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

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _____ to _____

Commission File Number: 0-28034

AdvanSource Biomaterials Corporation

(Exact name of registrant as specified in its charter)

Delaware

04-3186647

(State or other jurisdiction of
incorporation or organization)

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

229 Andover Street, Wilmington, Massachusetts

01887

(Address of principal executive offices)

(Zip Code)

(978) 657-0075

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

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 August 12, 2016, there were 21,490,621 shares of the registrant's Common Stock outstanding.

ADVANSOURCE BIOMATERIALS CORPORATION

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AdvanSource Biomaterials Corporation
Condensed Balance Sheets
(In thousands, except share and per share amounts)

	June 30, 2016	March 31,
	<i>(Unaudited)</i>	2016
ASSETS		
Current assets:		
Cash	\$ 148	\$ 80
Accounts receivable-trade, net of allowance of \$5 as of June 30, 2016 and March 31, 2016	170	71
Accounts receivable-other	122	121
Inventories, net	182	257
Prepaid expenses and other current assets	6	5
Total current assets	628	534
Property, plant and equipment, net	1,907	1,922
Deferred financing costs, net	71	73
Other assets	47	47
Total assets	\$ 2,653	\$ 2,576
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 305	\$ 276
Accrued expenses	205	194
Customer advance	-	42
Notes payable	50	-
Capital lease obligation	-	1
Deferred revenue	-	13
Total current liabilities	560	526
Long-term liabilities:		
Long-term financing obligation	1,986	1,986
Accrued interest on financing obligation	163	160
Total long-term liabilities	2,149	2,146
Total liabilities	2,709	2,672
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock; \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding as of June 30, 2016 and March 31, 2016	-	-
Common stock; \$0.001 par value; 50,000,000 shares authorized; 21,567,313 shares issued; and 21,490,621 shares outstanding as of June 30, 2016 and March 31, 2016	21	21
Additional paid-in capital	38,103	38,100
Accumulated deficit	(38,150)	(38,187)
	(26)	(66)
Less: treasury stock; 76,692 shares at cost as of June 30, 2016 and March 31, 2016	(30)	(30)
Total stockholders' deficit	(56)	(96)
Total liabilities and stockholders' deficit	\$ 2,653	\$ 2,576

The accompanying notes are an integral part of these unaudited condensed financial statements.

AdvanSource Biomaterials Corporation
Condensed Statements of Operations
(Unaudited - In thousands, except per share amounts)

	For the Three Months Ended June 30,	
	2016	2015
Revenues:		
Product sales	\$ 640	\$ 1,048
License, royalty and development fees	160	123
Total revenues	<u>800</u>	<u>1,171</u>
Cost of sales	<u>259</u>	<u>322</u>
Gross profit	<u>541</u>	<u>849</u>
Operating expenses:		
Research, development and regulatory	78	80
Selling, general and administrative	336	341
Total operating expenses	<u>414</u>	<u>421</u>
Income from operations	127	428
Interest expense	<u>(90)</u>	<u>(91)</u>
Income before income taxes	37	337
Provision for income taxes	-	-
Net income	<u>\$ 37</u>	<u>\$ 337</u>
Net income per common share:		
Basic	<u>\$ 0.00</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.00</u>	<u>\$ 0.02</u>
Shares used in computing net income per common share:		
Basic	<u>21,491</u>	<u>21,491</u>
Diluted	<u>21,813</u>	<u>21,491</u>

The accompanying notes are an integral part of these unaudited condensed financial statements.

AdvanSource Biomaterials Corporation
Condensed Statements of Cash Flows
(Unaudited - In thousands)

	Three Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 37	\$ 337
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation	15	33
Amortization of deferred financing costs	2	2
Stock-based compensation	3	3
Changes in assets and liabilities:		
Accounts receivable-trade	(99)	100
Accounts receivable-other	(1)	(3)
Inventories	75	(25)
Prepaid expenses and other current assets	(1)	2
Accounts payable	29	32
Accrued expenses	14	(157)
Customer advance	(42)	(77)
Deferred revenue	(13)	(23)
Net cash flows provided by operating activities	19	224
Cash flows from investing activities:		
Net cash flows provided by investing activities	-	-
Cash flows from financing activities:		
Proceeds from promissory notes	50	-
Repayment of promissory notes	-	(50)
Repayment of capital lease obligation	(1)	(2)
Net cash flows provided by (used in) financing activities	49	(52)
Net change in cash	68	172
Cash at beginning of period	80	75
Cash at end of period	\$ 148	\$ 247
Supplemental disclosure of cash flow information		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 72	\$ 87
Purchase of equipment on capital lease	\$ -	\$ -

The accompanying notes are an integral part of these unaudited condensed financial statements.

ADVANSOURCE BIOMATERIALS CORPORATION
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2016

1. Description of Business

AdvanSource Biomaterials Corporation develops advanced polymer materials which provide critical characteristics in the design and development of medical devices. Our biomaterials are used in devices that are designed for treating a broad range of anatomical sites and disease states. Our business model leverages our proprietary materials science technology and manufacturing expertise in order to expand product sales and royalty and license fee income.

Our technology, notably products such as ChronoFlex®, HydroMed™, and HydroThane™, which have been developed to overcome a wide range of design and functional challenges, such as the need for dimensional stability, ease of manufacture and demanding physical properties to overcoming environmental stress cracking and providing heightened lubricity for ease of insertion. Our new product extensions customize proprietary polymers for specific customer applications in a wide range of device categories.

Our corporate, development and manufacturing operations are located in our leased facility in Wilmington, Massachusetts.

2. Interim Financial Statements and Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments (consisting only of normal recurring adjustments), which we consider necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three months ended June 30, 2016 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year. The information contained in this quarterly report on Form 10-Q should be read in conjunction with our audited financial statements included in our annual report on Form 10-K, as amended, as of and for the year ended March 31, 2016 as filed with the Securities and Exchange Commission (the “SEC”).

Our significant accounting policies are described in Note 2 to the financial statements included in Item 8 of our annual report on Form 10-K as of March 31, 2016.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments, which are evaluated on an ongoing basis, and that affect the amounts reported in our unaudited condensed financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and judgments. In particular, significant estimates and judgments include those related to revenue recognition, allowance for doubtful accounts, inventory reserves, useful lives and valuation of property and equipment.

3. New Accounting Pronouncement

We have evaluated all issued but not yet effective accounting pronouncements and determined that, other than the following, they are either immaterial or not relevant to us. In February 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) “ASU 2016 - 02 Leases” intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment and manufacturing equipment. The ASU will require organizations that lease assets - referred to as “lessees” - to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the balance sheet - the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include

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qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee - also known as lessor accounting - will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The ASU on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, the ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. It is not anticipated that this updated guidance will have a material impact on our results of operations, cash flows or financial condition.

In March 2016, the FASB issued “ASU 2016 - 09 Improvements to Employee Share-Based Payment Accounting” which is intended to improve the accounting for employee share-based payments. The ASU affects all organizations that issue share-based payment awards to their employees. The ASU, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, simplifies several aspects of the accounting for share-based payment award transactions, including; the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The ASU simplifies two areas specific to private companies, with regards to the expected term and intrinsic value measurements. The ASU simplifies the following areas to private and public companies; (a) tax benefits and tax deficiencies with regards to the differences between book and tax deductions, (b) changes in the excess tax benefits classification in the statement of cash flows, (c) make an entity wide accounting policy election for accrual of vested awards verses individual awards, (d) changes in the amount qualifying as an equity award classification subject to statutory tax withholdings, (e) clarification in the classification of shares withheld for statutory tax withholdings on the statement of cash flows. For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any organization in any interim or annual period. It is not anticipated that this guidance will have a material impact on our results of operations, cash flows or financial condition.

In January 2016, the FASB issued “ASU 2016 - 01 Recognition and Measurement of Financial Assets and Financial Liabilities,” intended to improve the recognition and measurement of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance makes targeted improvements to existing GAAP by:

- Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities;
- Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and
- Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The ASU on recognition and measurement will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For private companies, not-for-profit

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organizations, and employee benefit plans, the standard becomes effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The ASU permits early adoption of the own credit provision (referenced above). Additionally, it permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. It is not anticipated that this guidance will have a material impact on our results of operations, cash flows or financial condition.

In April 2016, the FASB issued “ASU 2016 - 10 Revenue from Contract with Customers (Topic 606): identifying Performance Obligations and Licensing.” The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Topic 606 includes implementation guidance on (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). The amendments in this Update are intended to render more detailed implementation guidance with the expectation to reduce the degree of judgement necessary to comply with Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. It is not anticipated that this updated guidance will have a material impact on our results of operations, cash flows or financial condition.

4. Related Party Transactions

On April 26, 2016, we entered into Promissory Notes in the aggregate principal amount of \$50,000 (the “Notes”) with Khristine Carroll, our Executive VP of Commercial Operations and an affiliate of Michael Adams, our Chief Executive Officer (the “Investors”). The Notes were initially due on May 25, 2016 and are currently being extended for consecutive monthly periods as mutually agreed upon by the parties and provided for by the terms of the Notes. The Notes bear interest at the rate of 10% per annum and all principal and accrued interest, if any, is due on demand. As of June 30, 2016, the principal balance outstanding was \$50,000 and accrued interest outstanding was less than \$1,000.

5. Equity-Based Compensation

Our 1996 Employee, Director and Consultants Stock Option Plan (the “1996 Plan”) was approved by the Board of Directors and Stockholders in March 1996. A total of 7,000,000 shares were reserved for issuance under the 1996 Plan. Under the terms of the 1996 Plan, the exercise price of Incentive Stock Options issued under the 1996 Plan must be equal to the fair market value of the common stock at the date of grant. In the event that Non Qualified Options are granted under the 1996 Plan, the exercise price may be less than the fair market value of the common stock at the time of the grant (but not less than par value). In October 2003, our shareholders approved the 2003 Stock Option Plan (the “2003 Plan”), which authorizes the issuance of 3,000,000 shares of common stock with terms similar to the 1996 Plan. In January 2006, we filed Form S-8 with the SEC registering an additional 489,920 total shares of common stock in the 1996 Plan and 2003 Plan. Total shares of common stock registered under the 1996 Plan and 2003 Plan (collectively, the “Plans”) are 10,489,920. Substantially all of the stock options granted pursuant to the 1996 Plan provide for the acceleration of vesting of the shares of common stock subject to such options in connection with certain changes in our control. A similar provision is not included in the 2003 Plan. Options granted expire ten years from the grant date. As of September 30, 2013, all Plans and shares not granted expired. As of June 30, 2016, there are no other equity incentive plans in place for the future issuance of our common stock.

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Activity under the Plans for the nine months ended June 30, 2016 is as follows:

	Options Outstanding	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Options outstanding as of April 1, 2016	2,170,750	\$ 0.36		\$ 13
Granted	-	-		
Exercised	-	-		
Cancelled or forfeited	-	-		
Options outstanding as of June 30, 2016 (<i>unaudited</i>)	<u>2,170,750</u>	\$ 0.36	4.19	\$ 13
Options exercisable as of June 30, 2016 (<i>unaudited</i>)	<u>2,009,187</u>	\$ 0.39	3.95	\$ 10
Options vested or expected to vest as of June 30, 2016 (<i>unaudited</i>)	<u>2,170,750</u>	\$ 0.36	4.19	\$ 13

Our unaudited condensed statements of operations include equity-based compensation expense related to our stock option plans for employee and non-employee director awards in the amount of \$3,000 and \$3,000 for the three months ended June 30, 2016 and 2015, respectively. There was no income tax benefit related to these costs. As of June 30, 2016, the total amount of unrecognized equity-based compensation expense was approximately \$2,000 which will be recognized over a weighted average period of .18 years.

6. Inventories

Inventories, net, are stated at the lower of cost (first in, first out) or market and consist of the following:

<i>(in thousands)</i>	June 30, 2016 (unaudited)	March 31, 2016
Raw materials	\$ 87	\$ 82
Work in progress	13	9
Finished goods	170	254
	270	345
Less: allowance for obsolete and excess inventory	(88)	(88)
Total inventories, net	<u>\$ 182</u>	<u>\$ 257</u>

7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

<i>(in thousands)</i>	June 30, 2016 (unaudited)	March 31, 2016
Land	\$ 500	\$ 500
Building	2,705	2,705
Machinery, equipment and tooling	1,214	1,214
Furniture, fixtures and office equipment	285	285
Office equipment under capital lease	13	13
	4,717	4,717
Less: accumulated depreciation	(2,810)	(2,715)
	<u>\$ 1,907</u>	<u>\$ 1,922</u>

For the three months ended June 30, 2016 and 2015, depreciation expense was \$15,000 and \$33,000, respectively.

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8. Income Per Share

Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted income per common share are based upon the weighted-average common shares outstanding during the period plus additional weighted-average common equivalent shares outstanding during the period. Common equivalent shares result from the assumed exercise of outstanding stock options and warrants, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. In addition, the numerator is adjusted for any changes in income that would result from the assumed conversion of potential shares. Potentially dilutive shares, which were excluded from the diluted income per share calculations because the effect would be antidilutive or the options exercise prices were greater than the average market price of the common shares, were 1,499,500 shares and 2,175,750 shares for the three months ended June 30, 2016 and 2015, respectively.

9. Stockholders' Equity

Common Stock Options and Warrants

On July 22, 2015, we engaged the services of a financial and strategic advisor whose services include, but are not limited to, financial advice, strategic advice and investment banking services. In connection with this engagement, we agreed to compensate the investment bankers approximately \$4,000 per quarter for a one year period and we issued them a warrant to purchase 830,500 shares of our common stock at an exercise price of \$0.0301 per share, the approximate fair value of our common stock on the date of the engagement. The warrant is exercisable at any time until July 21, 2025. The warrant was valued at approximately \$28,000 using the Black-Scholes model and was expensed to compensation in the three month period ended September 30, 2015.

There were no exercises of options or warrants by employees or consultants during the three months ended June 30, 2016 and 2015, respectively.

Employee Stock Purchase Plan

There were no shares of our common stock issued pursuant to the Employee Stock Purchase Plan (the "ESP Plan") as of June 30, 2016 as all 500,000 shares authorized under the ESP Plan have been issued.

10. Income Taxes

The provision for income taxes includes federal, state, local and foreign taxes. Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences between the financial statement carrying amounts and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which the temporary differences are expected to be recovered or settled. We evaluate the realizability of our deferred tax assets and establishes a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized. A valuation allowance has been recorded to offset all deferred tax assets due to uncertainty of realizing the tax benefits of the underlying operating loss and tax credit carry forwards over their carry forward periods. We have no significant deferred tax liabilities as of June 30, 2016 and March 31, 2016.

We account for uncertain tax positions using a "more-likely-than-not" threshold for recognizing and resolving uncertain tax positions. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. We evaluate this tax position on a quarterly basis. We also accrue for potential interest and penalties, if applicable, related to unrecognized tax benefits in income tax expense. As of June 30, 2016 and March 31, 2016, we had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

11. Notes Payable

On April 26, 2016, we entered into Promissory Notes in the aggregate principal amount of \$50,000 (the "Notes") with Kristine Carroll, our Executive VP of Commercial Operations and an affiliate of Michael Adams, our Chief Executive Officer (the "Investors"). The Notes were initially due on May 25, 2016 and are currently being extended for consecutive monthly periods as mutually agreed upon by the parties and provided for by the terms of the Notes. The Notes bear interest at the rate of 10% per annum and all principal and accrued interest, if any, is due on demand. As of June 30, 2016, the principal balance outstanding was \$50,000 and accrued interest outstanding

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was less than \$1,000.

12. Long-Term Financing Obligation

On December 22, 2011, we entered into an agreement with an independent third-party under which we sold and leased back our land and building generating gross proceeds of \$2,000,000. Pursuant to a lease agreement, the initial minimum lease term is 15 years. At the end of the initial minimum lease term, we have the option to renew the lease for three periods of five years each. In addition, we provided, as collateral, a security interest in all furnishings, fixtures and equipment owned and used by us, having a net book value of approximately \$0 as of June 30, 2016. For accounting purposes, the provision of such collateral constitutes continuing involvement with the associated property. Due to this continuing involvement, this sale-leaseback transaction is accounted for under the financing method, rather than as a completed sale. Under the financing method, we include the sales proceeds received as a financing obligation. As of June 30, 2016 and March 31, 2016, the total financing obligation was \$1,986,000, respectively, and accrued interest on financing obligation was \$163,000 and \$160,000, respectively. Through December 2018, interest on the financing obligation exceeds the minimum lease payments, accordingly the principal remains constant through that date. After December 2018, the minimum lease payment will exceed interest and principal will be reduced by the excess of minimum lease payment over interest. The building, building improvements and land remain on the condensed balance sheet and the building and building improvements will continue to be depreciated over their remaining useful lives. Payments made under the lease are applied as payments of imputed interest and deemed principal on the underlying financing obligation.

13. Contingencies

We are not a party to any legal proceedings, other than ordinary routine litigation incidental to our business, which we believe will not have a material affect on our financial position or results of operations.

14. Concentrations of Credit Risk and Major Customers

For the three months ended June 30, 2016 and 2015, two customers represented 79% of our total revenues and one customer represented 76% of our total revenues, respectively.

As of June 30, 2016, we had accounts receivable-trade, net, of \$109,000, or 64%, due from three customers. As of March 31, 2016, we had accounts receivable-trade, net, of \$46,000, or 65%, due from four customers.

As of June 30, 2016, we had \$122,000 due from two customers related to receivables on royalties, license and annual usage fees. As of March 31, 2016, we had \$121,000 due from two customers related to receivables on royalties, license and annual usage fees. These amounts are classified as accounts receivable-other in the accompanying condensed balance sheets.

15. Subsequent Events

We evaluated all events or transactions that occurred after the balance sheet date through the date when we issued these unaudited condensed financial statements. During this period, we did not have any material recognizable subsequent events.

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

Cautionary Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains certain statements that are “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Litigation Reform Act”). These forward looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended or using other similar expressions.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this quarterly report on Form 10-Q. For example, we may encounter competitive, technological, financial and business challenges making it more difficult than expected to continue to develop and market our products; the market may not accept our existing and future products; we may not be able to retain our customers; we may be unable to retain existing key management personnel; and there may be other material adverse changes in our operations or business. Certain important factors affecting the forward-looking statements made herein also include, but are not limited to (i) continued downward pricing pressures in our targeted markets, (ii) the continued acquisition of our customers by certain of our competitors, and (iii) continued periods of net losses, which could require us to find additional sources of financing to fund operations, implement our financial and business strategies, meet anticipated capital expenditures and fund research and development costs. In addition, assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our marketing, capital expenditure or other budgets, which may in turn affect our financial position and results of operations. For all of these reasons, the reader is cautioned not to place undue reliance on forward-looking statements contained herein, which speak only as of the date hereof. We assume no responsibility to update any forward-looking statements as a result of new information, future events, or otherwise except as required by law. For further information, you are encouraged to review our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2014 and the risk factors discussed therein under Part I. Item 1A.

Overview

We develop advanced polymer materials which provide critical characteristics in the design and development of medical devices. Our biomaterials are used in devices that are designed for treating a broad range of anatomical sites and disease states. Our business model leverages our proprietary materials science technology and manufacturing expertise in order to expand our product sales and royalty and license fee income.

Our leading edge technology, notably products such as ChronoFlex®, HydroMed™, and HydroThane™, has been developed to overcome a wide range of design and functional challenges, from the need for dimensional stability, ease of manufacturability and demanding physical properties to overcoming environmental stress cracking and providing heightened lubricity for ease of insertion. Our polymer product lines are compliant with measures applying to the processing of certain animal waste to protect against transmissible spongiform encephalopathies as set forth in European Council Decision 1999/534/EC. Our new product extensions allow us to customize our proprietary polymers for specific customer applications in a wide range of device categories.

Technology and Intellectual Property

Our unique materials science strengths are embodied in our family of proprietary polymers. We manufacture and sell our custom polymers under the trade names ChronoFilm, ChronoFlex, ChronoThane, ChronoPrene, ChronoSil, HydroThane, and PolyBlend. The ChronoFlex family of polymers has the potential to be marketed beyond our existing customer base. Our goal is to fulfill the market’s need for advanced materials science capabilities, thereby enabling customers to improve devices that utilize polymers. Our chemists continue to develop the ChronoFlex family of medical-grade polymers. Conventional polymers are susceptible to degradation resulting in catastrophic failure of long-term implantable devices such as pacemaker leads. ChronoFlex and ChronoThane

polymers are designed to overcome such degradation and reduce the incidents of infections associated with invasive devices.

Key characteristics of our polymers are i) optional use as lubricious coatings for smooth insertion of a device into the body, ii) antimicrobial properties that are part of the polymer itself, and iii) mechanical properties, such as hardness and elasticity sufficient to meet engineering requirements. We believe our technology has wide application in increasing biocompatibility, drug delivery, infection control and expanding the utility of complex devices in the hospital and clinical environment.

We manufacture and sell our proprietary HydroThane polymers to medical device manufacturers that are evaluating HydroThane for use in their products. HydroThane is a thermoplastic, water-absorbing, polyurethane elastomer possessing properties which we believe make it well suited for the complex requirements of a variety of catheters. In addition to its physical properties, we believe HydroThane exhibits an inherent degree of bacterial resistance, clot resistance and biocompatibility. When hydrated, HydroThane has elastic properties similar to living tissue.

We also manufacture specialty hydrophilic polyurethanes that are primarily sold to customers as part of exclusive arrangements. Specifically, one customer is supplied tailored, patented hydrophilic polyurethanes in exchange for a multi-year, royalty-bearing exclusive supply contract which generates royalty income for the Company.

ChronoFilm is a registered trademark of PolyMedica. ChronoFlex is our registered trademark. ChronoThane, ChronoPrene, ChronoSil, HydroThane, and PolyBlend are our tradenames. CardioPass is our trademark.

We own or license four patents relating to our vascular graft manufacturing and polymer technology and products. While we believe our patents secure our exclusivity with respect to certain of our technologies, there can be no assurance that any patents issued would not afford us adequate protection against competitors which sell similar inventions or devices, nor can there be any assurance that our patents will not be infringed upon or designed around by others. However, we intend to vigorously enforce all patents issued to us.

In October 2009, we filed for a U.S. patent on ChronoSil, our silicone-urethane copolymer product, and methods for making ChronoSil. ChronoSil can have many physical properties which are usually associated with polyurethanes, but also the feel and characteristics of silicones.

In August 2010, the U.S. Patent and Trademark Office issued us a U.S. patent on our proprietary antimicrobial formulation for ChronoFlex. Current technology in the marketplace uses antibiotic drugs. The antimicrobial component of our polymers has been designed to be non-leaching as a result of the polymerization process.

In addition, PolyMedica has granted us an exclusive, perpetual, worldwide, royalty-free license for the use of one polyurethane patent and related technology in the field consisting of the development, manufacture and sale of implantable medical devices and biodurable polymer material to third parties for the use in medical applications (the "Implantable Device and Materials Field"). PolyMedica also owns, jointly with Thermedics, Inc., an unrelated company that manufactures medical grade polyurethane, the ChronoFlex polyurethane patents relating to the ChronoFlex technology. PolyMedica has granted us a non-exclusive, perpetual, worldwide, royalty-free sublicense of these patents for use in the Implantable Devices and Materials Field.

Critical Accounting Policies

Our critical accounting policies are summarized in Note B to our consolidated financial statements included in Item 8 of our annual report on Form 10-K for the fiscal year ended March 31, 2015. However, certain of our accounting policies require the application of significant judgment by our management, and such judgments are reflected in the amounts reported in our financial statements. In applying these policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of estimates. Those estimates are based on our historical experience, terms of existing contracts, our observance of market trends, information provided by our strategic partners and information available from other outside sources, as appropriate. Actual results may differ significantly from the estimates contained in our unaudited condensed financial statements. There have been no changes to our critical accounting policies during the fiscal quarter ended June 30, 2016.

Results of Operations

Three Months Ended June 30, 2016 vs. June 30, 2015

Revenues

Total revenues for the three months ended June 30, 2016 were \$800,000 as compared with \$1,171,000 for the prior year period, a decrease of \$371,000, or 31.7%.

Product sales of our biomaterials for the three months ended June 30, 2016 were \$640,000 as compared with \$1,048,000 for the prior year period, a decrease of \$408,000, or 38.9%. The decrease is due to anticipated reductions in product sales from one significant customer, which were partially offset in an increase in product sales to existing and new customers.

License, royalty and development fees for the three months ended June 30, 2016 were \$160,000 as compared with \$123,000 for the prior year period, an increase of \$37,000 or 30.1%. The increase in license, royalty and development fees is due primarily to increased royalties from two customers experiencing increased sales of their medical device products. We have agreements to license our proprietary biomaterial technology to medical device manufacturers and develop biomaterials for incorporation into medical devices under development by our customers. Royalties are earned when these manufacturers sell medical devices which use our biomaterials.

Gross Profit

Gross profit on total revenues for the three months ended June 30, 2016 was \$541,000, or 67.6% of total revenues, compared with \$849,000, or 72.5% of total revenues, for the prior year period. Gross profit on product sales for the three months ended June 30, 2016 was \$381,000, or 59.5% of product sales, compared with \$726,000, or 69.3% of product sales, for the prior year period. The decrease in gross profit dollars and gross profit percentage on total revenues and product sales is primarily a result of decreased product sales.

Research, Development and Regulatory Expenses

Research and development expenses for the three months ended June 30, 2016 were \$78,000 as compared with \$80,000 for the prior year period, a decrease of \$2,000 or 2.5%. Our research and development efforts are focused on developing new applications for our biomaterials. Research and development expenditures consist primarily of the salaries of full time employees and related expenses, and are expensed as incurred. Management believes its current research and development resources meet the needs of our customers and internal development needs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2016 were \$336,000 as compared with \$341,000 for the prior year period, a decrease of \$5,000, or 1.5%. Selling, general and administrative expenses have stabilized and is consistent with historical trends. Management continues to evaluate costs to ensure both constraints and any other areas of improvement to our cost structure.

Interest Expense

Interest expense for the three months ended June 30, 2016 was \$90,000 as compared to \$91,000 for the comparable prior year period. Interest expense is composed primarily of interest accrued in connection with the financing obligation.

Liquidity and Capital Resources

As of June 30, 2016, we had cash of \$148,000. This represents a decrease of \$99,000, or 40.0%, as compared to a cash balance of \$80,000 as of March 31, 2016.

During the three months ended June 30, 2016, we had net cash inflows of \$19,000 from operating activities as compared with net cash inflows of \$224,000 for the prior year period. Our uses of cash for operating activities have primarily consisted of salaries and wages for our employees, facility and facility-related costs, material and overhead costs used in production, laboratory supplies and materials, and professional fees. The sources of our cash flow from operating activities have consisted primarily of payments received from customers on the sale of polymer products and fees earned on license, royalty and development agreements. We used an additional \$205,000 of net cash from operating activities as compared to the prior year period, primarily due to (i) reduced net income generated during the period primarily due to decreased product sales; (ii) period end sales which increased receivables to be collected from our customers; and (iii) decrease in advances on customer orders. These cash outflows were offset by (i) reduction in inventory build; and (ii) the effect of non-cash depreciation charges.

During the three months ended June 30, 2016, we had net cash inflows from financing activities of \$49,000 primarily from the net effect of the repayment of principal on promissory notes from a prior investor group in the aggregate amount of \$50,000 during the three months ended June 30 2015, which was offset from the issuance of a promissory note in the aggregate amount of \$50,000 from a new investor group during the three months ended June 30, 2016.

There were no options or warrants exercised during the nine months ended June 30, 2016 and 2014, respectively. The ability to attract additional capital investments in the future will depend on many factors, including the availability of credit, rate of revenue growth, the expansion of selling and marketing and research and development activities, and the timing of new product introductions and enhancements to existing products. We believe that as of June 30, 2016 our cash position and cash flows from our fiscal 2016 operations will be sufficient to fund our working capital and research and development activities for at least the next twelve months.

Any potential future sale of equity or debt securities may result in dilution to our stockholders, and we cannot be certain that additional public or private financing will be available in amounts or on terms acceptable to us, or at all. If we are required to raise additional financing, but are unable to obtain such financing, we may be required to delay, reduce the scope of, or eliminate one or more aspects of our operations or business development activities.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required pursuant to Item 305(e) of Regulation S-K.

Item 4. Controls and Procedures

The certificates of the Company's principal executive officer and principal financial and accounting officer attached as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning the Company's disclosure controls and procedures, and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certifications.

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits 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 information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions to be made regarding required disclosure. It should be noted that any system of controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met and that management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of June 30, 2016, the Company's chief executive officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes to the Company's internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any other legal proceedings, other than ordinary routine litigation incidental to our business, which we believe will not have a material affect on our financial position or results of operations.

Item 1A. Risk Factors

There have not been any material changes from the risk factors previously disclosed under Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2016.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive, Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.

* Included herewith.

** Filed with this report in accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act or otherwise subjected to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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.

AdvanSource Biomaterials Corporation

By: /s/ Michael F. Adams
Michael F. Adams
President and Chief Executive Officer
(Principal Executive, Financial and Accounting
Officer)

Dated: August 12, 2016