangible assets consist of the following based on the Company's determination of the fair value of identifiable assets acquired:

As of December 31, 2018

	Weighted Average Amortization Period (in Years)	Gross Carrying Amount	Accumulated Amortization	Impairment	Net
Trade names	3	\$54,000	\$ 38,000		\$16,000
Developed technology	10	318,000	48,000		270,000
Licenses	7	448,000	307,000		141,000
Device registration	7	84,000	68,000	\$16,000	--
Customer relationships	3	451,000	430,000	--	21,000
Amortizable intangible assets		1,355,000	891,000	16,000	448,000
In process technology		1,143,000	--	--	1,143,000
Clinical protocols		19,870,000	--	19,870,000	--
Total		\$22,368,000	\$ 891,000	\$19,886,000	\$1,591,000

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****4. Intangible Assets and Goodwill (Continued)**

As of December 31, 2017

	Weighted Average	Gross	Accumulated	Net
	Amortization	Carrying	Amortization	
	Period	Amount		
	(in Years)			
Trade names	7	\$56,000	\$ 21,000	\$35,000
Developed technology	10	318,000	16,000	302,000
Licenses	7	489,000	271,000	218,000
Customer relationships	3	490,000	456,000	34,000
Device registration	7	92,000	65,000	27,000
Amortizable intangible assets		1,445,000	829,000	616,000
In process technology		1,143,000	--	1,143,000
Clinical protocols		19,870,000	--	19,870,000
Total		\$22,458,000	\$ 829,000	\$21,629,000

The change in the gross carrying amount is due to foreign currency exchange fluctuations and the write-off of assets for impairment. Amortization of intangible assets was \$131,000 for the year ended December 31, 2018; \$68,000 for the six months ended December 31, 2017 and \$359,000 for the year ended June 30, 2017. In process technology has not yet been introduced to the market place and is therefore not yet subject to amortization. Clinical protocols were not introduced to the market place and is therefore were not subject to amortization prior to being written off during the year ended December 31, 2018. The Company's estimated future amortization expense for subsequent years, are as follows:

Year Ended December 31,	
2019	\$ 122,000

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2020	111,000
2021	40,000
2022	32,000
2023	32,000
Thereafter	111,000
Total	\$448,000

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Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****5. Equipment and Leasehold Improvements, Net**

Equipment and leasehold improvements consisted of the following:

	December 31, 2018	December 31, 2017	Estimated Useful Life (years)
Machinery and equipment	\$6,136,000	\$6,507,000	2.5 - 10
Computer and software	664,000	718,000	2 - 5
Office equipment	264,000	253,000	5 - 10
Leasehold improvements	931,000	528,000	Shorter of 5 years or remaining lease term
Total equipment	7,995,000	8,006,000	
Less accumulated depreciation and amortization	(5,433,000)	(5,010,000)	
Total equipment and leasehold improvements, net	\$2,562,000	\$2,996,000	

Depreciation and amortization expense for the year ended December 31, 2018 was \$539,000, six months ended December 31, 2017 was \$254,000 and for the year ended June 30, 2017 was \$408,000.

6. Related Party Transactions***Convertible Promissory Note and Revolving Credit Agreement***

In March 2017, Cesca entered into a Credit Agreement with Boyalife Investment Fund II, Inc., which later merged into Boyalife Asset Holding II, Inc. (the "Lender"). The Lender is a wholly owned subsidiary of Boyalife Group Inc., which is owned and controlled by the Company's Chief Executive Officer and Chairman of the Board of Directors. The Credit Agreement and its subsequent amendments, grants to the Company the right to borrow up to \$10,000,000 (the "Loan") at any time prior to March 6, 2022 (the "Maturity Date"). The Company has drawn down a total of

\$7,200,000 and \$6,700,000 as of December 31, 2018 and 2017, respectively. The Company's ability to draw-down the remaining \$2,800,000 may be impacted by reasons such as default or foreign government policies that restrict or prohibit transferring funds. At the time of this filing, we are currently unable to draw down on the line of credit. This may change in the near future but there is no assurance that the line of credit will become available at such time when it is needed.

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. The Company has five business days after the Lender demands payment to pay the interest due before the Loan is considered in default. Subsequent to December 31, 2018 the Lender has not demanded and the Company has not paid the interest due as of December 31, 2018. The Note can be prepaid in whole or in part by the Company at any time without penalty.

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.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Related Party Transactions (Continued)

Convertible Promissory Note and Revolving Credit Agreement (continued)

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

The Lender was granted the right to convert, at any time, outstanding principal and accrued but unpaid interest under the Credit Agreement into shares of Common Stock at a conversion price equal to \$1.61 per share, subject to customary adjustments for stock splits, reverse stock splits, and the like (the “Fixed Conversion Price”). Notwithstanding the foregoing, if the Note is converted after the Maturity Date, the conversion price of the Note will be the lower of the Fixed Conversion Price or an amount equal to 90% of the average volume-weighted average price of Common Stock during the 10 trading days immediately prior to the Maturity Date. Prior to the April 2018 amendment, the principal and accrued interest was convertible by the Lender only upon maturity of the obligation. If the Company after April 16, 2018 issues shares of Common Stock, or is deemed to issue shares of Common Stock, prior to the full payment or conversion of the Note for a price per share lower than the Fixed Conversion Price then in effect, the Fixed Conversion Price will be reduced to the price per share paid in the future issuance, with certain customary exceptions for equity plan issuances and issuances pursuant to certain strategic transactions. The Company has been granted the right to defer payment of the \$657,000 interest payment that was originally due on December 31, 2017 until December 31, 2018, or if earlier, the date on which the Company completes a debt or equity financing transaction resulting in gross proceeds of \$5.0 million or more. The Company paid the \$657,000 interest payment in May 2018.

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

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

The Company accounted for the Amended Credit Agreement as a loan modification. As discussed in Note 2, The Company has adopted ASU 2017-11 “*Accounting for Certain Financial Instruments with Down Round Features*”. The Company performed an analysis of the Amended Credit Agreement, including the adoption of ASU 2017-11 in the analysis. It determined that the embedded conversion option contained within the Amended Credit Agreement does not require bifurcation and should not be classified as a derivative liability. Additionally, it was concluded that the conversion option did contain a beneficial conversion feature and as a result of the aforementioned modifications to the conversion price, the Company recorded a debt discount in the amount of \$7,200,000. Such discount represented the fair value of the incremental shares up to the initial proceeds received from the convertible notes. The Company amortized \$1,174,000 of such debt discount to interest expense for the year ended December 31, 2018.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Related Party Transactions (Continued)

Convertible Promissory Note and Revolving Credit Agreement (continued)

The Company recorded interest expense of \$1,513,000 for the year ended December 31, 2018, \$535,000 for the six months ended December 31, 2017 and \$122,000 for the year ended June 30, 2017 and had an interest payable balance of \$1,513,000 and \$657,000 at December 31, 2018 and 2017, respectively related to the Amended Credit Agreement.

Distributor Agreement

On August 21, 2017, ThermoGenesis entered into an International Distributor Agreement with Boyalife W.S.N. Under the terms of the agreement, Boyalife W.S.N. was granted the exclusive right, subject to existing distributors and customers (if any), to develop, sell to, and service a customer base for ThermoGenesis' AXP (AutoXpress) 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 related to our Chief Executive Officer and Chairman of our Board of Directors, and an affiliate of 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 (AutoXpress) 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 year ended December 31, 2018, the Company recorded \$665,000 of revenues from Boyalife and had an accounts receivable balance of \$0 at December 31, 2018. During the six months ended December 31, 2017, the Company recorded \$1,679,000 of revenues from Boyalife and had an accounts receivable balance of \$862,000 at December 31, 2017. During the year ended June 30, 2017, the Company recorded \$308,000 of revenues from Boyalife.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Related Party Transactions (Continued)

License Agreement

On March 12, 2018, ThermoGenesis entered into a License Agreement (the “Agreement”) with IncoCell Tianjin Ltd., a Chinese company and wholly-owned subsidiary of China-based Boyalife Group (“IncoCell”). Boyalife Group is an affiliate of the Company’s Chief Executive Officer and Chairman of the Board of Directors, and Boyalife (Hong Kong) Limited, the Company’s largest stockholder. Under the terms of the Agreement, IncoCell was granted the exclusive license to use the ThermoGenesis X-Series products in the conduct of IncoCell’s contract manufacturing and development operations in the People’s Republic of China, Japan, South Korea, Taiwan, Hong Kong, Macau, Singapore, Malaysia, Indonesia and India (the “Territories”).

Pursuant to the terms of the Agreement, ThermoGenesis has granted IncoCell an exclusive license to purchase and use, at a discounted purchase price, X-Series cellular processing research devices, consumables, and kits for use in the conduct of contract manufacturing and development services in the Territories. In exchange, ThermoGenesis is entitled to a percentage of IncoCell’s gross contract development revenues, including any potential upfront payments, future milestones or royalty payments, during the term of the Agreement. The term of the Agreement is ten years, provided that either party may terminate the Agreement earlier upon ninety (90) days’ prior notice to the other party. For the year ended December 31, 2018, the Company recorded \$14,000 of revenues from IncoCell and had an accounts receivable balance of \$14,000 at December 31, 2018.

Bill Payment Arrangement

The Company entered into a bill payment arrangement whereby Boyalife Group Ltd. (Payor), the Company’s largest shareholder, agreed to pay the Company’s legal expenses payable to the Company’s attorney related to certain litigation involving SynGen (the “Bill Payment Arrangement”), although the Company remains jointly and severally liable for the payment of such legal fees. The terms of the Bill Payment Arrangement provided that the Company will reimburse Payor for any and all amounts paid by Payor in connection with the Bill Payment Arrangement under certain specified events. There is no interest payable on outstanding balance of related party payable. This litigation was terminated as part of the SynGen acquisition agreement. Invoices totaling \$606,000 had previously been paid by Payor and included in related party payable as of December 31, 2017. The Company reimbursed the Payor for the full outstanding amount of \$606,000 in May 2018.

7. Convertible Debentures

February 2016 Financing Transaction

In February 2016 in exchange for aggregate proceeds of \$15,000,000 the Company sold and issued to Boyalife Investment Inc. and Boyalife (Hong Kong) Limited (i) 735,294 shares of common stock at a purchase price of \$3.40 per share (the “Stock Price”) for gross proceeds of \$2,500,000 (ii) Secured Convertible Debentures for \$12,500,000 (the “Debentures”) which are convertible into 3,676,471 shares of common stock, and (iii) warrants to purchase 3,529,412 additional shares of common stock at an exercise price of \$8.00 per share for a period of five years. The amount of warrants was based on 80% coverage of the shares issued or to be issued for the equity transaction in (i) and the debt transaction in (ii) above. The warrants were exercisable on August 13, 2016 and are outstanding at December 31, 2018.

On August 22, 2016, all outstanding principal and interest accrued and otherwise payable under the Debentures were converted, which included the conversion of \$12,500,000 of principal and \$8,250,000 of interest up to and including the maturity date of the Debentures. Upon conversion, 6,102,941 shares of common stock were issued and the Debentures and all related security interest and liens were terminated.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****7. Convertible Debentures (Continued)*****February 2016 Financing Transaction (continued)***

The 2,426,470 common shares that were issued for payment of the interest had a fair market value of \$11,403,000 on August 22, 2016. Accordingly, an additional \$3,153,000 of interest expense was recorded on the date of conversion. At the time of the conversion, the remaining debt discount of \$9,538,000 and debt issue costs of \$155,000 were fully amortized.

8. Derivative Obligations***Series A Warrants***

Series A warrants to purchase 404,412 common shares were issued and vested during the year ended June 30, 2016. At the time of issuance, the Company determined that because 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:

	December 31, 2018	December 31, 2017	June 30, 2017
Market price of common stock	\$0.27	\$3.00	\$3.17
Expected volatility	94%	107%	110%
Contractual term (years)	2.2	3.2	3.7
Discount rate	2.48%	1.99%	1.66%
Dividend rate	0%	0%	0%
Exercise price	\$8.00	\$8.00	\$8.00

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

The Company recorded a gain (loss) of \$596,000 during the year ended December 31, 2018, \$133,000 during the six months ended December 31, 2017 and (\$60,000) during the year ended June 30, 2017, 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 December 31, 2018 and 2017:

	Derivative Obligation	
	December 31,	December 31,
	2018	2017
Balance	\$1,000	\$597,000
Level 1	\$-	\$-
Level 2	\$-	\$-
Level 3	\$1,000	\$597,000

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****8. Derivative Obligations (Continued)***Series A Warrants (Continued)*

The following table reflects the change in fair value of the Company's derivative:

	Amount
Balance – June 30, 2017	\$730,000
Change in fair value of derivative obligation	(133,000)
Balance – December 31, 2017	597,000
Change in fair value of derivative obligation	(596,000)
Balance – December 31, 2018	\$1,000

9. Commitments and Contingencies*Operating Leases*

The Company leases the Rancho Cordova, California and Gurgaon, India facilities pursuant to operating leases. The Rancho Cordova lease expires in May 2019 and in January 2019 the Company signed an amendment to the lease extending it five years. The Gurgaon lease expires in September 2023; however, either party can terminate after September 2019 with three months' notice. The Company recognizes rent expense on a straight-line basis over the term of the facility lease. The annual future minimum lease payments for the Company's non-cancelable operating leases are as follows:

2019	\$311,000
2020	301,000
2021	310,000
2022	319,000
2023	329,000
Thereafter	139,000
Total	\$1,709,000

Rent expense was \$517,000 for the year ended December 31, 2018. \$241,000 for the six months ended December 31, 2017 and \$291,000 for the year ended June 30, 2017.

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 December 31, 2018 and February 28, 2019.

Potential Severance Payments

The Company's Chief Executive Officer (CEO) has rights upon termination under his employment agreement. With respect to his agreement at December 31, 2018, potential severance amounted to \$2.3 million.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Commitments and Contingencies (Continued)

Contingencies and Restricted Cash

In fiscal 2016, the Company signed an engagement letter with a strategic consulting firm (“Mavericks”). Included in the engagement letter was a success fee due upon the successful conclusion of certain transactions. On May 4, 2017, a lawsuit was filed against the Company and its CEO by the consulting firm as the consulting firm argues that it is owed a transaction fee of \$1,000,000 under the terms of the engagement letter due to the conversion of the Boyalife debentures in August 2016. In October 2017, to streamline the case by providing for the dismissal of claims against the Company’s CEO based on alter ego theories and without acknowledging any liability, the Company deposited \$1,000,000 with the Court. The Company filed a Motion for Summary Judgment, which was denied by the Court on June 26, 2018. On September 24, 2018, Mavericks filed an amended complaint, adding back the Company’s CEO as a named defendant, as well as Boyalife Investment, Inc. (a dissolved company) and Boyalife (Hong Kong) Limited under new theories of liability, namely intentional interference with contract and inducement of breach of contract. No trial date has been set. The Company intends to defend the lawsuit vigorously and no accrual has been recorded for this contingent liability as of December 31, 2018.

In the normal course of operations, the Company may have disagreements or disputes with customers, employees or vendors. Such potential disputes are seen by management as a normal part of business. As of December 31, 2018, management believes any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the Company’s consolidated financial position, operating results or cash flows.

Warranty

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

Changes in the Company’s product liability which is included in other current liabilities during the period are as follows:

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	Year Ended December 31, 2018	Six Months Ended December 31, 2017	Year Ended June 30, 2017
Beginning balance	\$291,000	\$588,000	\$566,000
Warranties issued during the period	199,000	95,000	120,000
Settlements made during the period	(252,000)	(359,000)	(93,000)
Changes in liability for pre-existing warranties during the period	(52,000)	(33,000)	(5,000)
Ending balance	\$186,000	\$291,000	\$588,000

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Stockholders' Equity

Common Stock

On August 28, 2018, the Company completed a private placement transaction with an accredited investor, in which the Company sold 1,000,000 shares of Common Stock for a purchase price of \$0.18 per share and 2,965,000 pre-funded warrants for a purchase price of \$0.17 per pre-funded warrant. Each pre-funded warrant is immediately exercisable for one share of Common Stock at an exercise price of \$0.01 per share and will remain exercisable until exercised in full. The Company received \$684,000 in gross proceeds, net proceeds of \$623,000 after deducting offering expenses of \$61,000. As of December 31, 2018, none of the pre-funded warrants issued in the August 2018 private placement have been exercised. In addition, subject to certain exceptions, in the event the Company sells or issues any shares of Common Stock or common stock equivalents through February 26, 2019, the Company is required to issue the investor a number of shares of Common Stock (or additional pre-funded warrants to purchase shares of common stock) equal to the number of shares the investor would have received had the purchase price for such shares been at such lower purchase price. The Company evaluated the pre-funded warrants issued and determined that the warrants should be classified as equity instruments.

On May 18, 2018, the Company completed a public offering 6,475,001 Units and 2,691,666 Pre-Funded Units for a purchase price of \$0.60 per unit, resulting in aggregate gross proceeds of approximately \$5,500,000, net proceeds of \$4,820,000 after deducting the offering expenses of \$680,000. Each Unit consists of one share of Common Stock, and one common warrant to purchase one share of Common Stock, and each Pre-Funded Unit consists of one pre-funded warrant to purchase one share of Common Stock and one common warrant to purchase one share of Common Stock. The common warrants included in the Units and Pre-Funded Units were immediately exercisable at a price of \$0.60 per share of Common Stock, subject to adjustment in certain circumstances, and will expire five years from the date of issuance. The Company evaluated the warrants issued and determined that they should be classified as equity instruments. All 2,691,666 Pre-Funded units issued in the May 2018 public offering were exercised in the second quarter of fiscal 2018.

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

On December 1, 2017, the Company closed a public offering of common stock consisting of an aggregate of 898,402 shares of common stock at a price to the public of \$3.00 per share for aggregate offering proceeds of \$2.7 million. After deducting the offering expenses of \$327,000, the net proceeds in the offering were \$2,368,000.

On August 22, 2016, the Company notified Boyalife Investment Inc., that it elected to convert all outstanding principal and interest accrued and otherwise payable under the Debentures, which included the conversion of \$12,500,000 of principal and \$8,250,000 of interest up to and including the maturity date of the Debentures. Upon conversion, 6,102,941 shares of common stock were issued and the Debentures and all related security interest and liens were terminated.

On August 3, 2016, the Company sold 600,000 shares of common stock at a price of \$4.10 per share. The net proceeds to the Company from the sale and issuance of the shares, after deducting the offering expenses borne by the Company of \$369,000, were \$2,092,000.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****10. Stockholders' Equity (Continued)**

In July 2016, the Compensation Committee of the Board of Directors granted 118,288 shares of fully vested common stock to employees in partial payment of amounts earned under the Company's 2016 short term incentive plan. The election was made by some of the employees to satisfy the applicable federal income tax withholding obligation by a net share settlement, pursuant to which the Company withheld 46,879 shares and used the deemed proceeds from those shares to pay the income tax withholding.

Warrants

A summary of warrant activity is as follows:

	Year Ended		Six Months Ended		Year Ended	
	December 31, 2018		December 31, 2017		June 30, 2017	
	Weighted-		Weighted-		Weighted-	
	Average		Average		Average	
Number of	Exercise		Exercise		Exercise	
Shares	Price Per		Price Per		Price Per	
	Share		Share		Share	
Beginning balance	4,828,723	\$ 9.37	4,828,723	\$ 9.37	4,828,723	\$ 9.37
Warrants granted	15,128,151	\$ 0.42	--		--	
Warrants exercised	(2,691,666)	\$ 0.01				
Warrants expired/canceled	--		--		--	
Outstanding	17,265,208	\$ 2.99	4,828,723	\$ 9.37	4,828,723	\$ 9.37
Exercisable	16,566,679	\$ 2.78	4,130,194	\$ 9.60	4,130,194	\$ 9.60

Equity Plans and Agreements

The Company recorded stock-based compensation of \$652,000 for the year ended December 31, 2018, \$291,000 for the six months ended December 31, 2017 and \$1,461,000 for the year ended June 30, 2017.

The Amended 2016 Equity Incentive Plan (Amended 2016 Plan) was approved by the stockholders in May 2017, under which up to 600,000 shares may be issued pursuant to grants of shares, options, or other forms of incentive compensation. On June 22, 2018, the stockholders approved an amendment to the Amended 2016 Plan to increase the number of shares that may be issued to 1,325,000 shares. On December 14, 2018, the Board approved and adopted an amendment to the Amended 2016 Plan to increase the number of shares that may be issued from 1,325,000 shares to 3,950,000 shares. The Plan Amendment will be null and void if not approved by the Company's stockholders prior to December 14, 2019. As of December 31, 2018, 901,100 awards were available for issuance under the Amended 2016 Plan.

The 2012 Independent Director Plan (2012 Plan) permits the grant of stock or options to independent directors. A total of 25,000 shares were approved by the stockholders for issuance under the 2012 Plan. Options are granted at prices that are equal to 100% of the fair market value on the date of grant and expire over a term not to exceed ten years. Options generally vest in monthly increments over one year, unless otherwise determined by the Board of Directors. As of December 31, 2018, there were 2,444 shares available for issuance.

The 2006 Equity Incentive Plan (2006 Plan) permitted the grant of options, restricted stock units, stock bonuses and stock appreciation rights to employees, directors and consultants. The 2006 Plan, but not the awards granted thereunder, expired in 2016. As of December 31, 2018, 62,676 option awards remained outstanding.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Stockholders' Equity (Continued)

Equity Plans and Agreements (Continued)

On December 29, 2017, the Board of Directors of ThermoGenesis Corp adopted the ThermoGenesis Corp. 2017 Equity Incentive Plan (the "ThermoGenesis Plan") and on the same day granted options to purchase an aggregate of 280,000 shares of ThermoGenesis common stock to employees, directors, consultants, and advisors of ThermoGenesis. The ThermoGenesis Plan was unanimously approved by the ThermoGenesis stockholders (including the Company) on December 29, 2017. The ThermoGenesis Plan authorizes the issuance of up to 1,000,000 shares of ThermoGenesis common stock. There are 775,000 shares available for issuance as of December 31, 2018.

On December 14, 2018, the CEO, the Principal Financial and Accounting Officer ("PFAO") and other employees were granted 2,140,000 options to purchase shares of the Company's common stock at an exercise price of \$0.2979 per share. The options vest in five equal installments on the date of grant and the first four anniversaries of the grant date. A portion of the grant, 1,699,333 shares are subject to approval of the 2016 Plan Amendment by the Company's stockholders on or before December 14, 2019. The officers and employees will not have the right to exercise such portion (and such portion will terminate) unless such approval is obtained by such date.

On December 29, 2017, the CEO was granted 300,000 options to purchase shares of the Company's common stock at an exercise price of \$3.00 per share. The option vests in five equal installments on December 31, 2018, 2019, 2020, 2021 and 2022.

On July 7, 2016, the Compensation Committee also adopted a short term incentive program under which cash awards and shares of common stock may be granted to employees of the Company (the "Short Term Program"). The aggregate amount of the cash awards issuable pursuant to the Short Term Plan is approximately \$276,000. Up to 104,000 shares of common stock from the Company's 2006 Plan, subject to vesting, are issuable pursuant to the Short Term Program. On July 26, 2016, 98,417 shares and \$266,000 of cash awards were granted under the Short Term Program. The cash awards granted pursuant to the Short Term Program were payable and the shares of common stock issued pursuant to the Short Term Program fully vested on July 1, 2017, provided, that such award recipients were employed by the Company as of July 1, 2017 or immediately if terminated without cause. Three of the eight employees were terminated without cause during the year ended June 30, 2017, as such, 51,636 shares vested. The remaining 46,781 shares vested on July 1, 2017.

Upon the termination of the employment of the Company's CEO in November 2016 and Chief Financial Officer (CFO) in March 2017, in accordance with their employment agreements, all outstanding options and restricted stock unit awards immediately vested. As a result, the Company recognized (i) \$539,000 of stock compensation expense in general and administrative for the quarter ended December 31, 2016, as the vesting accelerated on the CEO's options to purchase 72,496 shares of common stock and 79,720 restricted stock unit awards, and (ii) \$94,000 of stock compensation expense in general and administrative for the quarter ended March 31, 2017 as the vesting accelerated on the CFO's options to purchase 16,248 shares of common stock and 15,914 restricted stock unit awards. Additionally, the terms of the options were modified upon the executives' termination such that the options were deemed to be exercisable for longer than 90 days from the date of termination. There was no incremental compensation cost recorded for this modification as the fair-value-based measure of the modified award on the date of modification was less than the fair-value-based measure of the original award immediately before the modification.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****10. Stockholders' Equity (Continued)***Stock Options*

The Company issues new shares of common stock upon exercise of stock options. 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 January 1, 2018	1,156,027	\$ 3.92		
Granted	2,233,500	\$ 0.40		
Forfeited/cancelled	(338,518)	\$ 3.10		
Expired	(27,370)	\$ 4.83		
Exercised	--			
Outstanding at December 31, 2018	3,023,639	\$ 1.40	9.3	--
Vested and Expected to Vest at December 31, 2018	1,893,518	\$ 1.77	8.9	--
Exercisable at December 31, 2018	901,742	\$ 2.79	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. There were no options that were exercised during the years ended December 31, 2018 and June 30, 2017. During the six months ended December 31, 2017, the aggregate intrinsic value of options exercised was \$8,000 determined as of the date of option exercise.

On July 7, 2016, the Compensation Committee of the Board of Directors granted options to purchase a total of 156,100 common shares to various employees under the 2016 Plan. The options have an exercise price of \$2.86, the closing price on the date of grant, vest ratably every six months over a three year period and have a seven year life.

Non-vested stock option activity for the year ended December 31, 2018, is as follows:

	Non-vested Stock	Weighted-Average Grant
	Options	Date Fair Value
Outstanding at January 1, 2018	835,708	\$2.37
Granted	2,233,500	\$0.32
Vested	(651,180)	\$0.97
Forfeited	(296,131)	\$2.35
Outstanding at December 31, 2018	2,121,897	\$0.64

The fair value of the Company's stock options granted for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017 was estimated using the following weighted-average assumptions:

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****10. Stockholders' Equity (Continued)***Stock Options (Continued)*

	Year Ended	Six Months Ended	Year Ended
	December 31, 2018	December 31, 2017	June 30, 2017
Expected life (years)	6	6	4
Risk-free interest rate	2.7%	2.3%	1.3%
Expected volatility	103%	95%	102%
Dividend yield	0%	0%	0%

The weighted average grant date fair value of options granted during the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017 was \$0.32, \$2.36 and \$2.16, respectively.

At December 31, 2018, the total compensation cost related to options granted under the Company's stock option plans but not yet recognized was \$1,202,000. This cost will be amortized on a straight-line basis over a weighted-average period of approximately four years and will be adjusted for subsequent changes in estimated forfeitures. The total fair value of options vested during the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017 was \$633,000, \$209,000 and \$572,000, respectively.

Common Stock Restricted Awards

The following is a summary of restricted stock unit activity:

Year Ended	Six Month Ended	Year Ended
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	December 31, 2018		December 31, 2017		June 30, 2017	
	Weighted		Weighted		Weighted	
	Number of Shares	-Average Grant Date Fair Value	Number of Shares	-Average Grant Date Fair Value	Number of Shares	-Average Grant Date Fair Value
Balance at beginning of period	416	\$17.60	59,694	\$4.62	63,566	\$14.96
Granted	--		10,000	\$3.26	123,417	\$4.55
Vested	(416)	\$17.60	(69,278)	\$4.35	(125,513)	\$9.47
Forfeited	--		--		(1,776)	\$27.05
Outstanding at end of period	--		416	\$17.60	59,694	\$4.62

In connection with the vesting of the restricted stock unit awards, the election was made by some of the employees to satisfy the applicable federal income tax withholding obligation by a net share settlement, pursuant to which the Company withheld 16,456 shares for the six months ended December 31, 2017 and 145 shares for the year ended June 30, 2017, and used the deemed proceeds from those shares to pay the income tax withholding.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****11. Concentrations**

A customer had an accounts receivable balance of \$494,000 or 33% and \$172,000 or 7% at December 31, 2018 and 2017, respectively. One distributor had an accounts receivable balance of \$229,000 or 15% and \$12,000 at December 31, 2018 and 2017, respectively. A second distributor had an accounts receivable balance of \$220,000 or 15% and \$464,000 or 18% at December 31, 2018 and 2017, respectively. A related party distributor had an accounts receivable balance of \$0 and \$862,000 or 34% at December 31, 2018 and 2017, respectively.

Revenues from a customer totaled \$2,120,000 or 22%, \$560,000 or 9% and \$3,263,000 or 22% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. Revenues from one distributor totaled \$861,000 or 9%, \$520,000 or 9% and \$1,048,000 or 7% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. Revenues from a related party distributor totaled \$664,000 or 7%, \$1,679,000 or 28% and \$308,000 or 2% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. Revenues from a second distributor totaled \$461,000 or 5%, \$480,000 or 8% and \$2,842,000 or 20% for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017, respectively. The Company did not renew the contract with this distributor in August 2017 and replaced it with a different distributor.

The following represents the Company's revenues by product platform for the:

	Year Ended	Six Months Ended	Year Ended
	December 31, 2018	December 31, 2017	June 30, 2017
AXP	\$4,393,000	\$2,475,000	\$8,715,000
BioArchive	3,098,000	2,642,000	3,318,000
Manual Disposables	976,000	476,000	1,195,000
CAR-TXpress	907,000	151,000	
Bone Marrow	135,000	180,000	745,000
Other	163,000	89,000	552,000
	\$9,672,000	\$6,013,000	\$14,525,000

The Company had sales in the following geographical areas for the:

	Year Ended	Six Months Ended	Year Ended
	December 31, 2018	December 31, 2017	June 30, 2017
2018 United States	\$4,854,000	\$1,970,000	\$6,675,000
Asia – other	1,717,000	983,000	1,951,000
Europe	1,165,000	721,000	1,739,000
China	1,143,000	2,176,000	3,296,000
Other	793,000	163,000	864,000
	\$9,672,000	\$6,013,000	\$14,525,000

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****11. Concentrations (Continued)**

The Company attributes revenue to different geographic areas based on where items are shipped or services are performed.

Two suppliers accounted for 43% and 14% of total inventory purchases during the year ended December 31, 2018. One supplier accounted for 61% of total inventory purchases during the six months ended December 31, 2017. Two suppliers accounted for 64% and 20% of total inventory purchases during the year ended June 30, 2017.

The Company has a contract manufacturer in Costa Rica that produces certain disposables. The Company's equipment and leasehold improvements, net of accumulated depreciation, is summarized below by geographic area:

	December 31, 2018	December 31, 2017
United States	\$1,614,000	\$2,265,000
Costa Rica	601,000	276,000
India	211,000	288,000
All other countries	136,000	167,000
Total equipment, net	\$2,562,000	\$2,996,000

12. 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.

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

	Year Ended December 31, 2018		
	Clinical Development	Device	Total
Net revenues	\$202,000	\$9,470,000	\$9,672,000
Cost of revenues	274,000	7,205,000	7,479,000
Gross profit	(72,000)	2,265,000	2,193,000
Operating expenses	37,340,000	8,398,000	45,738,000
Operating loss	\$(37,412,000)	\$(6,133,000)	\$(43,545,000)
Depreciation and amortization	\$272,000	\$398,000	\$670,000
Stock-based compensation expense	\$473,000	\$179,000	\$652,000
Goodwill	--	\$781,000	\$781,000
Total assets	\$3,796,000	\$10,815,000	\$14,611,000

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****12. Segment Reporting (Continued)**

	Six Months Ended December 31, 2017		
	Clinical Development	Device	Total
Net revenues	\$186,000	\$5,827,000	\$6,013,000
Cost of revenues	205,000	3,653,000	3,858,000
Gross profit	(19,000)	2,174,000	2,155,000
Operating expenses	2,138,000	4,615,000	6,753,000
Operating loss	\$(2,157,000)	\$(2,441,000)	\$(4,598,000)
Depreciation and amortization	\$152,000	\$170,000	\$322,000
Stock-based compensation expense	\$164,000	\$127,000	\$291,000
Goodwill	\$13,195,000	\$781,000	\$13,976,000
Total assets	\$41,261,000	\$9,850,000	\$51,111,000

	Year Ended June 30, 2017		
	Clinical Development	Device	Total
Net revenues	\$492,000	\$14,033,000	\$14,525,000
Cost of revenues	466,000	8,220,000	8,686,000
Gross profit	26,000	5,813,000	5,839,000
Operating expenses	9,095,000	6,113,000	15,208,000
Operating loss	\$(9,069,000)	\$(300,000)	\$(9,369,000)
Depreciation and amortization	\$501,000	\$329,000	\$830,000
Stock-based compensation expense	\$970,000	\$491,000	\$1,461,000

13. Income Taxes

Loss before income tax benefits was comprised of \$45,458,000 from US and \$212,000 from foreign jurisdictions for the year ended December 31, 2018, \$4,551,000 from US and \$457,000 from foreign jurisdictions for the six months ended December 31, 2017 and \$29,005,000 from US and \$763,000 from foreign jurisdictions for the year ended June 30, 2017.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****13. Income Taxes (Continued)**

The reconciliation of federal income tax attributable to operations computed at the federal statutory tax rate to income tax benefit is as follows for the:

	Year Ended	Six Months	Year Ended
	December	December	June 30,
	31,	31,	2017
	2018	2017	2017
Statutory federal income tax benefit	\$(9,591,000)	\$(1,703,000)	\$(10,121,000)
Intangible assets	3,119,000	--	--
Change in valuation allowance	(2,084,000)	--	--
Expiration of net operating losses	1,271,000	(14,427,000)	2,281,000
United States tax reform rate change	--	13,658,000	--
Disallowed financing costs	240,000	149,000	6,959,000
State and local taxes	2,344,000	60,000	88,000
Other	(29,000)	25,000	120,000
Total income tax benefit	\$(4,730,000)	\$(2,238,000)	\$(673,000)

The income tax benefit for the year ended December 31, 2018 of \$4,730,000 is due to the write-off of indefinite life intangible assets acquired in the Totipotent transaction, which had deferred tax liabilities recorded for them at that time as they had no basis for income tax purposes.

The deferred income tax benefit for the six months ended December 31, 2017 of \$2,238,000 is primarily due to the Tax Cuts & Jobs Act (TCJA) which was enacted on December 22, 2017. As a result of the TCJA, the federal income tax rate for all corporations was permanently changed to 21% from 35% a difference of 14%. Since the law was enacted on December 22, 2017, the Company's deferred are required to be measured using the new enacted tax rate. As a result of the re-measurement, the Company's deferred tax assets decreased by (\$13,658,000). However, since the Company has a full valuation allowance, there is no impact to income tax expense. The Company's deferred tax liability related to indefinite life intangible assets was re-measured at the 21% rate.

The deferred income tax benefit of \$673,000 for the year ended June 30, 2017 is due to changes in the state tax rate over the last several years. Approximately \$559,000 of the benefit relates to state rate changes prior to fiscal 2017, which was all recognized in the current year, of which \$157,000 relates to fiscal 2016 and \$402,000 relates to years prior to fiscal 2016. The Company believes these amounts are quantitatively and qualitatively immaterial to the balance sheets as of June 30, 2015 and June 30, 2016, as well as the statements of operations and comprehensive loss for the years then ended, and to fiscal 2017. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized.

At December 31, 2018, the Company had net operating loss carryforwards for federal and state income tax purposes of \$125,578,000 and \$37,520,000, respectively that are available to offset future income. The federal and state loss carryforwards expire in various years between 2019 and 2038. At December 31, 2018 the Company had foreign net operating loss carryforwards of \$2,430,000 that are available to offset future income. The foreign net operating loss carryforwards expire in various years between 2019 and 2026.

At December 31, 2018, the Company has research and experimentation credit carryforwards of \$1,604,000 for federal tax purposes that expire in various years between 2019 and 2038, and \$1,475,000 for state income tax purposes that do not have an expiration date.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****13. Income Taxes (Continued)**

Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes are as follows:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Net operating loss carryforwards	\$27,312,000	\$29,682,000
Income tax credit carryforwards	2,769,000	2,667,000
Stock compensation	850,000	751,000
Other	1,027,000	831,000
Total deferred tax assets	31,958,000	33,931,000
Deferred tax liabilities		
Indefinite lived intangible assets	--	(4,730,000)
Depreciation and amortization	(419,000)	(126,000)
Total deferred tax liabilities	(419,000)	(4,856,000)
Valuation allowance	(31,539,000)	(33,805,000)
Net deferred taxes	\$--	\$(4,730,000)

ASC 740 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Because of the Company's recent history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a valuation allowance.

The valuation allowance decreased by (\$2,266,000) during the year ended December 31, 2018, decreased by (\$14,296,000) during the six months ended December 31, 2017 and increased \$2,209,000 for the year ended June 30, 2017.

The transition tax is based on total post-1986 earnings and profits which were previously deferred from U.S. income taxes. At December 31, 2018, the Company did not have any undistributed earnings of our foreign subsidiaries. As a result, no additional income or withholding taxes have been provided for. The Company does not anticipate any impacts of the global intangible low taxed income (“GILTI”) and base erosion anti-abuse tax (“BEAT”) and as such, the Company has not recorded any impact associated with either GILTI or BEAT.

In August 2016, the conversion of the Boyalife Debentures effected an “ownership change” as defined under the provisions of the Tax Reform Act of 1986. As a result, any net operating loss and credit carryovers existing at that date will be subject to an annual limitation regarding their utilization against taxable income in future periods. Additionally, before the conversion of the debentures, it is possible that “ownership changes” occurred, which could create additional limitations on the use of our net operating losses and credit carryovers. Additionally, ownership changes may have occurred in the period ended December 31, 2018, which could limit our utilization of losses and credits generated this year.

Table of Contents**Cesca Therapeutics Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****14. Employee Retirement Plan**

The Company sponsors an Employee Retirement Plan, generally available to all employees, in accordance with Section 401(k) of the Internal Revenue Code. Employees may elect to contribute up to the Internal Revenue Service annual contribution limit. Under this Plan, at the discretion of the Board of Directors, the Company may match a portion of the employees' contributions. The Company made no discretionary or matching contributions to the Plan for the year ended December 31, 2018, six months ended December 31, 2017 and the year ended June 30, 2017.

15. Prior Period Financial Statement Revision

During the first quarter of 2019, the Company identified an error related to the calculation of its comprehensive loss for the six months ended December 31, 2017. The Company inadvertently used the net loss attributable to common stockholders amount as the net loss amount in the calculation. The Company assessed the materiality of this error on its financial statements in accordance with the SEC Staff Accounting Bulletin ("SAB") No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, codified in Accounting Standards Codification (ASC) 250-10-20, Error in Previously Issued Financial Statements*", and concluded that it was not material to any prior period. The Company has corrected the error presented by revising the consolidated statement of operations and comprehensive loss for the six months ended December 31, 2017.

The effect of the correction of the immaterial error on the Company's statement of comprehensive loss was as follows:

For the Six Months Ended December 31, 2017

Statement of Comprehensive Loss	Amounts		
	Previously Reported	Adjustment	As Revised
Net loss	\$ (2,283,000)	\$ (487,000)	\$ (2,770,000)
Other comprehensive loss:			
Foreign currency translation adjustments	(5,000)	--	(5,000)

Comprehensive loss	(2,288,000)	(487,000)	(2,775,000)
Comprehensive loss attributable to non-controlling interests	(487,000)	--	(487,000)
Comprehensive loss attributable to common stockholders	\$(1,801,000)	\$(487,000)	\$(2,288,000)

16. Subsequent Events

The Company has evaluated events subsequent to the balance sheet date for inclusion in the accompanying consolidated financial statements through the date of issuance and determined that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosures in the notes thereto other than as disclosed below.

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Cesca Therapeutics Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Subsequent Events (Continued)

On January 1, 2019, the Company entered into a reorganization of the business and equity ownership of its majority-owned ThermoGenesis subsidiary. Pursuant to the reorganization, the assets acquired by ThermoGenesis from SynGen Inc. in July 2017 were contributed to a newly formed Delaware subsidiary of ThermoGenesis named CARTXpress Bio, Inc. and the 20% interest in ThermoGenesis was exchanged for a 20% interest in CARTXpress. As a result, the Company holds an 80% equity interest in CARTXpress and the Company has become the owner of 100% of ThermoGenesis. The purpose of the reorganization is to allow CARTXpress to focus on the development and commercialization of the newly launched CARTXpress cellular manufacturing platform.

On January 29, 2019, the Company agreed to issue and sell an aggregate of \$800,000 face value of unsecured convertible promissory notes (the "Notes") that, after six months and subject to the receipt of stockholder approval of the conversion feature of the Notes ("Stockholder Approval"), are convertible into shares of the Company's common stock, par value \$0.001 per share, at a conversion price equal to the lower of (a) \$0.18 per share or (2) 90% of the closing sale price of the Company's common stock on the date of conversion (subject to a floor conversion price of \$0.05) (the "Conversion Price").

The Notes bear interest at the rate of twenty-four percent (24%) per annum and are payable quarterly in arrears. Unless sooner converted in the manner described below, all principal under the Notes, together with all accrued and unpaid interest thereupon, will be due and payable eighteen (18) months from the date of the issuance of the Notes (the "Maturity Date"). However, if the Stockholder Approval does not occur at the Company's next annual meeting of stockholders, the Maturity Date will accelerate to the date that is fourteen days after the next annual meeting. The Notes may be prepaid without penalty at any time after the Notes become convertible (at which time the holders will have the right to convert the Notes before prepayment thereof).

On the date that is six months after the issuance of the Notes but subject to Stockholder Approval, and for so long thereafter as any principal and accrued but unpaid interest under the Notes remain outstanding, any holder of the Notes may convert such holder's Notes, in whole or in part, into a number of shares of Company common stock equal to (i) the principal amount being converted, together with any accrued or unpaid interest thereon, divided by (ii) the Conversion Price in effect at the time of conversion. The Notes have customary conversion blockers at 4.99% and 9.99% unless otherwise agreed to by the Company and a holder of the Notes.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Principal Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined by Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of our last fiscal quarter pursuant to Exchange Act Rule 13a-15. The term “disclosure controls and procedures” means controls and other procedures designed to ensure that information required to be disclosed 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 Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

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Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive and Principal Financial and Accounting Officer, we conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2018 based on criteria established in the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Attestation Report of Independent Registered Public Accounting Firm

Not applicable.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting. We believe 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.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item will be included in and is hereby incorporated by reference from our definitive proxy statement relating to our 2019 annual meeting of stockholders, which we intend to file within 120 days after the end of our fiscal year ended December 31, 2018.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item will be included in and is hereby incorporated by reference from our definitive proxy statement relating to our 2019 annual meeting of stockholders, which we intend to file within 120 days after the end of our fiscal year ended December 31, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item will be included in and is hereby incorporated by reference from our definitive proxy statement relating to our 2019 annual meeting of stockholders, which we intend to file within 120 days after the end of our fiscal year ended December 31, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item will be included in and is hereby incorporated by reference from our definitive proxy statement relating to our 2019 annual meeting of stockholders, which we intend to file within 120 days after the end of our fiscal year ended December 31, 2018.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item will be included in and is hereby incorporated by reference from our definitive proxy statement relating to our 2019 annual meeting of stockholders, which we intend to file within 120 days after the end of our fiscal year ended December 31, 2018.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Annual Report on Form 10-K.

	<u>Page Number</u>
(a)(1) Financial Statements	
Report of Independent Registered Public Accounting Firm	42
Consolidated Balance Sheets at December 31, 2018 and 2017	43
Consolidated Statements of Operations and Comprehensive Loss for the Year Ended June 30, 2017	44
Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 2018, the Six Months Ended December 31, 2017 and the Year Ended June 30, 2017	45
Consolidated Statements of Cash Flows for the Year Ended December 31, 2018, the Six Months Ended December 31, 2017 and the Year Ended June 30, 2017	46
Notes to Consolidated Financial Statements	47

Management's Report on Internal Control over Financial Reporting is contained as part of this Annual Report under Item 9A "Controls and Procedures."

(a)(2) Financial Statement Schedules

Financial statement schedules have been omitted because they are not required.

(b) Exhibits

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index on the next page, which are incorporated herein by this reference.

ITEM 16. FORM 10-K SUMMARY

None.

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EXHIBIT INDEX

Exhibit No.	Document Description	Incorporation by Reference
2.1	<u>Asset Acquisition Agreement, dated July 7, 2017, between ThermoGenesis Corp. and SynGen Inc.^</u>	Incorporated by reference to Exhibit 2.1 to Form 8-K filed with the SEC on July 11, 2017.
3.1	<u>Sixth Amended and Restated Certificate of Incorporation, as amended</u>	Incorporated by reference to Exhibit 3.1 of Registration Statement on Form S-8 filed with the SEC on May 18, 2017.
3.2	<u>Restated Bylaws of Cesca Therapeutics Inc.</u>	Incorporated by reference to Exhibit 99.1 to Form 8-K filed with the SEC on October 30, 2014.
4.1	<u>Form of Series A Warrant</u>	Incorporated by reference to Exhibit 10.3 to Form 8-K filed with the SEC on September 1, 2015.
4.2	<u>Form of Series A Warrant Amendment</u>	Incorporated by reference to Exhibit 10.7 to Form 8-K filed with the SEC on February 3, 2016.
4.3	<u>Form of Warrant</u>	Incorporated by reference to Exhibit 10.3 to Form 8-K filed with the SEC on February 3, 2016.
4.4	<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 11, 2017.
4.5	<u>Form of Common Stock Purchase Warrant</u>	Incorporated by reference to Exhibit 4.1 to Form 8-K filed with the SEC on March 28, 2018.
4.6	<u>Form of Common Warrant</u>	Incorporated by reference to Exhibit 10.37 of amended Registration Statement on Form S-1 filed with the SEC on May 14, 2018.
4.7	<u>Form of Pre-Funded Warrant</u>	Incorporated by reference to Exhibit 10.38 of amended Registration Statement on Form S-1 filed with the SEC on May 14, 2018.
4.8	<u>Form of Pre-Funded Warrant</u>	Incorporated by reference to Exhibit 4.1 to Form 8-K filed with the SEC on August 29, 2018.
10.1#	<u>Amended and Restated 2006 Equity Incentive Plan</u>	Incorporated by reference to Exhibit 10.6.1 to Form 8-K filed with the SEC on May 1, 2014.
10.2#	<u>2012 Independent Director Plan</u>	Incorporated by reference to Exhibit A of the Company's Definitive Proxy Statement filed with the SEC on October 23, 2012.
10.3*	<u>Sixth Amended and Restated Technology License and Escrow Agreement between the Company, ThermoGenesis Corp. and Cbr Systems, effective May 15, 2017</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on May 31, 2017.

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10.4	<u>Purchase Agreement between the Company and Boyalife Investment Inc. and Boyalife (Hong Kong) Limited</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on February 3, 2016.
10.6	<u>Form of Nomination and Voting Agreement</u>	Incorporated by reference to Exhibit 10.4 to Form 8-K filed with the SEC on February 3, 2016.
10.7	<u>Form of Security Agreement</u>	Incorporated by reference to Exhibit 10.5 to Form 8-K filed on February 3, 2016.
10.8	<u>Form of Indemnification Agreement</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K/A filed with the SEC on November 17, 2016.
10.9#	<u>Employment Agreement between Ms. Vivian Liu and Cesca Therapeutics Inc., effective February 24, 2017</u>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on March 2, 2017.

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10.10#	<u>Amendment No. 1 to Executive Employment Agreement, dated November 13, 2017, between the Company and Vivian Liu.</u>	Incorporated by reference to Exhibit 10.3 to Form 8-K filed with the SEC on November 15, 2017
10.11#	<u>Form of Notice of Grant of Stock Options and Option Agreement</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on May 11, 2017.
10.12	<u>Voting Agreement, dated July 7, 2017, among the Company, 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 10.1 to Form 8-K filed with the SEC on July 11, 2017.
10.13	<u>Right of First Refusal and Co-Sale Agreement, dated July 7, 2017, among the Company, 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 10.3 to Form 8-K filed with the SEC on July 11, 2017.
10.14*	<u>International Distributor Agreement, dated August 21, 2017, between ThermoGenesis Corp. and Boyalife W.S.N.</u>	Incorporated by reference to Exhibit 10.29 to Form 10-K filed with the SEC on September 22, 2017.
10.15#	<u>Executive Employment Agreement, dated November 13, 2017, between the Company and Xiaochun Xu.</u>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on November 15, 2017.
10.16#	<u>Form of Stock Option Agreement.</u>	Incorporated by reference to Exhibit 10.4 to Form 8-K filed with the SEC on November 15, 2017.
10.18	<u>General Release and Waiver between Mr. Michael Bruch and Cesca Therapeutics Inc., effective February 28, 2017.</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K, filed with the SEC on March 2, 2017.
10.19*	<u>Exclusive License Agreement, dated March 12, 2018, between ThermoGenesis Corp. and IncoCell Tianjin Ltd.</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on March 16, 2018.
10.20	<u>Securities Purchase Agreement, dated as of March 26, 2018, between Cesca Therapeutics Inc. and the Purchasers identified on the signature pages thereto</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on March 28, 2018.
10.21	<u>First Amended and Restated Revolving Credit Agreement, dated April 16, 2018, between Cesca Therapeutics Inc. and Boyalife Asset Holding II, Inc.</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on April 18, 2018.
10.22	<u>Second Amended and Restated Convertible Promissory Note, dated April 16, 2018, issued by Cesca Therapeutics Inc. to Boyalife Asset Holding II, Inc.</u>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on April 18, 2018.
10.23	<u>First Amended and Restated Nomination and Voting Agreement, dated April 16, 2018, between Cesca Therapeutics Inc. and Boyalife (Hong Kong) Limited</u>	Incorporated by reference to Exhibit 10.3 to Form 8-K filed with the SEC on April 18, 2018.
10.24	<u>Amendment No. 1 to First Amended and Restated Revolving Credit Agreement, dated May 7, 2018, between Cesca Therapeutics Inc. and Boyalife Asset Holding II, Inc.</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on May 7, 2018.

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10.25	<u>Form of Securities Purchase Agreement</u>	Incorporated by reference to Exhibit 10.39 of amended Registration Statement on Form S-1 filed with the SEC on May 14, 2018.
10.26	<u>Securities Purchase Agreement, dated as of August 28, 2018, between Cesca Therapeutics Inc. and the Purchasers identified on the signature pages thereto</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on August 29, 2018.
10.27#	<u>Cesca Therapeutics Inc. 2016 Equity Incentive Plan, as amended and restated.</u>	Incorporated by reference to Exhibit 10.1 of Registration Statement on Form S-8 filed with the SEC on September 19, 2018.
10.28#	<u>Amendment to the Cesca Therapeutics Inc. 2016 Equity Incentive Plan, effective December 14, 2018</u>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on December 19, 2018.
10.29#	<u>Form of Stock Option Agreement</u>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on December 19, 2018.
10.30	<u>Voting Agreement between CARTXpress Bio, Inc. and Bay City Capital Fund V, L.P. and Bay City Capital Management V LLC.</u>	Filed herewith.
21.1	<u>Subsidiaries of Cesca Therapeutics Inc.</u>	Filed herewith.
23.1	<u>Consent of Marcum LLP, Independent Registered Public Accounting Firm</u>	Filed herewith.
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

[^] 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.

Represents a management contract or compensatory plan, contract or arrangement.

Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 * under the Exchange Act. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the SEC.

‡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.

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GLOSSARY OF CERTAIN TECHNICAL TERMS

510(k): Formal notification to FDA to obtain clearance to market the medical device. The device must be substantially equivalent to devices manufactured prior to 1976, or which have been found substantially equivalent after that date.

ADULT STEM CELLS: All non-embryonic stem cells.

AUTOLOGOUS: Autogenous; related to self; originating within an organism itself, as obtaining blood from the patient for use in the same patient.

CRITICAL LIMB ISCHEMIA (CLI): A severe obstruction of the arteries that seriously decreases blood flow to the extremities (arms, hands, legs, feet) and has progressed to the point of severe pain and even skin ulcers or sores.

CRYOPRESERVATION: Maintaining the life of excised tissue or organs by freezing and storing at very low temperatures.

HEMATOPOIETIC: The formation of blood.

IN VITRO: Occurring in an artificial environment outside a living organism.

IN VIVO: Occurring or made to occur within a living organism or natural setting.

ISCHEMIA: Deficient supply of blood and oxygen to a body part.

LEUKAPHERESIS: A laboratory procedure in which white blood cells are separated from a sample of blood. It is a specific type of apheresis, the more general term for separating out one particular constituent of blood and returning the remainder to the circulation.

PERIPHERAL BLOOD: A term used to describe the blood that is contained in the body's circulatory system. It can be collected by a health care professional by inserting a needle into a vein.

PMA Classification: The most stringent type of medical device marketing application required by the FDA (one category above 510(k) pre-market notification). Unlike the 510(k) pathway, the manufacturer must submit an exhaustive application to the FDA and must receive approval prior to beginning commercial marketing of a device. The PMA application includes information on how the device was designed and manufactured, as well as preclinical and clinical studies, demonstrating that it is safe and effective for its intended use.

REGENERATIVE MEDICINE: The process of creating living, functional tissues to repair or replace tissue or organ function lost due to age, disease, damage, or congenital defects.

STEM CELLS: Undifferentiated, primitive cells in the bone marrow or cord blood with the ability both to multiply and to differentiate into specific blood or tissue cells.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

Cesca Therapeutics Inc.

Dated: March 26, 2019 By:/s/ Xiaochun “Chris” Xu
Xiaochun “Chris” Xu, Chief Executive Officer
(Principal Executive Officer)

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Xiaochun “Chris” Xu and Jeff Cauble and each of them, jointly and severally, his attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:/s/ Chris Xu
Chris Xu,

Chief Executive Officer and Chairman of the Board
(Principal Executive Officer) Dated: March 26, 2019

By:/s/ Jeff Cauble
Jeff Cauble, Principal Financial and Accounting Officer

(Principal Financial Officer and Principal Accounting Officer) Dated: March 26, 2019

By: /s/ Russell Medford
Russell Medford, Director Dated: March 26, 2019

By: /s/ Joseph Thomis
Joseph Thomis, Director Dated: March 26, 2019

By: /s/ Mark Westgate Dated: March 26, 2019

Mark Westgate, Director

By: /s/ James Xu
James Xu, Sr. Vice President, Legal Affairs and Director

Dated: March 26, 2019