

THERMOGENESIS CORP

Form 10-Q

November 09, 2007

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007.

or

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

Commission File Number: 333-82900

ThermoGenesis Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

94-3018487

(I.R.S. Employer Identification No.)

2711 Citrus Road

Rancho Cordova, California 95742

Address of principal executive offices) (Zip Code)

(916) 858-5100

(Registrant's telephone number, including area code)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 5, 2007
Common stock, \$.001 par value	55,701,175

ThermoGenesis Corp.
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Condensed Balance Sheets (Unaudited)**

(in thousands, except share and per share amounts)	September 30, 2007	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,640	\$ 5,730
Short-term investments	24,710	27,649
Accounts receivable, net of allowance for doubtful accounts of \$37 (\$50 at June 30, 2007)	2,967	3,226
Inventories, net	5,780	5,046
Other current assets	381	415
Total current assets	40,478	42,066
Equipment at cost less accumulated depreciation of \$2,635 (\$2,605 at June 30, 2007)	1,621	1,602
Other assets	109	122
	\$ 42,208	\$ 43,790
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 2,000	\$ 2,074
Accrued payroll and related expenses	363	525
Deferred revenue	767	761
Other current liabilities	1,174	947
Total current liabilities	4,304	4,307
Deferred revenue	1,479	1,647
Long-term portion of capital lease obligations	19	24
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; none outstanding		
Common stock, \$0.001 par value; 80,000,000 shares authorized; 55,701,175 issued and outstanding (55,500,524 at June 30, 2007)	56	56
Paid in capital in excess of par	119,278	118,384
Accumulated deficit	(82,928)	(80,628)

Total stockholders' equity	36,406	37,812
	\$ 42,208	\$ 43,790

See accompanying notes to financial statements.

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ThermoGenesis Corp.
Condensed Statements of Operations (Unaudited)

(in thousands, except share and per share amounts)	Three Months Ended September 30,	
	2007	2006
Product and other revenues	\$ 3,383	\$ 3,819
Milestone payments and license fees	249	486
Net revenues	3,632	4,305
Cost of product and other revenues	2,355	2,529
Cost of milestone payments and license fees	68	64
Cost of revenues	2,423	2,593
Gross profit	1,209	1,712
Expenses:		
Selling, general and administrative	2,420	2,312
Research and development	1,496	962
Total operating expenses	3,916	3,274
Interest and other income, net	407	466
Net loss	\$ (2,300)	\$ (1,096)
Per share data:		
Basic and diluted net loss per common share	\$ (0.04)	\$ (0.02)
Shares used in computing per share data	55,659,508	54,903,767

See accompanying notes to financial statements.

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ThermoGenesis Corp.
Condensed Statements of Cash Flows (Unaudited)
Three Months Ended September 30, 2007 and 2006

(in thousands)	2007	2006
Cash flows from operating activities:		
Net loss	\$ (2,300)	\$ (1,096)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	136	111
Stock based compensation expense	628	342
Accretion of discount on short-term investments	(295)	(377)
Net change in operating assets and liabilities:		
Accounts receivable	259	424
Inventories	(716)	(455)
Other current assets	34	44
Other assets	13	(8)
Accounts payable	(74)	(13)
Accrued payroll and related expenses	(162)	(116)
Deferred revenue	(162)	(188)
Other current liabilities	227	298
 Net cash used in operating activities	 (2,412)	 (1,034)
 Cash flows from investing activities:		
Capital expenditures	(173)	(52)
Purchase of investments	(9,766)	(7,848)
Maturities of investments	13,000	12,000
 Net cash provided by investing activities	 3,061	 4,100
 Cash flows from financing activities:		
Payments on capital lease obligations	(5)	(4)
Exercise of stock options and warrants	266	86
 Net cash provided by financing activities	 261	 82
 Net increase in cash and cash equivalents	 910	 3,148
 Cash and cash equivalents at beginning of period	 5,730	 3,527
 Cash and cash equivalents at end of period	 \$ 6,640	 \$ 6,675

Supplemental non-cash flow information:

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Transfer of inventory to equipment		\$	36	
Transfer of equipment to inventory	\$	18	\$	20

See accompanying notes to financial statements

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ThermoGenesis Corp.

Notes to Condensed Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Interim Reporting

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

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

Revenue Recognition

The Company recognizes revenue including multiple element arrangements, in accordance with the provisions of the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* and the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) 00-21, *Revenue Agreements with Multiple Deliverables*. Revenues from the sale of the Company's products are recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed or determinable, and collectibility is reasonably assured. The Company generally ships products F.O.B. shipping point at its office. There is no conditional evaluation on any product sold and recognized as revenue. All foreign sales are denominated in U.S. dollars. Amounts billed in excess of revenue recognized are recorded as deferred revenue on the balance sheet. The Company's foreign sales are generally through distributors. There is no right of return provided for distributors. For sales of products made to distributors, the Company considers a number of factors in determining whether revenue is recognized upon transfer of title to the distributor, or when payment is received. These factors include, but are not limited to, whether the payment terms offered to the distributor are considered to be non-standard, the distributor history of adhering to the terms of its contractual arrangements with the Company, the level of inventories maintained by the distributor, whether the Company has a pattern of granting concessions for the benefit of the distributor, and whether there are other conditions that may indicate that the sale to the distributor is not substantive. The Company currently recognizes revenue primarily on the sell-in method with its distributors.

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ThermoGenesis Corp.

Notes to Condensed Financial Statements (Unaudited) (Continued)

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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

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

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

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

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

Segment Reporting

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

Table of Contents**ThermoGenesis Corp.****Notes to Condensed Financial Statements (Unaudited) (Continued)****1. Summary of Significant Accounting Policies (Continued)****Net Loss per Share**

Net loss per share is computed by dividing the net loss to common stockholders by the weighted average number of common shares outstanding. The calculation of the basic and diluted earnings per share is the same for all periods presented, as the effect of the potential common stock equivalents is anti-dilutive due to the Company's net loss position for all periods presented. Anti-dilutive securities, which consist of stock options, warrants and common stock restricted awards that were not included in diluted net loss per common share were 3,557,270 and 2,953,633 as of September 30, 2007 and 2006.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosure about fair value measurements. SFAS No. 157 applies under other accounting standards that require or permit fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the provisions of SFAS No. 157 on its financial statements.

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

2. Investments

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2007				
Mortgage-backed securities of government sponsored enterprises	\$ 24,710	\$ 24	\$ 2	\$ 24,732
Maturity Date:				
Less than 90 days	\$ 11,904			\$ 11,915
Due in 91-365 days	12,806			12,817
	\$ 24,710			\$ 24,732
June 30, 2007				
Mortgage-backed securities of government sponsored enterprises	\$ 27,649	\$ 2	\$ 10	\$ 27,641

Table of Contents**ThermoGenesis Corp.****Notes to Condensed Financial Statements (Unaudited) (Continued)****2. Investments (Continued)**

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

	Aggregate Fair Value	Unrealized Loss
September 30, 2007		
Mortgage-backed securities of government sponsored enterprises	\$ 6,914	\$ 2

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

3. Inventories

Inventories consisted of the following at:

(in thousands)	September 30, 2007	June 30, 2007
Raw materials	\$ 2,395	\$ 2,380
Work in process	1,749	1,334
Finished goods	2,557	2,247
Reserve	(921)	(915)
	\$ 5,780	\$ 5,046

Included in the Company's inventory reserve at September 30, 2007 and June 30, 2007 were \$639 and \$638, respectively, related to CryoSeal® FS System inventory products, which are based on inventory levels in excess of forecasted demand for the product. The remainder of the reserve relates to inventory for other product lines which have been identified as slow-moving or potentially obsolete.

Table of Contents**ThermoGenesis Corp.****Notes to Condensed Financial Statements (Unaudited) (Continued)****4. Commitments and Contingencies****Warranty**

The Company offers a one-year warranty for parts only on all of its non-disposable products. In addition, the Company's one-year warranty for the BioArchive® System includes labor and travel. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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

(in thousands)	
July 1, 2007 balance	\$ 302
Warranties issued during the period	44
Settlements made during the period	(23)
Changes in liability for pre-existing warranties during the period, including expirations	104
Balance at September 30, 2007	\$ 427

5. Stockholder's Equity**Stock Based Compensation**

The Company recorded stock-based compensation of \$628,000 and \$339,000 for the three months ended September 30, 2007 and 2006.

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

(in thousands, except shares, share price and term)	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at June 30, 2007	2,470,917	\$ 2.89	2.6	\$ 1,046
Granted	958,000	\$ 2.34		
Forfeited or Expired	(245,496)	\$ 3.40		
Exercised	(200,651)	\$ 1.33		
Outstanding at September 30, 2007	2,982,770	\$ 2.78	2.9	\$ 132
Vested and Expected to Vest at September 30, 2007	2,914,728	\$ 2.77	2.9	\$ 132
Exercisable at September 30, 2007	1,596,068	\$ 2.65	2.3	\$ 130

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ThermoGenesis Corp.

Notes to Condensed Financial Statements (Unaudited) (Continued)

5. Stockholder's Equity (Continued)

Stock Based Compensation (Continued)

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the 1,158,000 options that were in-the-money at September 30, 2007. During the three months ended September 30, 2007 and 2006, the aggregate intrinsic value of options exercised under the Company's stock option plans were \$248 and \$81, respectively, determined as of the date of option exercise.

6. Income Taxes

Effective July 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48,

Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109 (SFAS 109).

There was no impact on our financial statements upon adoption. Because of our historical significant net operating losses, we have not been subject to income tax since inception. The tax years 1993-2007 remain open to examination by the major taxing jurisdictions to which we are subject. The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense. To date, there have been no interest or penalties charged to the Company in relation to the underpayment of income taxes. There were no unrecognized tax benefits during all the periods presented.

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

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
Financial Condition and Results of Operations**

for the Three Months Ended September 30, 2007 and 2006

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

Forward-Looking Statements

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

Succession Planning, Governance and Growth

On July 27, 2007, we appointed William Osgood as our new Chief Executive Officer, and our former Chief Executive Officer assumed the role of Chief Technology Architect. Subsequent to this change, we also appointed Dr. Hubert Huckel as a non-executive Chairman of the Board of Directors. We continue to pursue additional independent directors through an executive search firm retained by the Governance & Nominating Committee.

Overview

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

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

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
for the Three Months Ended September 30, 2007 and 2006 (Continued)**

Our Products

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

The AXP[®] AutoXpress Platform (AXP) is an innovative product which semi-automates the isolation and concentration of stem cells from cord blood into a fixed 20 ml volume in a functionally closed sterile environment. It includes a compact battery powered device and a proprietary disposable bag set. The AXP has been commercially available since March 2006, marketed under a Master File with the FDA. In October 2007, the Company received 510k clearance from the FDA for the use of the AXP in the processing of cord blood for cryopreservation. The AXP Platform replaces the current clinical process which is typically an 18-step manual method over a ninety (90) minute period with a semi-automated process requiring only thirty (30) minutes. The manual process requires the introduction of sedimentation agents or density gradient media into the cord blood and requires a clean room along with trained technicians to accomplish. The AXP Platform completes its processing without these agents or media with a higher cell recovery rate in a functionally closed bag set in thirty (30) minutes. Included in the set is a 25 ml freezing bag which can be archived in the BioArchive System.

The CryoSeal FS System produces a second-generation surgical sealant which harvests the two interactive protein component solutions of a fibrin sealant: (1) the wound healing proteins of fibrinogen, fibronectin, Factor VIII, von Willebrands Factor and Factor XIII and (2) the activating enzyme, thrombin from the patient's own blood. When combined at the bleeding wound site, the two components form an adhesive gel that stops bleeding and bonds tissue. This advanced surgical sealant may be manufactured in either hospitals or blood centers and competes with conventional fibrin sealants, sourced from pools of plasma purchased from up to ten thousand individuals. On July 30, 2007, the Company announced that it had received FDA clearance to market the CryoSeal FS System's autologous fibrin sealant, as an adjunct to hemostasis in liver resection surgery. In Japan, our distributor, Asahi has completed enrollment in their pivotal clinical trial and filed their PMA equivalent in March 2005 with approval expected during fiscal 2009. The Company has received CE Mark approval for the system enabling its sale and use in Europe. However, we have not been able to meaningfully penetrate the market with this product and revenues have lagged expectations. Over the last several years while marketing the CryoSeal in numerous European countries, we and our distributors have faced substantial country specific regulatory, cost-reimbursement and product registration requirements that have negatively impacted our ability to sell the product and grow revenues. Compliance with these requirements has been more complicated than we anticipated, requiring far more time and the consumption of more of our resources than we originally projected.

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

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
for the Three Months Ended September 30, 2007 and 2006 (Continued)**

Our Products (continued)

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

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

The Company's legacy is in its ThermoLine products for ultra rapid freezing and thawing of blood components, which the Company distributes to blood banks and hospitals. We are currently evaluating our divestiture options for the ThermoLine consistent with our strategic direction emphasizing the cell therapy and surgical wound care market. The following is Management's discussion and analysis of certain significant factors which have affected the Company's financial condition and results of operations during the period included in the accompanying financial statements.

Critical Accounting Policies

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

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
for the Three Months Ended September 30, 2007 and 2006 (Continued)**

Critical Accounting Policies (Continued)

Revenue Recognition:

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

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

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

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

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
Financial Condition and Results of Operations
for the Three Months Ended September 30, 2007 and 2006 (Continued)**

Critical Accounting Policies (Continued)

Revenue Recognition (Continued):

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

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

Stock-Based Compensation:

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), *Shared-Based Payments* (FAS 123(R)). Under FAS 123(R), compensation cost is calculated on the date of the grant using the Black Scholes-Merton option-pricing formula. The compensation expense is then amortized over the vesting period. The Company uses the Black-Scholes-Merton option-pricing formula in determining the fair value of the Company's options at the grant date and applies judgment in estimating the key assumptions that are critical to the model such as the expected term, volatility and forfeiture rate of an option. The Company's estimate of these key assumptions is based on historical information and judgment regarding market factors and trends. If actual results are not consistent with the Company's assumptions and judgments used in estimating the key assumptions, the Company may be required to record additional compensation expense, which could have a material impact on the Company's financial position and results of operations.

Allowance for Doubtful Accounts:

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

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
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Critical Accounting Policies (Continued)

Warranty:

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

Inventory Reserve:

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

Results of Operations for the Three Months Ended September 30, 2007 as Compared to the Three Months Ended September 30, 2006

Net Revenues:

Revenues for the three months ended September 30, 2007 were \$3,632,000, compared to \$4,305,000 for the three months ended September 30, 2006, a decrease of \$673,000 or 16%. This is primarily due to a decrease in BioArchive device shipments, seven in the first quarter of fiscal 2007 versus three in the current quarter, which contributed to a decrease in revenues of \$760,000. Additionally, there was a decrease in revenues of \$490,000 as there were no AXP devices sold in the current quarter as compared to the prior year due to the device being on hold until certain quality enhancements could be completed. The Company anticipates sales of AXP devices to resume in the second quarter of fiscal 2008. Offsetting the decreases was an increase in sales of AXP disposables of \$700,000.

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ThermoGenesis Corp.
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Critical Accounting Policies (Continued)***Net Revenues (Continued):***

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

	September 30,	
	2007	2006
United States	34	29
Asia	56	52
Europe	42	36
Rest of World	26	25
	158	142

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

	September 30,	
	2007	2006
BioArchive	\$ 809,000	\$ 787,000
AXP	718,000	1,000
TPD	91,000	95,000
CryoSeal	291,000	117,000
	\$ 1,909,000	\$ 1,000,000
Percentage of total Company revenues	53%	23%

Gross Profit:

The Company's gross profit was \$1,209,000 or 33% of net revenues for the three months ended September 30, 2007, as compared to \$1,712,000 or 40% for the corresponding fiscal 2007 period. The decrease in gross profit is primarily due to higher warranty costs associated with the AXP device and docking station and the destruction of lots and product testing as part of the quality assurance program of the AXP bagset disposables.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses were \$2,420,000 for the three months ended September 30, 2007, compared to \$2,312,000 for the comparable fiscal 2007 period, an increase of \$108,000 or 5%. The increase is primarily due to an increase in salary and benefits for additional sales and marketing personnel.

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
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Results of Operations (Continued)

Research and Development Expenses:

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

Research and development expenses for the three months ended September 30, 2007, were \$1,496,000 compared to \$962,000 for the corresponding fiscal 2007 period, an increase of \$534,000 or 56%. The increase is primarily due to salaries, benefits and stock compensation related to the Chief Technology Architect, a new position filled by the Company's former Chief Executive Officer as of August 1, 2007 as part of the succession plan and payments made to UC Davis in connection with a collaboration agreement to develop stem cell treatments.

Liquidity and Capital Resources

At September 30, 2007, the Company had cash, cash equivalents and short-term investments of \$31,350,000 and working capital of \$36,174,000. This compares to cash, cash equivalents and short-term investments of \$33,379,000 and working capital of \$37,759,000 at June 30, 2007. The cash was used to fund operations and other cash needs of the Company. In addition to product revenues, the Company has primarily financed operations through the private and public placement of equity securities and has raised approximately \$108,000,000, net of expenses, through common and preferred stock financings and option and warrant exercises. As of September 30, 2007, the Company has no off-balance sheet arrangements.

Net cash used in operating activities for the three months ended September 30, 2007 was \$2,412,000, primarily due to the net loss of \$2,300,000 which included the accretion of discount on short-term investments of \$295,000, offset by depreciation and stock based compensation expense of \$136,000 and \$628,000, respectively. Inventories utilized \$716,000 of cash primarily due to lower than projected shipments of BioArchive devices.

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

Backlog

The Company's cancelable backlog at September 30, 2007 was \$5,457,000.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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**ThermoGenesis Corp.
Management's Discussion and Analysis of
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for the Three Months Ended September 30, 2007 and 2006 (Continued)

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer along with the Company's Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined by Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of our fiscal quarter pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Principal Executive Officer along with the Company's Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes in the Company's internal controls over financial reporting that occurred during the three months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

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PART II OTHER INFORMATION

Item 1. Legal.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

Item 3. Defaults upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits:

- 31.1 Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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ThermoGenesis Corp.

Signatures

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

ThermoGenesis Corp.

(Registrant)

Dated: November 7, 2007

/s/ William R. Osgood

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

/s/ Matthew T. Plavan

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