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**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 December 31, 2015

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

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

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# 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)*

	<b>December 31, 2015 <i>(Unaudited)</i></b>	<b>March 31, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 231	\$ 75
Accounts receivable-trade, net of allowance of \$5 as of December 31, 2015 and March 31, 2015	166	214
Accounts receivable-other	113	76
Inventories, net	242	304
Prepaid expenses and other current assets	5	6
Total current assets	757	675
Property, plant and equipment, net	1,936	1,998
Deferred financing costs, net	75	80
Other assets	47	47
Total assets	\$ 2,815	\$ 2,800
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 186	\$ 295
Accrued expenses	173	362
Customer advance	11	77
Notes payable	-	50
Capital lease obligation	3	8
Deferred revenue	25	43
Total current liabilities	398	835
Long-term liabilities:		
Long-term financing obligation	1,986	1,986
Accrued interest on financing obligation	156	147
Total long-term liabilities	2,142	2,133
Total liabilities	2,540	2,968
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock; \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding as of December 31, 2015 and March 31, 2015	-	-
Common stock; \$0.001 par value; 50,000,000 shares authorized; 21,567,313 shares issued; and 21,490,621 shares outstanding as of December 31, 2015 and March 31, 2015	21	21
Additional paid-in capital	38,097	38,061
Accumulated deficit	(37,813)	(38,220)
	305	(138)
Less: treasury stock; 76,692 shares at cost as of December 31, 2015 and March 31, 2015	(30)	(30)
Total stockholders' equity (deficit)	275	(168)
Total liabilities and stockholders' equity (deficit)	\$ 2,815	\$ 2,800

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)*

	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenues:				
Product sales	\$ 439	\$ 355	\$ 2,344	\$ 1,020
License, royalty and development fees	153	142	461	652
	<u>592</u>	<u>497</u>	<u>2,805</u>	<u>1,672</u>
Cost of sales	242	182	869	620
Gross profit	<u>350</u>	<u>315</u>	<u>1,936</u>	<u>1,052</u>
Operating expenses:				
Research, development and regulatory	75	84	228	277
Selling, general and administrative	297	325	1,032	981
	<u>372</u>	<u>409</u>	<u>1,260</u>	<u>1,258</u>
Income (loss) from operations	(22)	(94)	676	(206)
Interest expense	(89)	(91)	(269)	(287)
Income (loss) before provision for income taxes	(111)	(185)	407	(493)
Provision for income taxes	-	-	-	-
Net income (loss)	<u>\$ (111)</u>	<u>\$ (185)</u>	<u>\$ 407</u>	<u>\$ (493)</u>
Net income (loss) per common share:				
Basic	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ (0.02)</u>
Diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ (0.02)</u>
Shares used in computing net income (loss) per common share:				
Basic	<u>21,491</u>	<u>21,491</u>	<u>21,491</u>	<u>21,491</u>
Diluted:	<u>21,491</u>	<u>21,491</u>	<u>22,631</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)*

	<b>Nine Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income (loss)	\$ 407	\$ (493)
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Depreciation	62	105
Amortization of deferred financing costs	5	5
Stock-based compensation	36	9
Provision for inventory reserve	-	25
Changes in assets and liabilities:		
Accounts receivable-trade	48	(135)
Accounts receivable-other	(37)	(4)
Inventories	62	(116)
Prepaid expenses and other current assets	1	-
Accounts payable	(109)	67
Accrued expenses	(180)	243
Customer advance	(66)	77
Deferred revenue	(18)	(40)
Net cash flows provided by (used in) operating activities	<u>211</u>	<u>(257)</u>
Cash flows from investing activities:		
Net cash flows provided by (used in) investing activities	<u>-</u>	<u>-</u>
Cash flows from financing activities:		
Repayment of promissory notes	(50)	-
Repayment of capital lease obligations	(5)	-
Net cash flows used in financing activities	<u>(55)</u>	<u>-</u>
Net change in cash	156	(257)
Cash at beginning of period	75	268
Cash at end of period	<u>\$ 231</u>	<u>\$ 11</u>
Supplemental disclosure of cash flow information		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 254</u>	<u>\$ 196</u>
Purchase of equipment on capital lease	<u>\$ -</u>	<u>\$ 13</u>

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

**ADVANSOURCE BIOMATERIALS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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 nine months ended December 31, 2015 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, 2015 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, 2015.

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 effective accounting pronouncements and determined that they are either immaterial or not relevant to us.

**4. Related Party Transactions**

On August 22, 2013, Mr. Adams, our Chief Executive Officer, and David Volpe, our former Chief Financial Officer, participated along with three independent investors (collectively, the “Investors”) in an aggregate financing resulting in the issuance of \$100,000 in promissory notes (see Note 11). Messrs. Adams and Volpe each contributed approximately \$13,000 in cash. In addition to the promissory notes, Messrs. Adams and Volpe also received warrants entitling them to exercise said warrants into 54,375 shares of our common stock at an exercise price of \$0.075 per share (see Note 9). As of December 31, 2015 and March 31, 2015, the principle balance of the promissory notes was \$0 and \$50,000, respectfully and in the aggregate, of which \$0 and \$12,500, respectfully, was due to Messrs. Adams and Volpe in the aggregate. All warrants issued in connection with this transaction expired on August 21, 2014.

**ADVANSOURCE BIOMATERIALS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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 December 31, 2015, there are no other equity incentive plans in place for the future issuance of our common stock.

Activity under the Plans for the nine months ended December 31, 2015 is as follows:

	<b>Options Outstanding</b>	<b>Weighted- Average Exercise Price per Share</b>	<b>Weighted- Average Remaining Contractual Term in Years</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Options outstanding as of April 1, 2015	2,170,750	\$ 0.36		\$ 190
Granted	-	-		
Exercised	-	-		
Cancelled or forfeited	-	-		
Options outstanding as of December 31, 2015 <i>(unaudited)</i>	<u>2,170,750</u>	\$ 0.36	4.71	\$ 190
Options exercisable as of December 31, 2015 <i>(unaudited)</i>	<u>2,002,937</u>	\$ 0.39	4.46	\$ 148
Options vested or expected to vest as of December 31, 2015 <i>(unaudited)</i>	<u>2,170,750</u>	\$ 0.36	4.71	\$ 190

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 \$2,000 and \$2,000 for the three months ended December 31, 2015 and 2014, respectively, and \$8,000 and \$9,000 for the nine months ended December 31, 2015 and 2014, respectively. There was no income tax benefit related to these costs. As of December 31, 2015, the total amount of unrecognized equity-based compensation expense was approximately \$7,000 which will be recognized over a weighted average period of .67 years.

**ADVANSOURCE BIOMATERIALS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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>	<b>December 31, 2015</b> <i>(unaudited)</i>	<b>March 31,</b> <b>2015</b>
Raw materials	\$ 109	\$ 80
Work in progress	39	76
Finished goods	224	278
	<u>372</u>	<u>434</u>
Less: allowance for obsolete and excess inventory	(130)	(130)
Total inventories, net	<u>\$ 242</u>	<u>\$ 304</u>

During the fiscal year ended March 31, 2015, we allowed a significant customer to return certain polymer products which were sold and shipped in a prior year (the "Returned Goods") and paid for by the significant customer in a prior year. As a result, the significant customer was issued a sales credit/discount in the amount of the selling price of the polymer products, which was approximately \$127,000. We also recorded a sales allowance of approximately \$127,000 with respect to the Returned Goods. As a result, the product sales were reduced in our statement of operations for the fiscal year ended March 31, 2015 and the associated liability was included in accrued expenses on the balance sheet at March 31, 2015. The sales credit/discount to this significant customer was applied in full to this customer's account in connection with the shipment of product during the three months ended June 30, 2015 and the associated liability as of December 31, 2015 is \$0.

The inventory cost of the Returned Goods was approximately \$25,000 and was recorded as an increase to our finished goods inventory as of March 31, 2015. Based on managements' review of the Returned Goods, we concluded the likelihood of selling a large amount of the Returned Goods within the near term was not determinable. Accordingly, an additional allowance for the excess inventory of approximately \$25,000 was recorded as of March 31, 2015. As of December 31, 2015, there have been no sales of the Returned Goods and the related allowance for the excess inventory as of December 31, 2015 is approximately \$25,000.

We have no history of having allowed for a product return prior to this date and we have not changed our policy for future returns by customers once the customer has accepted delivery of the product.

**7. Property, Plant and Equipment**

Property, plant and equipment consists of the following:

<i>(in thousands)</i>	<b>December 31,</b> <b>2015</b> <i>(unaudited)</i>	<b>March 31,</b> <b>2015</b>
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
	<u>4,717</u>	<u>4,717</u>
Less: accumulated depreciation	(2,781)	(2,719)
	<u>\$ 1,936</u>	<u>\$ 1,998</u>

For the three months ended December 31, 2015 and 2014, depreciation expense was \$14,000 and \$22,000, respectively. For the nine months ended December 31, 2015 and 2014, depreciation expense was \$62,000 and \$105,000, respectively.

**ADVANSOURCE BIOMATERIALS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**8. Income (Loss) Per Share**

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted income (loss) 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 (loss) that would result from the assumed conversion of potential shares. Potentially dilutive shares, which were excluded from the diluted income (loss) 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 3,001,250 shares and 1,499,500 shares for the three and nine months ended December 31, 2015, respectively, and 2,685,048 shares and 2,685,048 shares, for the three and nine months ended December 31, 2014, 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 and nine months ended December 31, 2015 and 2014, 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 December 31, 2015 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 December 31, 2015 and March 31, 2015.

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 December 31, 2015 and March 31, 2015, we had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

**ADVANSOURCE BIOMATERIALS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**11. Notes Payable**

On August 22, 2013, we entered into Promissory Notes in the aggregate principal amount of \$100,000 (the "Notes") with three shareholders and our chief executive officer and former chief financial officer (the "Investors"). The Notes had a six-month term, interest at the rate of 1.75% per month and all principal and accrued interest, if any, was due and payable on or before February 21, 2014. In lieu of cash payment of interest, the Investors chose to receive Warrants exercisable into an aggregate 435,000 shares of our common stock. The Warrants had a one-year term and were exercisable at a 150% premium over the closing price of our common stock as of August 21, 2013, or \$0.075 per share. The Notes were secured by accounts receivable from certain customers.

During the fiscal year ended March 31, 2014, we repaid \$50,000 of the principal balance of the Promissory Notes and the principal balance outstanding as of March 31, 2015 was \$50,000. During the three months ended June 30, 2015, we repaid the remaining principle balance of \$50,000 and accrued interest of approximately \$14,000. We have no Promissory Notes outstanding as of December 31, 2015.

**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 December 31, 2015. 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 December 31, 2015 and March 31, 2015, the total financing obligation was \$1,986,000, respectively, and accrued interest on financing obligation was \$150,000 and \$147,000, 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 December 31, 2015 and 2014, two customers represented 52% of our total revenues and three customers represented 72% of our total revenues, respectively.

For the nine months ended December 31, 2015 and 2014, two customers represented 68% of our total revenues and three customers represented 54% of our total revenues, respectively.

As of December 31, 2015, we had accounts receivable-trade, net, of \$104,000, or 62%, due from two customers. As of March 31, 2015, we had accounts receivable-trade, net, of \$133,000, or 62%, due from two customers.

As of December 31, 2015, we had \$113,000 due from two customers related to receivables on royalties, license and annual usage fees. As of March 31, 2015, we had \$76,000 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.

**ADVANSOURCE BIOMATERIALS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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 December 31, 2015.

## **Results of Operations**

### *Three Months Ended December 31, 2015 vs. December 31, 2014*

#### *Revenues*

Total revenues for the three months ended December 31, 2015 were \$592,000 as compared with \$497,000 for the prior year period, an increase of \$95,000, or 19.1%.

Product sales of our biomaterials for the three months ended December 31, 2015 were \$439,000 as compared with \$355,000 for the prior year period, an increase of \$84,000, or 23.4%. The increase is due to product sales to an expanded customer base, including one significant customer.

License, royalty and development fees for the three months ended December 31, 2015 were \$153,000 as compared with \$142,000 for the prior year period, an increase of \$11,000 or 7.8%. 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 December 31, 2015 was \$350,000, or 59.1% of total revenues, compared with \$315,000, or 63.4% of total revenues, for the prior year period. Gross profit on product sales for the three months ended December 31, 2015 was \$197,000, or 44.9% of product sales, compared with \$173,000, or 48.7% of product sales, for the prior year period. The increase in gross profit dollars on total revenues and product sales is due to the increased royalty revenues and product sales for the three months ended December 31, 2015 as compared to the comparable prior year period. The decrease in gross profit as a percentage of total revenues and product sales is primarily due to the increase in outside consulting costs associated with supply chain management.

#### *Research, Development and Regulatory Expenses*

Research and development expenses for the three months ended December 31, 2015 were \$75,000 as compared with \$84,000 for the prior year period, a decrease of \$9,000 or 10.7%. 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. Research and development expenses decreased primarily as a result of research and development equipment being fully depreciated in the current quarterly period and a reduction in R&D materials. 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 December 31, 2015 were \$297,000 as compared with \$325,000 for the prior year period, a decrease of \$28,000, or 8.6%. Selling, general and administrative expenses decreased primarily as a result of reduced administrative costs effected through the replacement of our full-time CFO with a financial consultant. 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 December 31, 2015 was \$89,000 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.

### *Nine Months Ended December 31, 2015 vs. December 31, 2014*

#### *Revenues*

Total revenues for the nine months ended December 31, 2015 were \$2,805,000 as compared with \$1,672,000 for the prior year period, an increase of \$1,133,000, or 67.8%.

Product sales of our biomaterials for the nine months ended December 31, 2015 were \$2,344,000 as compared with \$1,020,000 for the prior year period, an increase of \$1,324,000, or 129.8%. The increase is due to increased product sales to a significant customer. Although we anticipate continuing purchases from this significant customer, in addition to continuing product sales to other existing and new customers, there can be no assurances that product sales will be consistent with those realized during the nine months ended December 31, 2015.

License, royalty and development fees for the nine months ended December 31, 2015 were \$461,000 as compared with \$652,000 for the prior year period, a decrease of \$191,000 or 29.38%. 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.

The decrease in license, royalty and development fees is due primarily to the completion of an amendment to the non-exclusive license and consulting services agreements (the "Amended Agreements") with a major international developer and manufacturer of medical devices (the "International Customer") which previously resulted in quarterly fees of approximately \$280,000. As of September 30, 2014, the International Customer met all of their obligations with respect to the Amended Agreements and there are no further payments due to us.

#### *Gross Profit*

Gross profit on total revenues for the nine months ended December 31, 2015 was \$1,936,000, or 69.0% of total revenues, compared with \$1,052,000, or 62.9% of total revenues, for the prior year period. Gross profit on product sales for the nine months ended December 31, 2015 was \$1,475,000, or 62.9% of product sales, compared with \$400,000, or 39.2% of product sales, for the prior year period. The increase in gross profit dollars and gross profit as a percentage of product sales is primarily due to the positive impact of increased absorption of fixed overhead costs resulting from the increase in product sales volume.

#### *Research, Development and Regulatory Expenses*

Research and development expenses for the nine months ended December 31, 2015 were \$228,000 as compared with \$277,000 for the prior year period, a decrease of \$49,000 or 17.7%. 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. Research and development expenses decreased primarily as a result of research and development equipment being fully depreciated in the current fiscal period and a reduction in R&D materials. 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 nine months ended December 31, 2015 were \$1,032,000 as compared with \$981,000 for the prior year period, an increase of \$51,000, or 11.9%. Selling, general and administrative expenses increased primarily as a result of (i) stock-based compensation expense of approximately \$28,000 in connection with the issuance of a warrant to a financial and strategic advisor; (ii) the net effect of a refund received in the prior year quarter in connection with our health reimbursement program resulting in variance of approximately \$27,000; and (iii) miscellaneous charges in connection with previously underaccrued liabilities the approximate amount of \$29,000. These increased costs were offset by the reduction in administrative costs through the replacement of our full-time CFO with a financial consultant. 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 nine months ended December 31, 2015 was \$269,000 as compared to \$287,000 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 December 31, 2015, we had cash of \$231,000. This represents an increase of \$156,000, or 208.0%, as compared to a cash balance of \$75,000 as of March 31, 2015.

During the nine months ended December 31, 2015, we had net cash inflows of \$211,000 from operating activities as compared with net cash outflows of \$257,000 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 generated an additional \$468,000 of net cash from operating activities as compared to the prior year period, primarily due to (i) the net income generated during the period; (ii) collection of receivables from our customers; (iii) reduction of inventory in connection with product sales activity; and (iii) the effect of non-cash depreciation charges. These cash inflows were offset by (i) reduction in accounts payable from normal vendor payment activities; (ii) decreases in accrued expenses primarily related to period end payroll-related accruals and application of a credit to a significant customer for polymer material returned in a previous period; and (iii) recognition of revenue on the shipment of product for which a customer provided us an advance in a prior period.

During the nine months ended December 31, 2015, we had net cash outflows from financing activities of \$55,000 primarily from the repayment of principal on promissory notes in the aggregate amount of \$50,000. During the nine months ended December 31, 2014, we had no cash flows from financing activities.

There were no options or warrants exercised during the nine months ended December 31, 2015 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 December 31, 2015 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 December 31, 2015, 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 December 31, 2015. 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 December 31, 2015, 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 December 31, 2015 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, 2015.

### 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

<b>Exhibit No.</b>	<b>Description</b>
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.

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\* 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: February 12, 2016