

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

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

For the fiscal year ended March 31, 2015

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

For the transition period from _____ to _____

Commission File No. 0-28034

AdvanSource Biomaterials Corporation
(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3186647
(I.R.S. Employer Identification No.)

229 Andover Street, Wilmington, Massachusetts
(Address of principal executive offices)

01887
(Zip Code)

Issuer's telephone number **(978) 657-0075**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class Common Stock, \$.001 par value per share	Name of each exchange on which registered None
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Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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):

- | | |
|--|---|
| <input type="checkbox"/> Large Accelerated Filer | <input type="checkbox"/> Accelerated Filer |
| <input type="checkbox"/> Non-accelerated Filer | <input checked="" type="checkbox"/> 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 June 17, 2015, 21,490,621 shares of the registrant's Common Stock were outstanding. As of September 30, 2014, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant (without admitting that such person whose shares are not included in such calculation is an affiliate) was \$840,000 based on the last sale price as quoted on the OTC Markets quoting system on such date.

ADVANSOURCE BIOMATERIALS CORPORATION
FORM 10-K
FOR THE YEAR ENDED MARCH 31, 2015

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PART I

Item 1. Business

Cautionary Note Regarding Forward Looking Statements

This Report on Form 10-K 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 Report on Form 10-K. 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. In addition, you should read and carefully consider the Risk Factors discussed in Part I, Item 1A of this Form 10K. 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.

General

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®, ChronoSil™, 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.

History

We were founded in 1993 as a subsidiary of PolyMedica Corporation (“PolyMedica”). In June 1996, PolyMedica distributed all of the shares of CardioTech International, Inc.’s (“CardioTech”) common stock, par value \$0.01 per share, which PolyMedica owned, to PolyMedica stockholders of record. Our materials science technology is principally based upon the ChronoFlex™ proprietary polymers which represent our core technology.

In July 1999, we acquired the assets of Tyndale-Plains-Hunter (“TPH”), a manufacturer of specialty hydrophilic polyurethanes.

In July 1999, Dermaphylyx International, Inc. (“Dermaphylyx”) was formed by certain of our affiliates to develop advanced wound healing products. Dermaphylyx was merged with and into us, effective March 2004, as a wholly-owned subsidiary. In June 2006, our Board of Directors decided to cease the operations of Dermaphylyx. We considered the net assets of Dermaphylyx to be immaterial.

In April 2001, we acquired Catheter and Disposables Technology, Inc. (“CDT”). CDT, which was located in Minnesota, was an original equipment manufacturer and supplier of private-label advanced disposable medical devices from concept to finished packaged and sterilized products, providing engineering services and contract manufacturing. In the development of our business model, we reviewed the strategic fit of our various business operations and determined that CDT did not fit our strategic direction. CDT was sold in March 2008.

In April 2003, we acquired Gish Biomedical, Inc. (“Gish”). Gish was located in southern California and manufactured single use cardiopulmonary bypass products having a disposable component. In the development of our business model, we reviewed the strategic fit of our various business operations and determined that Gish did not fit our strategic direction. Gish was sold in July 2007.

At our 2007 Annual Meeting, our stockholders approved our reincorporation from Massachusetts to Delaware. Our Articles of Charter Surrender in Massachusetts and Certificate of Incorporation and Certificate of Conversion in Delaware were effective as of October 26, 2007. We changed our name from CardioTech International, Inc. to AdvanSource Biomaterials Corporation, effective October 15, 2008, and filed our Certificate of Amendment to our Certificate of Incorporation filed with the Secretary of State of the State of Delaware.

Business Strategy

Our vision is to be a world-class, technology company focused on customer-driven solutions in the medical device industry. Our unique materials science strengths are marketed to our existing customer base and to a broader range of medical device developers. We believe there exists a major void in the marketplace that could be filled with our strong materials science capabilities to maximize the early development phase of devices that utilize polymers.

Technology

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 is marketed to an expanding 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 include i) optional use as lubricious coatings for smooth insertion of a device into the body and ii) mechanical properties, such as hardness and elasticity sufficient to meet engineering requirements. We believe our technology has wide application in increasing biocompatibility, drug delivery, and expanding the utility of complex devices in the hospital and clinical environment.

We also 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 us.

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

Intellectual Property

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 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 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 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.

Manufacturing and Service Operations

We manufacture polymers at our leased facility in Wilmington, Massachusetts.

Product and Services

Materials Science Technology

We manufacture polymeric materials with a wide-range of physical and biological properties. Our polymers are available with a variety of hardness and mechanical strengths and possess unique characteristics such as biodurability, biocompatibility, lubricity and antimicrobial properties. These polymeric materials may be used as structural engineering polymers or as coatings for metallic and polymeric surfaces and have a history of use in both short and long-term implant applications.

We have been provided exclusive and non-exclusive perpetual, world-wide, royalty-free license and sublicense rights for the use of polyurethane patents and related technology for the development, manufacture and sale of implantable medical devices and biodurable polymer material. As a result, we are able to enter into license and royalty arrangements for the exclusive use of our customized polymers. During the years ended March 31, 2015 and 2014, we generated revenues from license, royalty and development fees of \$775,000 and \$855,000, respectively.

We have established a concept center in our Massachusetts facility which enables customers to access technical expertise in advanced biomaterials development and processing to help develop product ideas, refine concepts and/or solve the technical problems to enable the customer to bring their product to market. The center is focused on better combining core polymer technology with new product applications to expand customer access to our materials sciences and product development expertise, establish new customer relationships and deepen those with existing customers.

Marketing and Sales

We sell our polymers directly to our customers from our Massachusetts facility. Our Senior Vice President of Commercial Operations has primary responsibilities in our sales, marketing and business development efforts. Our domestic sales distribution includes two independent sales engineers responsible for our regional sales efforts in the Eastern and Western U.S. Our international sales distribution includes an independent distributor based in China.

We have not experienced, and do not expect to experience, in any material respect, seasonality in sales of our products.

We perform ongoing credit evaluations and maintain allowances for potential credit losses. As of March 31, 2015, we had accounts receivable-trade of \$133,000, or 62%, due from two customers. As of March 31, 2014, we had accounts receivable-trade of \$72,000, or 59%, due from three customers.

As of March 31, 2015, we had \$76,000 due from two customers related to receivables on license fees and royalties. As of March 31, 2014, we had \$73,000 due from two customer related to receivables on license fees and royalties. These amounts are classified as accounts receivable-other in our balance sheets.

We do not have any facilities, property or other assets located in any geographic area other than the United States of America.

Contracts and Material Relationships

In the normal course of business, we have entered and will continue to enter into development, licensing and royalty agreements. In addition, we have certain customers that represent a significant component of our revenue. For the year ended March 31, 2015, three customers represented 42%, 14% and 11% of revenues, respectively. For the year ended March 31, 2014, three customers represented 34%, 20% and 10%, respectively, of our revenues.

Revenues

Our revenues were \$2,574,000 and \$2,626,000 for the years ended March 31, 2015 and 2014, respectively.

Competition

Competition in the medical device industry, in general, is intense and based primarily on scientific and technological factors, the availability of patent and other protection for technology and products, the ability to commercialize technological developments and the ability to obtain governmental approval for testing, manufacturing and marketing products.

Competition among products is based, among other things, on product efficacy, safety, reliability, availability, price and patent position. An important factor is the timing of the market introduction of our products or the products of competitors. Accordingly, the relative speed with which we can develop products and supply commercial quantities of the products to the market is expected to be an important competitive factor. Our competitive position depends upon our ability to attract and retain qualified personnel, to obtain patent protection or otherwise develop proprietary products or processes, and to secure sufficient capital resources for the often substantial period between technological conception and commercial sales.

Research and Development, Regulatory and Engineering

Our development decisions are based on: (i) development costs, (ii) product need, (iii) third-party interest, (iv) funding availability, and (v) regulatory considerations. Research, development and regulatory expenditures for the years ended March 31, 2015 and 2014 were \$356,000 and \$394,000, respectively, and consisted primarily of salaries and related costs (69% and 65% of research and development expenses in fiscal 2015 and 2014, respectively), and are expensed as incurred.

Government Regulation

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the approval, manufacturing and marketing of drug products and medical devices.

Backlog

Our backlog in the ordinary course of business for biomaterial products is approximately \$271,000 at March 31, 2015.

Environmental Compliance

Our direct expenditures for environmental compliance were not material in the two most recent fiscal years. However, certain costs of manufacturing have increased due to environmental regulations placed upon suppliers of components and services.

Employees

As of March 31, 2015, we had 11 full-time employees at our leased facility in Wilmington, Massachusetts in the following positions: (i) four in production, (ii) two in research and development, (iii) three in sales and marketing, and (iv) two in administration.

None of these employees are covered by a collective bargaining agreement, and management considers its relations with its employees to be good.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase our common stock. If any of these risks or uncertainties occurs, our business, financial condition or operating results could be materially harmed. In that case the trading price of our common stock could decline and you could lose all or part of your investment. The risks and uncertainties described below are not the only ones we may face. We believe that this filing contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to regulatory risks and clinical uncertainties. Such statements are based on management's current expectations and are subject to facts that could cause results to differ materially from the forward-looking statements. See Item 1. Description of Business – "Cautionary Note Regarding Forward Looking Statements."

Risks Related to Liquidity

We have reported net losses in the last 10 fiscal years and may continue to report net losses in the future. There can be no assurance that our revenue will be maintained at the current level or increase in the future.

Our future growth may depend on our ability to raise capital for acquisitions, to support research and development activities for modification of existing biomaterials and development of new biomaterials, including advanced applications for our biomaterials, and to market and sell our advanced biomaterials. Our capital requirements depend on numerous factors, including but not limited to, our results of operations; the progress of our research and development programs; the cost of filing, prosecuting, defending and enforcing any intellectual property rights; competing technological and market developments; changes in our development of commercialization activities and arrangements; and the purchase of additional facilities and capital equipment.

Risks Related to Our Growth Strategy

If we cannot obtain the additional capital required to fund our operations on favorable terms or at all, we may have to delay or reconsider our growth strategy.

Our growth strategy may require additional capital for, among other purposes, completing acquisitions of companies and customers' product lines and manufacturing assets, integrating acquired companies and assets, acquiring new equipment and maintaining the condition of existing equipment. If cash generated internally is insufficient to fund capital requirements, or if we desire to make additional acquisitions, we will require additional debt or equity financing. Adequate financing may not be available or, if available, may not be available on terms satisfactory to us. If we raise additional capital by issuing equity or convertible debt securities, the issuance may dilute the share ownership of the existing investors. In addition, we may grant future investors rights that are superior to those of our existing investors. If we fail to obtain sufficient additional capital in the future, we could be forced to curtail our growth strategy by reducing or delaying capital expenditures and acquisitions, selling assets or restructuring or refinancing our indebtedness, or delaying plans for clinical trials.

Adverse economic and geopolitical conditions could have a material adverse effect on our ability to raise capital to fund future growth and product development.

Our business may be affected by the ongoing volatility and illiquidity in the financial and credit markets, the general global economic recession, and other market or economic challenges experienced by the U.S. economy. If economic conditions persist or deteriorate and our licensing and product revenue is insufficient to support our product development and growth strategies, then reduced liquidity in the capital markets may impair our ability to access capital on terms and conditions that we find acceptable, or at all. In addition, the value and liquidity of our short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold our cash deposits.

Risks Related to Our Business

We have incurred substantial operating losses and we may never be profitable.

Our revenues were \$2,574,000 and \$2,626,000 for the years ended March 31, 2015 and 2014, respectively. We had net losses of \$318,000 and \$521,000 for the years ended March 31, 2015 and 2014, respectively. There is a risk that we will never be profitable. Our ability to generate enough revenues to achieve profits will depend on a variety of factors, many of which are outside our control, including:

- size of market;
- competition and other solutions;
- extent of patent and intellectual property protection afforded to our products;
- demand for our advanced biomaterials by existing and potential developers of medical devices and both the time for development of devices by medical device developers and their success in obtaining regulatory approvals and commercialization of medical devices which incorporate our advanced biomaterials;
- cost and availability of raw material and intermediate component supplies;
- changes in governmental (including foreign governmental) initiatives and requirements;
- changes in domestic and foreign regulatory requirements;
- costs associated with equipment development, repair and maintenance; and
- our ability to manufacture and deliver products at prices that exceed our costs.

Our operating results fluctuate significantly from period-to-period and may not be indicative of future results.

Our operating results have fluctuated in the past from quarter to quarter and are likely to fluctuate significantly in the future due to a variety of factors, many of which are beyond our control, including:

- changing demand for our products and services;
- the timing of actual customer orders and requests for product shipment and the accuracy of our customers' forecasts of future production requirements;
- the reduction, rescheduling or cancellation of product orders and development and design services requested by customers;
- difficulties in forecasting demand for our products and the planning and managing of inventory levels;
- the introduction and market acceptance of our customers' new products and changes in demand for our customers' existing products;
- changes in the relative portion of our revenue represented by our various products, services and customers, including the relative mix of our business across our target markets;
- changes in competitive or economic conditions generally or in our customers' markets;
- competitive pressures on selling prices;
- the amount and timing of costs associated with product warranties and returns;
- changes in availability or costs of raw materials or supplies;
- fluctuations in manufacturing yields and yield losses and availability of production capacity;
- changes in our product distribution channels and the timeliness of receipt of distributor resale information;
- the amount and timing of investments in research and development; and
- pressure on our selling prices as a result of healthcare industry cost containment measures.

As a result of these factors, many of which are difficult to control or predict, as well as the other risk factors discussed in this report, we may experience material adverse fluctuations in our future operating results on a quarterly or annual basis.

The medical device industry is cyclical, and an industry downturn could adversely affect our operating results.

Business conditions in the medical device industry have rapidly changed between periods of strong and weak demand. The industry is characterized by:

- periods of overcapacity and production shortages;
- cyclical demand for products;
- changes in product mix in response to changes in demand of products;
- variations in manufacturing costs and yields;
- rapid technological change and the introduction of new products by customers;
- price erosion; and
- expenditures for product development.

These factors could harm our business and cause our operating results to suffer.

The failure of our customers and potential customers, who utilize our advanced biomaterials in their medical devices, to complete development of their medical technology, obtain government approvals, including required FDA approvals, or to comply with ongoing governmental regulations could delay or limit introduction of their proposed products, thereby negatively impacting our ability to generate future revenues from product sales and royalty and development fees.

Research, development and production activities undertaken by our customers and potential customers engaged in the development of medical devices which utilize our advanced biomaterials, are subject to extensive regulation for safety, efficacy and quality by numerous government authorities in the United States and abroad.

Before receiving FDA approval to market their medical devices utilizing our advanced biomaterials, our customers and potential customers will have to demonstrate that their medical devices are safe and effective on the patient population. Clinical trials, manufacturing and marketing of medical devices are subject to the rigorous testing and approval process of the FDA and equivalent foreign regulatory authorities. The Federal Food, Drug and Cosmetic Act and other federal, state and foreign statutes and regulations govern and influence the testing, manufacture, labeling, advertising, distribution and promotion of drugs and medical devices. As a result, clinical trials and regulatory approval of medical devices can take a number of years or longer to accomplish and require the expenditure of substantial financial, managerial and other resources.

In order to be commercially viable, our customers and potential customers must successfully research, develop, obtain regulatory approval, manufacture, market and distribute their medical devices. For each medical device incorporating our advanced biomaterials, our customers and potential customers must successfully meet a number of critical developmental milestones, including:

- demonstrate benefit from the use of their medical devices in various contexts;
- demonstrate through pre-clinical and clinical trials that their medical devices are safe and effective; and
- establish a viable good manufacturing practice capable of potential scale up.

The time frame necessary to achieve these developmental milestones may be long and uncertain, and our customers and potential customers may not successfully complete these milestones for any of their intended products in development.

In order to conduct clinical trials that are necessary to obtain approval by the FDA to market a product, it is necessary to receive clearance from the FDA to conduct such clinical trials. The FDA can halt clinical trials at any time for safety reasons or because clinical investigators do not follow the FDA's requirements for conducting clinical trials. If our customers or potential customers are unable to receive clearance to conduct clinical trials or the trials are halted by the FDA, we would not be able to achieve any revenue from the sale of biomaterials or royalty and development fees from our customers' or potential customers' products as it is illegal to sell any medical device for human consumption without FDA approval.

More generally, the manufacture and sale of medical devices, including products currently sold by our customers or potential customers and their other potential products, are subject to extensive regulation by numerous governmental authorities in the United States, principally the FDA, and corresponding state human services agencies. In order for them to market their products for clinical use in the United States, they must obtain clearance from the FDA of a 510(k) pre-market notification or premarket approval application. In addition, certain material changes to medical devices also are subject to FDA review and clearance or approval. The process of obtaining FDA and other required regulatory clearances and approvals is lengthy, expensive and uncertain, frequently requiring from one to several years from the date of FDA submission if pre-market clearance or approval is obtained at all. Securing FDA clearances and approvals may require the submission of extensive clinical data and supporting information to the FDA.

Sales of medical devices outside of the United States are subject to international regulatory requirements that vary from country to country. The time required to obtain approval for sales internationally may be longer or shorter than that required for FDA clearance or approval, and the requirements may differ. There can be no assurance that our customers or potential customers will be able to obtain approval in a particular country for any of their future products.

Regulatory clearances or approvals, if granted, may include significant limitations on the indicated uses for which the product may be marketed. In addition, to obtain such clearances or approvals, the FDA and certain foreign regulatory authorities impose numerous other requirements with which medical device manufacturers must comply.

FDA enforcement policy strictly prohibits the marketing of cleared or approved medical devices for uncleared or unapproved uses. In addition, product clearances or approvals could be withdrawn for failure to comply with regulatory standards or the occurrence of unforeseen problems following initial marketing. Our customers and potential customers will be required to adhere to applicable FDA good manufacturing practice (“GMP”) regulations and similar regulations in other countries, which include testing, control, and documentation requirements. Ongoing compliance with GMP and other applicable regulatory requirements, including marketing products for unapproved uses, could result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to grant pre-market clearance or pre-market approval for devices, withdrawal of clearances or approvals and criminal prosecution. Changes in existing regulations or adoption of new governmental regulations or policies could prevent or delay regulatory approval of their products.

There can be no assurance that our customers or potential customers will be able to obtain FDA 510(k) clearance or premarket approval for their products under development or other necessary regulatory approvals or clearances on a timely basis or at all. Delays in receipt of or failure to receive U.S. or foreign clearances or approvals, the loss of previously obtained clearance or approvals, or failure to comply with existing or future regulatory requirements would have a material adverse effect on our business with respect of our ability to generate revenues from product sales to and royalty and development fees from our customers and potential customers utilizing our advanced biomaterials in their medical devices.

Our markets are subject to technological change and our success depends on our ability to modify existing advanced biomaterials and develop and introduce new advanced biomaterials for use by customers and potential customers in their medical devices.

The medical device market for our products is characterized by:

- changing technologies;
- changing customer needs;
- frequent new product introductions and enhancements;
- increased integration with other functions; and
- product obsolescence.

Our success is dependent in part on the modification of existing advanced biomaterials and the design and development of new advanced biomaterials for use in the medical device industry. To modify existing advanced biomaterials and develop new advanced biomaterials and designs for the medical device market, we must develop, gain access to and use leading technologies in a cost effective and timely manner and continue to expand our technical and design expertise. The product development process is time-consuming and costly, and there can be no assurance that product development will be successfully completed, that necessary regulatory clearances or approvals will be granted by the FDA on a timely basis, or at all, or that the potential products will achieve market acceptance. Our failure to modify existing advanced biomaterials, develop new advanced biomaterials, or successfully market existing and potential new advanced biomaterials; and the failure of our customers and potential customers in obtaining necessary regulatory clearances or approvals for medical devices using our advanced biomaterials, could have a material adverse effect on our business, financial condition and results of operations.

We depend on outside suppliers and subcontractors, and our production and reputation could be harmed if they are unable to meet our volume and quality requirements and alternative sources are not available.

We have various “sole source” suppliers who supply key components for our products. Our outside suppliers may fail to develop and supply us with products and components on a timely basis, or may supply us with products and components that do not meet our quality, quantity or cost requirements. If any of these problems occur, we may be unable to obtain substitute sources of these products and components on a timely basis or on terms acceptable to us, which could harm our ability to: i) manufacture our own products and components profitably or on time, and ii) ship products to customers on time and generate revenues. In addition, if the processes that our suppliers use to manufacture products and components are proprietary, we may be unable to obtain comparable components from alternative suppliers.

A significant portion of our product sales and royalty, license and development fees come from two large customers, and any loss, cancellation or delay in sales to these customers could harm our operating results.

A limited number of customers have, historically, accounted for a significant portion of our revenues. For the fiscal year ended March 31, 2015, three customers represented 42%, 14% and 11% of revenues, respectively. For the fiscal year ended March 31, 2014, three customers represented 34%, 20% and 10%, respectively, of our revenues. Although we are working to expand our customer base, the medical device industry is concentrated, with relatively few companies accounting for a large percentage of sales in the surgical, interventional and cardiovascular markets that are targeted by our disposable medical device and contract manufacturing operations. Accordingly, our revenue and profitability are dependent on our relationships with a limited number of large medical device companies, and we expect that the majority of our revenues will continue to depend on sales of our products to a limited number of customers for the foreseeable future, particularly if there is further consolidation within the medical device industry. We cannot assure you that there will not be a loss or reduction in business from our existing significant customers. In addition, we cannot assure you that revenues from our customers that have accounted for significant revenues in the past, either individually or as a group, will reach or exceed historical levels in any future period. We may not be able to offset any decline in revenues from our existing major customers with revenues from new customers or other existing customers. Because of our reliance on a limited number of customers, any decrease in revenues from, or loss of, one or more of these customers without a corresponding increase in revenues from other customers would harm our business, operating results and financial condition. In addition, any negative developments in the business of our existing significant customers could result in significantly decreased sales to these customers, which could seriously harm our business, operating results and financial condition.

Our ability to grow and sustain growth levels may be adversely affected by slowdowns in the U.S. economy.

Due to the recent decrease in corporate profits, capital spending and consumer confidence, we have experienced weakness in certain of our end markets. We are primarily susceptible when customers stop placing orders for us to supply advanced biomaterials or when customers experience reduced sales of their medical devices for which we receive royalties on product sales. The medical commercial markets, including bio-medical research and development and medical device manufacturing, could be affected by the past and present slowdown in the U.S. economy. If the economic slowdown persists and capital spending for research and development from our customers decreases, our business, financial condition and results of operations may be adversely affected.

We could be harmed by litigation involving patents and other intellectual property rights.

None of our patents or other intellectual property rights has been successfully challenged to date. However, in the future, we could be accused of infringing the intellectual property rights of other third parties. We also have certain indemnification obligations to customers with respect to the infringement of third party intellectual property rights by our products. No assurance can be provided that any future infringement claims by third parties or claims for indemnification by customers or end users of our products resulting from infringement claims will not be asserted or that assertions of infringement, if proven to be true, will not harm our business.

In the event of any adverse ruling in any intellectual property litigation, we could be required to pay substantial damages, cease the manufacturing, use and sale of infringing products, discontinue the use of certain processes or obtain a license from the third party claiming infringement with royalty payment obligations by us.

Any litigation relating to the intellectual property rights of third parties, whether or not determined in our favor or settled by us, is costly and may divert the efforts and attention of our management and technical personnel.

We may not be able to protect our intellectual property rights adequately.

Our ability to compete is affected by our ability to protect our intellectual property rights. We rely on a combination of patents, trademarks, copyrights, trade secrets, confidentiality procedures and non-disclosure and licensing arrangements to protect our intellectual property rights. Despite these efforts, we cannot be certain that the steps we take to protect our proprietary information will be adequate to prevent misappropriation of our technology, or that our competitors will not independently develop technology that is substantially similar or superior to our technology. More specifically, we cannot assure you that any future applications will be approved, or that any issued patents will provide us with competitive advantages or will not be challenged by third parties. Nor can we assure you that, if challenged, our patents will be found to be valid or enforceable, or that the patents of others will not have an adverse effect on our ability to do business. Furthermore, others may independently develop similar products or processes, duplicate our products or processes or design their products around any patents that may be issued to us.

Our future success depends on the continued service of management, engineering and sales personnel and our ability to identify, hire and retain additional personnel.

Our success depends, to a significant extent, upon the efforts and abilities of members of senior management. The loss of the services of one or more of our senior management or other key employees could adversely affect our business. We do not maintain key person life insurance on any of our officers, employees or consultants.

There is intense competition for qualified employees in the medical industry, particularly for highly skilled design, applications, engineering and sales people. We may not be able to continue to attract and retain technologists, managers, or other qualified personnel necessary for the development of our business or to replace qualified individuals who could leave us at any time in the future. Our anticipated growth is expected to place increased demands on our resources, and will likely require the addition of new management and engineering staff as well as the development of additional expertise by existing management employees. If we lose the services of or fail to recruit engineers or other technical and management personnel, our business could be harmed.

Periods of rapid growth and expansion could place a significant strain on our resources, including our employee base.

To manage our possible future growth effectively, we will be required to continue to improve our operational, financial and management systems. In doing so, we will periodically implement new software and other systems that will affect our internal operations regionally or globally.

Future growth will also require us to successfully hire, train, motivate and manage our employees. In addition, our continued growth and the evolution of our business plan will require significant additional management, technical and administrative resources. We may not be able to effectively manage the growth and evolution of our current business.

We are exposed to product liability and clinical and pre-clinical liability risks which could place a substantial financial burden on us, if we are sued. Although we have \$5 million in product liability insurance coverage, that amount may not be sufficient to cover all potential claims made against us. Additionally, we face the risk of financial exposure to product liability claims alleging that the use of devices that incorporate our products resulted in adverse effects.

While we are not aware of any claim at this time, our business exposes us to potential product liability, recalls and other liability risks that are inherent in the testing, manufacturing and marketing of medical products. We cannot assure you that such potential claims will not be asserted against us. In addition, the use in our clinical trials of medical products that our potential collaborators may develop and the subsequent sale of these products by us or our potential collaborators may cause us to bear a portion of or all product liability risks. A successful liability claim or series of claims brought against us could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that we will be able to obtain or maintain adequate product liability insurance on acceptable terms, if at all, or that such insurance will provide adequate coverage against our potential liabilities. Furthermore, our current and potential partners with whom we have collaborative agreements or our future licensees may not be willing to indemnify us against these types of liabilities and may not themselves be sufficiently insured or have a net worth sufficient to satisfy any product liability claims. Claims or losses in excess of any product liability insurance coverage that may be obtained by us could have a material adverse effect on our business, financial condition and results of operations. We do not currently carry recall insurance and we may be subject to significant recall costs in the event of a recall.

We may be affected by environmental laws and regulations.

We are subject to a variety of laws, rules and regulations in the United States related to the use, storage, handling, discharge and disposal of certain chemical materials such as isocyanates, alcohols, dimethylacetamide, and glycols used in our research and manufacturing process. Any of those regulations could require us to acquire expensive equipment or to incur substantial other expenses to comply with them. If we incur substantial additional expenses, product costs could significantly increase. Our failure to comply with present or future environmental laws, rules and regulations could result in fines, suspension of production or cessation of operations.

If we fail to implement new or improved internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, we may not be able to comply with the requirements of Section 404 in a timely manner. This could result in investors losing confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the company's internal control over financial reporting in their annual reports on Form 10-K. This report is required to contain an assessment by management of the effectiveness of such company's internal controls over financial reporting. Although management has concluded that our internal control over financial reporting was effective as of March 31, 2015, there is a risk that that we may identify previously unknown deficiencies or weaknesses in our internal controls. If we fail to implement required new or improved controls, we may be unable to comply with the requirements of Section 404. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline and make it more difficult for us to finance our operations.

Under current rules, we are required to report on the effectiveness of our internal controls for the year ended March 31, 2015.

Compliance with Regulations Governing Public Company Corporate Governance and Reporting is Complex and Expensive.

Many laws and regulations impose obligations on public companies, which have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. Examples include the Sarbanes-Oxley Act of 2002, The Dodd-Frank Wall Street Reform and Consumer Protection Act, and the SEC's requirements for public companies to provide financial statements in interactive data format using the eXtensible Business Reporting Language, or XBRL. Our implementation of certain aspects of these laws and regulations has required and will continue to require substantial management time and oversight and may require us to incur significant additional accounting and legal costs. We continually evaluate and monitor developments with respect to new and proposed rules and cannot predict or estimate the ultimate amount of additional costs we may incur or the timing of such costs. These laws and regulations are also subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Although we are committed to maintaining high standards of corporate governance and public disclosure, if we fail to comply with any of these requirements, legal proceedings may be initiated against us and we may be harmed.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we may collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers and vendors, including personally identifiable information of our customers and employees, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, and damage our reputation, which could adversely affect our business.

Risks Related to Competition

The medical device industry, in general, is intensely competitive and characterized by rapid innovation and technological advances. Product differentiation and performance, client service, reliability, cost and ease of use are important competitive considerations in the medical device industry. We expect the current high levels of competition and technological change in the medical device industry in general. Most of our competitors have longer operating histories and significantly greater financial, technical, research, marketing, sales, distribution and other resources. In addition, our competitors may have greater name recognition than us and frequently offer discounts as a competitive tactic. There can be no assurance that our current competitors or potential future competitors will not succeed in developing or marketing technologies and products that are more effective or commercially attractive than those that have been and are being developed by us or that would render our technologies and products obsolete or noncompetitive, or that such companies will not succeed in obtaining regulatory approval for, introducing or commercializing any such products prior to us. Any of the above competitive developments could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Pricing Pressure

We face aggressive cost-containment pressures from governmental agencies and third party payors. There can be no assurances that we will be able to maintain current prices in the face of continuing pricing pressures. Over time, the average price for our products may decline as the markets for these products become more competitive. Any material reduction in product prices could negatively affect our gross margin, necessitating a corresponding increase in unit sales to maintain net sales.

Risks Related to Our Securities

Our stock price is volatile.

The market price of our common stock has fluctuated significantly to date. In the past fiscal year, our stock price ranged from \$0.020 to \$0.086. The future market price of our common stock may also fluctuate significantly due to:

- variations in our actual or expected quarterly operating results;
- announcements or introductions of new products;
- technological innovations by our competitors or development setbacks by us;
- the commencement or adverse outcome of litigation;
- changes in analysts' estimates of our performance or changes in analysts' forecasts regarding our industry, competitors or customers;
- announcements of acquisition or acquisition transactions; or
- general economic and market conditions.

In addition, the stock market in recent years has experienced extreme price and volume fluctuations that have affected the market prices of many medical and biotechnology companies. These fluctuations have often been unrelated or disproportionate to the operating performance of companies in our industry, and could harm the market price of our common stock.

Additional authorized shares of our common stock and preferred stock available for issuance may adversely affect the market.

We are authorized to issue 50,000,000 shares of our common stock. As of March 31, 2015, there were 21,567,313 shares of common stock issued and 21,490,621 shares of common stock outstanding. As of March 31, 2015, there were 76,692 shares of treasury stock which were acquired prior to the fiscal year ended March 31, 2010. The total number of shares of our common stock issued and outstanding does not include shares reserved in anticipation of the exercise of options and warrants. As of March 31, 2015, we had outstanding stock options and warrants to purchase 2,175,750 shares of our common stock, the exercise price of which range between \$0.06 per share to \$4.19 per share, and we have reserved shares of our common stock for issuance in connection with the potential exercise thereof. To the extent such options, warrants or additional investment rights are exercised; the holders of our common stock will experience further dilution. Stockholders will also experience dilution upon the exercise of options granted under our stock option plans. In addition, in the event that any future financing or consideration for a future acquisition should be in the form of, be convertible into or exchangeable for, equity securities investors will experience additional dilution. No stock options or warrants were exercised during the fiscal year ended March 31, 2015.

The exercise of the outstanding stock options and warrants will reduce the percentage of common stock held by our current stockholders. Further, the terms on which we could obtain additional capital during the life of the stock options and warrants may be adversely affected, and it should be expected that the holders of the stock options and warrants would exercise them at a time when we would be able to obtain equity capital on terms more favorable than those provided for by such stock options and warrants. As a result, any issuance of additional shares of common stock may cause our current stockholders to suffer significant dilution which may adversely affect the market. In addition to the above referenced shares of common stock which may be issued without stockholder approval, we have 5,000,000 shares of authorized preferred stock, the terms of which may be fixed by our Board, of which 500,000 preferred shares were previously issued, but none are currently outstanding. While we have no present plans to issue any additional shares of preferred stock, our Board has the authority, without stockholder approval, to create and issue one or more series of such preferred stock and to determine the voting, dividend and other rights of holders of such preferred stock. The issuance of any of such series of preferred stock may have an adverse effect on the holders of common stock.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, a stockholder (or stockholders whose shares are aggregated) who has satisfied a one year holding period may, under certain circumstances, sell within any three month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitation, by our stockholders that are non-affiliates that have satisfied a two year holding period. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have material adverse effect on the market price of our securities.

There is a limitation on director and officer liability.

As permitted by Delaware law, our Restated Articles of Organization limit the liability of our directors for monetary damages for breach of a director's fiduciary duty except for liability in certain instances. As a result of our charter provision and Delaware law, stockholders may have limited rights to recover against directors for breach of fiduciary duty. In addition, our bylaws provide that we shall indemnify our directors, officers, employees and agents if such persons acted in good faith and reasoned that their conduct was in our best interest.

The anti-takeover provisions of our Restated Articles of Organization, the Delaware General Corporation Law and our Stockholder Rights Plan may delay, defer or prevent a change of control.

Our Board of Directors has the authority to issue up to 4,500,000 shares of preferred stock and to determine the price, rights, preferences and privileges and restrictions, including voting rights, of those shares without any further vote or action by our stockholders. The rights of the holders of common stock will be subject to, and may be harmed by, the rights of the holders of any shares of preferred stock that may be issued in the future. The issuance of preferred stock may delay, defer or prevent a change in control because the terms of any issued preferred stock could potentially prohibit our consummation of any acquisition, reorganization, sale of substantially all of our assets, liquidation or other extraordinary corporate transaction, without the approval of the holders of the outstanding shares of preferred stock. In addition, the issuance of preferred stock could have a dilutive effect on our stockholders.

Our stockholders must give substantial advance notice prior to the relevant meeting to nominate a candidate for director or present a proposal to our stockholders at a meeting. These notice requirements could inhibit a takeover by delaying stockholder action. In addition, our bylaws and Delaware law provide for staggered board members with each member elected for three years. In addition, directors may be removed by stockholders only for cause and by a vote of 80% of the stock.

In addition, we have adopted a stockholder rights plan that may discourage any potential acquirer from acquiring more than 15% of our outstanding common stock since, upon this type of acquisition without approval of our Board of Directors, all other common stockholders will have the right to purchase a specified amount of common stock at a substantial discount from market price.

Risk of Market Withdrawal or Product Recall

There can be no assurance that we will be able to successfully take corrective actions if required, nor can there be any assurance that any such corrective actions will not force us to incur significant costs. In addition, there can be no assurance any future recalls will not cause us to face increasing scrutiny from our customers, which could cause us to lose market share or incur substantial costs in order to maintain existing market share. We do not currently carry recall insurance and we may be subject to significant recall costs in the event of a recall.

Risks Associated with Healthcare Reform Proposals

Political, economic and regulatory influences are subjecting the healthcare industry in the United States to fundamental change. Potential reforms proposed over the last several years have included mandated basic healthcare benefits, controls on healthcare spending through limitations on the growth of private health insurance premiums and Medicare and Medicaid spending, the creation of large insurance purchasing groups and fundamental changes in the healthcare delivery system. In addition, some states in which we operate are also considering various healthcare reform proposals. We anticipate that federal and state governments will continue to review and assess alternative healthcare delivery systems and payment methodologies and public debate of these issues will likely continue in the future. Due to uncertainties regarding the ultimate features of reform initiatives and their enactment and implementation, we cannot predict which, if any, of such reform proposals will be adopted, when they may be adopted or what impact they may have on us, and there can be no assurance that the adoption of reform proposals will not have a material adverse effect on our business, operating results or financial condition. In addition, the actual announcement of reform proposals and the investment community's reaction to such proposals, as well as announcements by competitors and third-party payors of their strategies to respond to such initiatives, could produce volatility in the trading and market price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters, polymer development and manufacturing operations, are located in an approximate 25,966 square foot building, which we lease at 229 Andover Street, Wilmington, MA.

Item 3. Legal Proceedings

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.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market Information for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is quoted on the OTCQB tier of The OTC Markets under the ticker symbol “ASNB.” The following table sets forth the high and low sales prices of the common stock for each of the last two fiscal years, as reported on the OTCQB tier of The OTC Markets:

	Fiscal Year 2015	
	High	Low
4th Quarter	\$0.038	\$0.0203
3rd Quarter	0.050	0.020
2nd Quarter	0.083	0.041
1st Quarter	0.086	0.045
	Fiscal Year 2014	
	High	Low
4th Quarter	\$0.075	\$0.033
3rd Quarter	0.073	0.040
2nd Quarter	0.120	0.030
1st Quarter	0.123	0.055

As of June 17, 2015, there were 337 stockholders of record. The last sale price as quoted by the OTCQB tier of The OTC Markets on June 17, 2015, was \$0.030 per share. We have never paid a cash dividend on our common stock and do not anticipate the payment of cash dividends in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans as of the End of Fiscal 2015 Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by stockholders	2,175,750 (1)	\$0.360	-
	2,175,750		-

- (1) This total includes shares to be issued upon exercise of outstanding options under the equity compensation plans that have been approved by our stockholders (i.e., the 2003 Plan). We did not have any equity compensation plans that were not approved by stockholders.

Recent Sales of Unregistered Securities

None.

Stock Repurchase Plan

In June 2001, the Board of Directors adopted a share repurchase program authorizing the repurchase of up to 250,000 of our shares of common stock. In June 2004, the Board of Directors authorized the purchase of an additional 500,000 shares of common stock. Since June 2001, a total of 251,379 shares have been repurchased by us under the share repurchase program, leaving 498,621 shares remaining to purchase under the share repurchase program. No repurchases were made during the fiscal years ended March 31, 2015 and 2014. The share repurchase program authorizes repurchases from time to time in open market transactions, through privately negotiated transactions, block transactions or otherwise, at times and prices deemed appropriate by management, is not subject to an expiration date.

Stockholder Rights Plan

Our Board of Directors approved the adoption of a stockholder rights plan (the “Rights Plan”) under which all stockholders of record as of February 8, 2008 will receive rights to purchase shares of a new series of preferred stock (the “Rights”). The Rights will be distributed as a dividend. Initially, the Rights will attach to, and trade with, our common stock. Subject to the terms, conditions and limitations of the Rights Plan, the Rights will become exercisable if (among other things) a person or group acquires 15% or more of our common stock. Upon such an event, and payment of the purchase price, each Right (except those held by the acquiring person or group) will entitle the holder to acquire shares of the Company’s common stock (or the economic equivalent thereof) having a value equal to twice the purchase price. Our Board of Directors may redeem the Rights prior to the time they are triggered. In the event of an unsolicited attempt to acquire us, the Rights Plan is intended to facilitate the full realization of our stockholder value and the fair and equal treatment of all of our stockholders. The Rights Plan will not prevent a takeover attempt. Rather, it is intended to guard against abusive takeover tactics and encourage anyone seeking to acquire us to negotiate with the Board of Directors. We did not adopt the Rights Plan in response to any particular proposal.

Dividend Policy

We have never declared or paid any cash dividends on our common stock and do not expect to pay any dividends for the foreseeable future. We currently intend to retain any future earnings to fund the operation, development and expansion of our business. Any future determination to pay dividends will be at the sole discretion of our Board of Directors and will depend upon a number of factors, including our results of operations, capital requirements, financial condition, future prospects, contractual arrangements, restrictions imposed by applicable law, any limitations on payments of dividends present in our current and future debt arrangements, and other factors our Board of Directors may deem relevant.

Item 6. Selected Financial Data

Not Applicable.

Item 7. Management’s Discussion and Analysis or Plan of Operation

Forward-Looking Statements

This Report on Form 10-K 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 Report on Form 10-K. 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. In addition, you should read and carefully consider the Risk Factors discussed in Part I, Item 1A of this Form 10-K. 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.

Overview

We develop advanced polymer biomaterials 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.

Fiscal Year

Our fiscal year ends on March 31. Reference in this annual report on Form 10-K to a fiscal year is reference to the fiscal year ended March 31. For example, references to “fiscal 2015” or our “2015 fiscal year” refer to the fiscal year ended March 31, 2015.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 2 to our financial statements. 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 financial statements. Our critical accounting policies are as follows:

- *Revenue Recognition.* We recognize revenue from product sales upon shipment, provided that a purchase order has been received or a contract has been executed, there are no uncertainties regarding customer acceptance, the sales price is fixed or determinable and collection is deemed reasonably assured. If uncertainties regarding customer acceptance exist, we recognize revenue when those uncertainties are resolved and title has been transferred to the customer. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue. We also receive license, royalty and development fees, pursuant to agreements with our customers, for the use of our proprietary polymer biomaterials. The terms of the various license, royalty and development agreements may contain multiple deliverables which may include (i) licenses to use our polymer biomaterials in the customer's end-product medical device, (ii) research and development activities, (iii) services and/or (iv) the manufacturing of polymer biomaterials. Payments to us under these agreements may include non-refundable license fees, payments for research and development activities, payments for the manufacture of polymer materials, payments based upon the achievement of certain milestones, payments for the use of our polymer biomaterials in the customer's end-product, and/or royalties earned on the sale of the customer's end-product.
- *Accounts Receivable Valuation.* We perform various analyses to evaluate accounts receivable balances and record an allowance for bad debts based on the estimated collectability of the accounts such that the amounts reflect estimated net realizable value. Account balances are charged off against the allowance after significant collection efforts have been made and potential for recovery is not considered probable.
- *Inventory Valuation.* We value our inventory at the lower of our actual cost or the current estimated market value. We regularly review inventory quantities on hand and inventory commitments with suppliers and record a provision for excess and obsolete inventory based primarily on our historical usage for the prior twelve-month period. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated change in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.
- *Long-Lived Assets.* We evaluate our long-lived assets, which includes property and equipment, for impairment as events and circumstances indicate that the carrying amount may not be recoverable. We evaluated the realizability of our long-lived assets based primarily on reviews of results of sales of similar assets and independent appraisals. As a result of the indicators of impairment described above, we evaluated the recoverability of our property and equipment as of March 31, 2015 and 2014 and determined that there existed no impairment of our long-lived assets.

- *Stock-Based Compensation.* We make certain assumptions in order to value our stock-based compensation. The valuation of employee stock options is an inherently subjective process, since market values are generally not available for long-term, non-transferable employee stock options. Accordingly, an option pricing model is utilized to derive an estimated fair value. In calculating the estimated fair value of our stock options we use the Black-Scholes pricing model, which requires the consideration of the following six variables for purposes of estimating fair value:
 - the stock option exercise price;
 - the expected term of the option;
 - the grant date price of our common stock, which is issuable upon exercise of the option;
 - the expected volatility of our common stock;
 - the expected dividends on our common stock (we do not anticipate paying dividends in the foreseeable future); and
 - the risk free interest rate for the expected option term.

We are also required to estimate the level of pre-vesting award forfeitures expected to occur and record compensation expense only for those awards that are ultimately expected to vest. This requirement applies to all awards that are not yet vested. Due to the limited number of unvested options outstanding, the majority of which are held by executives and members of our Board of Directors, we have estimated a zero forfeiture rate. We will revisit this assumption periodically and as changes in the composition of our option pool dictate.

Changes in the inputs and assumptions, as described above, can materially affect the estimated fair value of our share-based awards. We anticipate the amount of stock-based compensation to increase in the future as additional options are granted. As of March 31, 2015, there was approximately \$14,000 of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a weighted-average period of 1.42 years.

Results of Operations

Fiscal Year Ended March 31, 2015 vs. March 31, 2014

Revenues

Total revenues for the fiscal year ended March 31, 2015 were \$2,574,000 as compared with \$2,626,000 for the comparable prior year period, a decrease of \$52,000, or 2.0%.

Product sales of our biomaterials for the fiscal year ended March 31, 2015 were \$1,799,000 as compared with \$1,771,000 for the comparable prior year period, an increase of \$28,000, or 1.6%. The increase is due to the growth in product sales from existing and new customers. 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 is 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 first quarter ending June 30, 2015.

License, royalty and development fees for the fiscal year ended March 31, 2015 were \$775,000 as compared with \$855,000 for the comparable prior year period, a decrease of \$80,000 or 9.4%. 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"). During the fiscal year ended March 31, 2015 we recognized license fees from the International Customer of \$280,000 as compared with \$400,000 for the comparable prior year period. 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. The decrease in license, royalty and development fees from the International Customer were partially offset by an approximate \$53,000 increase in exclusivity fees and royalties from one of our domestic customers.

For the year ended March 31, 2015, three customers represented 42%, 14% and 11% of our total revenues, respectively. For the year ended March 31, 2014, three customer represented 34%, 20% and 10%, respectively, of our total revenues. We expect that this concentration of our customer base will continue for the foreseeable future.

Gross Profit

Gross profit on total revenues for the fiscal year ended March 31, 2015 was \$1,646,000, or 64.0% of total revenues, compared with \$1,620,000, or 61.7% of total revenues, for the comparable prior year period. The increase in gross profit dollars and gross profit as a percentage of total revenues is due to (i) decreased overhead costs, primarily from lower depreciation expense and the write-off of previously reserved inventory; and (ii) increase in product sales. These increases were partially offset by the decrease in license, royalty and development fees which have no associated costs..

Gross profit on product sales for the fiscal year ended March 31, 2015 was \$871,000, or 48.4% of product sales, compared with \$765,000, or 43.2% of product sales, for the comparable prior year period. The increase in gross profit dollars and gross profit as a percentage of total revenues is due to (i) decreased overhead costs, primarily from lower depreciation expense due to full depreciation of certain production assets and the write-off of previously reserved inventory; and (ii) increase in product sales.

Research, Development and Regulatory Expenses

Research and development expenses for the fiscal year ended March 31, 2015 were \$356,000 as compared with \$394,000 for the comparable prior year period, a decrease of \$38,000 or 9.6%. Our research and development efforts are focused on developing new applications for our biomaterials. Research and development expenditures consisted primarily of the salaries of full time employees and related expenses, and are expensed as incurred. The decrease in research and development expenses is primarily a result of lower depreciation expense due to full depreciation of certain research and development assets. 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 fiscal year ended March 31, 2015 were \$1,222,000 as compared with \$1,433,000 for the comparable prior year period, a decrease of \$211,000 or 14.7%. The decrease is primarily due to (i) cost savings associated with the resignation of the Company's chief financial officer, (ii) reduction of board of director and professional fees, and (iii) elimination of non-essential outside sales representatives.

Interest Expense and Other Income, Net

Interest expense for the fiscal year ended March 31, 2015 was \$386,000 as compared to \$359,000 for the comparable prior year period. During the fiscal year ended March 31, 2015, interest expense is composed primarily of \$346,000 of interest accrued in connection with the financing obligation as compared with \$342,000 for the comparable prior year period.

During the fiscal year ended March 31, 2015, we recorded additional interest expense of approximately (i) \$13,000 in connection with the August 22, 2013 Note and Warrant financing transaction, (ii) \$17,000 in connection with the financing of certain facility lease obligations, (iii) \$7,000 of amortized deferred financing costs, and (iv) \$2,000 in connection with the an equipment capital lease obligation. During the fiscal year ended March 31, 2014, we recorded additional interest expense of approximately (i) \$10,000 attributable to stock-based compensation ascribed to the warrants issued in connection with the August 22, 2013 Note and Warrant financing transaction, and (ii) \$7,000 of amortized deferred financing costs.

During the fiscal year ended March 31, 2014, we recorded other income of approximately \$45,000 on i) the gain on sale of equipment of approximately \$36,000, and ii) other income of approximately \$8,000 from the favorable settlement of an obligation to one vendor.

Income Taxes

We did not record a tax provision in either of the years ended March 31, 2015 and 2014.

As of March 31, 2015, we had federal and state net operating loss carry forwards available to offset future taxable income of approximately \$26,056,000, expiring between 2020 and 2035, and \$5,692,000, expiring between 2015 and 2030, respectively. As of March 31, 2015, we had a capital loss carry forward available to offset future taxable income of approximately \$316,000, expiring 2015. As of March 31, 2015, we had federal and state investment and research tax credit carry forwards available to offset future taxable income of approximately \$131,000, expiring between 2020 and 2035, and \$243,000, expiring between 2015 and 2030, respectively. We evaluate the realizability of our deferred tax assets and establish a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized.

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.

Liquidity and Capital Resources

As of March 31, 2015, we had cash of \$75,000, a decrease of \$193,000 when compared with a balance of \$268,000 as of March 31, 2014.

During the fiscal year ended March 31, 2015, we had net cash outflows of \$187,000 from operating activities as compared with net cash inflows of \$167,000 for the comparable 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 flows 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. Net cash flows provided by operating activities decreased by approximately \$354,000, as compared to the comparable prior year period, primarily due to (i) decreased license, royalty and development fees; ii) increase in accounts receivable-trade on fiscal year end product shipments; iii) inventory build-up to meet fiscal 2016 first quarter product sales orders; iv) sales credit/discount provided to one significant custom, and (v) our net loss for the fiscal period. These cash outflows were offset by (i) sales credit/discount provided to one significant customer not yet applied, (ii) increase in accounts payable to certain non-production related vendors, and (iii) customer advance on product shipped subsequent to March 31, 2015.

During the fiscal year ended March 31, 2015, we had no net cash flows from investing activities. During the fiscal year ended March 31, 2014, we had net cash inflows from investing activities of \$8,000 related to the sale of equipment, which were offset by the payment of deposits on the building lease.

During the fiscal year ended March 31, 2015, we had net cash outflows of \$6,000 from financing activities due to the repayment of principal on an equipment capital lease obligation. During the fiscal year ended March 31, 2014, we had net cash outflows of \$10,000 from financing activities. Cash inflows from financing activities were the result of the proceeds of \$100,000 from the issuance of the promissory notes. This cash inflow was offset by the repayment of i) \$60,000 of a related party payable and ii) \$50,000 of the promissory notes.

There were no options or warrants exercised during the fiscal years ended March 31, 2015 and 2014.

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. 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. Under the terms of the lease, we have provided, as collateral, a security interest in all furnishings, fixtures and equipment owned and used by us, having a net book value of approximately \$25,000 as of March 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. The building, building improvements and land remain on the 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.

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 March 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 March 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 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Data

The following documents are filed as part of this report on Form 10-K

	<u>Page</u>
Report of Liggett, Vogt & Webb, P.A., Independent Registered Public Accounting Firm	F-1
Balance Sheets at March 31, 2015 and 2014	F-2
Statements of Operations for the years ended March 31, 2015 and 2014	F-3
Statements of Stockholders' Equity (Deficit) for the years ended March 31, 2015 and 2014	F-4
Statements of Cash Flows for the years ended March 31, 2015 and 2014	F-5
Notes to Financial Statements	F-6

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The certificates of our principal executive officer and principal financial and accounting officer attached as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures, and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 9A for a more complete understanding of the matters covered by such certifications.

Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 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 (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by us in the reports that we file or submit 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 our disclosure controls and procedures as of March 31, 2015, our Chief Executive Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934). A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the interim or annual financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2015 based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that, as of March 31, 2015, our internal control over financial reporting was effective.

This annual report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to Securities and Exchange Commission rules that permit us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

On December 8, 2014, David Volpe resigned as our chief financial officer and voluntarily terminated his employment on December 27, 2014. On January 1, 2015, Carmel Lake Ventures, LLC (“CLV”), which is wholly-owned by Mr. Volpe, was engaged as our outside financial consultant. We believe the engagement of CLV ensures us the ability to maintain internal controls over financial reporting that are consistent with those controls in place prior to Mr. Volpe’s resignation as our chief financial officer.

Other than the resignation of our chief financial officer and engagement of an outside financial consultant, there were no other changes to our internal control over financial reporting during the fourth quarter ended March 31, 2015 that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 will be filed as an amendment to our Form 10-K within 120 days of our fiscal year end.

Item 11. Executive Compensation

The information required by this Item 11 will be filed as an amendment to our Form 10-K within 120 days of our fiscal year end.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 will be filed as an amendment to our Form 10-K within 120 days of our fiscal year end.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 will be filed as an amendment to our Form 10-K within 120 days of our fiscal year end.

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 will be filed as an amendment to our Form 10-K within 120 days of our fiscal year end.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following are filed as part of this Form 10-K:

- (1) Financial Statements: For a list of financial statements which are filed as part of this Form 10-K, See Item 8, page 26.
- (2) Exhibits

Exhibit Number:	Exhibit Title:
2.1	Agreement and plan of merger and reorganization by and among the Company, Gish Acquisition Corp. and Gish Biomedical, Inc., incorporated by reference to Annex A of the Company's Registration Statement on Form S-4 filed on December 23, 2002.
2.2	Amendment No. 1 to Agreement and Plan of Merger and Reorganization by and among the Company, Gish Acquisition Corp. and Gish Biomedical Inc., incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-4 filed on January 16, 2003.
3.1	Certificate of Incorporation of the Company, filed with the Secretary of State of the State of Delaware on October 25, 2007 and effective as of October 26, 2007 (Filed as Appendix C to the Company's definitive proxy statement on Schedule 14A, filed on August 30, 2007, and incorporated herein by reference).
3.2**	Amendment No. 1 to Certificate of Incorporation of the Company, filed with the Secretary of State for the State of Delaware on October 15, 2008.
3.3	Bylaws of the Company (Filed as Appendix D to the Company's definitive proxy statement on Schedule 14A, filed on August 30, 2007, and incorporated herein by reference).
3.4	Amendment No. 1 to the Bylaws of the Company (Filed as exhibit 3.1 to the Company's Current Report on Form 8-K, filed on December 21, 2007, and incorporated herein by reference).
3.5	Certificate of Designation of Series A Junior Participating Preferred Stock (Filed as exhibit 3.1 to the Company's Current Report on Form 8-K, filed on January 29, 2008, and incorporated herein by reference).
4.1	Form of Warrant incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on December 23, 2004.
4.2	Form of Placement Agent Warrant incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on December 23, 2004.
4.3	Form of Additional Investment Right incorporated by reference to Exhibit 4.3 to the Company's Form 8-K filed on December 23, 2004.
4.4	Rights Agreement dated January 28, 2008 by and between the Company and American Stock Transfer & Trust Company (Filed as exhibit 4.1 to the Company's Current Report on Form 8-K, filed on January 29, 2008, and incorporated herein by reference).
4.5	Form of Rights Certificate (Filed as exhibit 4.2 to the Company's Current Report on Form 8-K, filed on January 29, 2008, and incorporated herein by reference).
10.1	Tax Matters Agreement between PolyMedica and the Company, dated May 13, 1996, was filed as Exhibit 10.2 of the Form 10 and is incorporated herein by reference.
10.2	Amended and Restated License Agreement between PolyMedica and the Company, dated May 13, 1996, was filed as Exhibit 10.4 of the Form 10 and is incorporated herein by reference.

- 10.3 The Company's 1996 Employee, Director and Consultant Stock Option Plan, as amended, was filed as Exhibit 10.4 to the Company's Form 10-K for the year ended March 31, 1998, filed on June 29, 1998, and is incorporated herein by reference.
- 10.4 Employee Stock Purchase Plan of the Company (Filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on August 30, 2007, and incorporated herein by reference).
- 10.5 First Amendment to the Employee Stock Purchase Plan of the Company (Filed as exhibit 10.2 to the Company Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, and incorporated herein by reference).
- 10.6 Second Amendment to the Employee Stock Purchase Plan of the Company (Filed as exhibit 10.3 to the Company Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, and incorporated herein by reference).
- 10.7 Development, Supply and License Agreement between PolyMedica and Bard Access Systems, dated November 11, 1992 (Filed as Exhibit 10.10 to the Company's registration statement on Form 10, and incorporated herein by reference).
- 10.8 Amendment, dated as of February 25, 2009, to Development, Supply and License Agreement between the Company and Bard Access Systems, Inc. dated November 11, 1992 (Filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended March 31, 2009, and incorporated herein by reference).
- 10.9 Lease Agreement between the Company and Cummings Properties Management, Inc., dated June 26, 1998, was filed as Exhibit 10.11 to the Company's Form 10-K for the year ended March 31, 1998, filed on June 29, 1998, and is incorporated herein by reference.
- 10.10 Note Purchase Agreement dated as of March 31, 1998 between the Company and Dresdner Kleinwort Benson Private Equity Partners, LP ("Kleinwort Benson") was filed as Exhibit 99.1 to the Company's Form 8-K filed with the Securities and Exchange Commission (the "Commission") on April 15, 1998 and is incorporated herein by reference.
- 10.11 Amendment, dated as of November 12, 1998, to Note Purchase Agreement and Registration Rights Agreement was filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 1998, filed on November 16, 1998 and is incorporated herein by reference.
- 10.12 Form of Unit Purchase Agreement between the Company and certain individuals was filed as Exhibit 99.1 to the Company's Form S-3, filed with the Securities and Exchange Commission on February 12, 1999, and is incorporated herein by reference.
- 10.13 Form of Warrant to Purchase Shares of Common Stock of the Company issued to certain individuals was filed as Exhibit 99.2 to the Company's registration statement on Form S-3, filed with the Securities and Exchange Commission on February 12, 1999, and is incorporated herein by reference.
- 10.14 First Amendment Between Duke Realty Limited Partnership and CDT Dated May 1, 2004 Filed as an Exhibit to the Company's Form 10-K for the year ended March 31, 2004.
- 10.15 Exchange and Venture Agreement by and among the Company, Implant Sciences, Inc. and CorNova, Inc. dated March 5, 2004 filed as an exhibit to the Company's Form 10-KSB for the fiscal year ended March 31, 2004.
- 10.16 Plan and Agreement of Merger and Reorganization dated March 12, 2004 between the Company and DermaPhylyx, Inc., filed as an exhibit to the Company's Form 10-KSB for the year ended March 31, 2004.

- 10.17 Asset Purchase Agreement, dated as of November 19, 2004 by and among the Company, CarTika Medical, Inc., Thomas C. Carlson and Sheila A. Carlson, incorporated by reference to Exhibit 99 to the Company's Form 8-K filed on November 22, 2004.
- 10.18 Securities Purchase Agreement between Gryphon Master Fund, L.P., GSSF Master Fund, LP, Truk Opportunity Fund, LLC, Truk International Fund, LP, Meadowbrook Opportunity Fund LLC, Capital Ventures International, Iroquois Capital, L.P. and the Company dated as of December 21, 2004 and incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 23, 2004.
- 10.19 Registration Rights Agreement between Gryphon Master Fund, L.P., GSSF Master Fund, LP, Truk Opportunity Fund, LLC, Truk International Fund, LP, Meadowbrook Opportunity Fund LLC, Capital Ventures International, Iroquois Capital, L.P. and the Company dated as of December 21, 2004 and incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed on December 23, 2004.
- 10.20 Lock-Up Agreement between the Company and certain of its officers and directors dated as of December 21, 2004 and incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed on December 23, 2004.
- 10.21 Employment Agreement of Michael F. Adams, dated September 13, 2006, was filed as Exhibit 10.28 to the Company's Form 8-K/A, filed on September 15, 2006, and incorporated herein by reference.
- 10.22 Letter of agreement by and between the Company and Michael F. Adams dated July 10, 2007 (Filed as exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 13, 2007, and incorporated herein by reference).
- 10.23 Employment Agreement of Eric G. Walters, dated April 3, 2006, was filed as Exhibit 10.27 to the Company's Form 8-K/A, filed on April 4, 2006, and incorporated herein by reference.
- 10.24 CardioTech International, Inc. Nonqualified Stock Option Agreement by and between the Company and Eric G. Walters dated October 3, 2005 (Filed as exhibit 10.1 to the Company's Registration Statement on Form S-8, File No. 333-149343, and incorporated herein by reference).
- 10.25 Letter of agreement by and between the Company and Eric G. Walters dated July 10, 2007 (Filed as exhibit 10.2 to the Company's Current Report on Form 8-K, filed on July 13, 2007, and incorporated herein by reference).
- 10.26 Separation Agreement and General Release between Eric Walters and the Company dated February 28, 2009 (Filed as exhibit 10.1 to the Company's Current Report on Form 8-K, filed on March 4, 2009, and incorporated herein by reference).
- 10.27 CardioTech International, Inc. Nonqualified Stock Option Agreement by and between the Company and Dr. Andrew M. Reed dated March 20, 2006 (Filed as exhibit 10.1 to the Company's Registration Statement on Form S-8, File No. 333-149342, and incorporated herein by reference).
- 10.28 Employment Agreement of Philip A. Beck, dated October 23, 2006 (Filed as exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008 and incorporated herein by reference)..
- 10.29 Letter Agreement between the Company and Philip A. Beck dated January 7, 2008 (Filed as exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008 and incorporated herein by reference).
- 10.30 Stock Purchase Agreement by and between the Company and Medos Medizintechnik AG effective as of June 30, 2007 (Filed as exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 10, 2007, and incorporated herein by reference).

- 10.31 License Agreement by and between the Company and Gish Biomedical, Inc. effective as of June 30, 2007 (Filed as exhibit 10.2 to the Company's Current Report on Form 8-K , filed on July 10, 2007, and incorporated herein by reference).
- 10.32 Stock Purchase Agreement dated March 28, 2008 by and among the Company, Catheter and Disposal Technology, Inc. and TACPRO, Inc (Filed as exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008 and incorporated herein by reference).
- 10.33 Commercial Real Estate Promissory Note in the principal amount of \$800,000 by the Company in favor of Axiom Partners, LP dated as of July 7, 2011 (Filed as exhibit 10.33 to the Company's Current Report on Form 8-K, filed on July 13, 2011, and incorporated by reference herein.).
- 10.34 Mortgage, Security Agreement and Assignment in favor of Axiom Partners, LP dated as of July 7, 2011 (Filed as exhibit 10.34 to the Company's Current Report on Form 8-K, filed on July 13, 2011, and incorporated by reference herein.).
- 10.35 Real Estate Purchase and Sale Contract by and between the Company and Chris Berardi dated as of December 22, 2011 (Filed as exhibit 10.35 to the Company's Current Report on Form 8-K, filed on December 29, 2011, and incorporated herein by reference).
- 10.36 Lease Agreement by and between the Company and 229 Andover Street, LLC dated as of December 22, 2011 (Filed as exhibit 10.36 to the Company's Current Report on Form 8-K, filed on December 29, 2011, and incorporated herein by reference).
- 23.1** Consent of Liggett, Vogt & Webb P.A., Independent Registered Public Accounting Firm
- 31.1** Certification of Principal Executive, Financial and Accounting Officer pursuant to Section 302 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.

** Filed herewith

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of AdvanSource Biomaterials Corporation
Wilmington, Massachusetts

We have audited the accompanying balance sheets of AdvanSource Biomaterials Corporation (the “Company”) as of March 31, 2015 and 2014, and the related statements of operations, changes in stockholders’ equity (deficit), and cash flows for the two years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have nor were we engaged to perform an audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AdvanSource Biomaterials Corporation as of March 31, 2015 and 2014, and the results of their operations and their cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Liggett, Vogt & Webb P.A.
New York, NY
July 8, 2015

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

	March 31,	
	2015	2014
ASSETS		
Current assets:		
Cash	\$75	\$268
Accounts receivable-trade, net of allowance of \$5 as of March 31, 2015 and 2014	214	122
Accounts receivable-other	76	73
Inventories, net	304	181
Prepaid expenses and other current assets	6	3
Total current assets	<u>675</u>	<u>647</u>
Property, plant and equipment, net	1,998	2,110
Deferred financing costs, net	80	86
Other assets	47	47
Total assets	<u><u>\$2,800</u></u>	<u><u>\$2,890</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$295	\$231
Accrued expenses	362	243
Customer advance	77	-
Capital lease obligation	8	-
Notes payable	50	50
Deferred revenue	43	105
Total current liabilities	<u>835</u>	<u>629</u>
Long-term liabilities:		
Long-term financing obligation	1,986	1,986
Accrued interest on financing obligation	147	136
Total long-term liabilities	<u>2,133</u>	<u>2,122</u>
Total liabilities	<u>2,968</u>	<u>2,751</u>
Commitments and contingencies (See Note 10)		
Stockholders' equity (deficit):		
Preferred stock; \$.001 par value; 5,000,000 shares authorized; no shares issued and outstanding as of March 31, 2015 and 2014	-	-
Common stock; \$.001 par value; 50,000,000 shares authorized; 21,567,313 shares issued; and 21,490,621 shares outstanding as of March 31, 2015 and 2014	21	21
Additional paid-in capital	38,061	38,050
Accumulated deficit	<u>(38,220)</u>	<u>(37,902)</u>
	(138)	169
Less: treasury stock, 76,692 shares at cost as of March 31, 2015 and 2014	<u>(30)</u>	<u>(30)</u>
Total stockholders' equity (deficit)	<u>(168)</u>	<u>139</u>
Total liabilities and stockholders' equity (deficit)	<u><u>\$2,800</u></u>	<u><u>\$2,890</u></u>

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

AdvanSource Biomaterials Corporation

Statements of Operations

(In thousands, except per share amounts)

	For the Years Ended March 31,	
	2015	2014
Revenues:		
Product sales	\$1,799	\$1,771
License, royalty and development fees	775	855
Total revenues	<u>2,574</u>	<u>2,626</u>
Cost of sales	<u>928</u>	<u>1,006</u>
Gross profit	<u>1,646</u>	<u>1,620</u>
Operating expenses:		
Research, development and regulatory	356	394
Selling, general and administrative	1,222	1,433
Total operating expenses	<u>1,578</u>	<u>1,827</u>
Income (loss) from operations	<u>68</u>	<u>(207)</u>
Interest expense and other income, net:		
Interest expense	(386)	(359)
Other income, net	-	45
Interest expense and other income, net	<u>(386)</u>	<u>(314)</u>
Net loss	<u><u>\$(318)</u></u>	<u><u>\$(521)</u></u>
Net loss per common share, basic and diluted	<u><u>\$(0.01)</u></u>	<u><u>\$(0.02)</u></u>
Shares used in computing net loss per common share, basic and diluted	<u><u>21,491</u></u>	<u><u>21,491</u></u>

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

AdvanSource Biomaterials Corporation
Statements of Stockholders' Equity (Deficit)
For the Years Ended March 31, 2014 and 2015
(In thousands)

<i>(in thousands)</i>	<u>Common Stock Outstanding</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Treasury</u>	<u>Total</u>
	<u>Number of</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Stock</u>	<u>Stockholders'</u>
	<u>Shares</u>		<u>Capital</u>			<u>Equity (Deficit)</u>
Balance at March 31, 2013	21,491	\$21	\$38,013	\$(37,381)	\$(30)	\$623
Stock-based compensation			37			37
Net loss				(521)		(521)
Balance at March 31, 2014	21,491	21	38,050	(37,902)	(30)	139
Stock-based compensation			11			11
Net loss				(318)		(318)
Balance at March 31, 2015	<u>21,491</u>	<u>\$21</u>	<u>\$38,061</u>	<u>\$(38,220)</u>	<u>\$(30)</u>	<u>\$(168)</u>

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

AdvanSource Biomaterials Corporation
Statements of Cash Flows
(In thousands)

	<u>For The Years Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net loss	\$(318)	\$(521)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation	126	180
Amortization of deferred financing costs	6	7
Provision for inventory reserves	138	67
Stock-based compensation	11	37
Gain on sale of equipment	-	(36)
Changes in assets and liabilities:		
Accounts receivable-trade	(92)	23
Accounts receivable-other	(3)	135
Inventories	(261)	10
Prepaid expenses and other current assets	(3)	3
Accounts payable	64	61
Accrued expenses	130	121
Customer advance	77	-
Deferred revenue	(62)	80
Net cash flows provided by (used in) operating activities	<u>(187)</u>	<u>167</u>
Cash flows from investing activities:		
Sale of equipment	-	45
Increase in other assets	-	(37)
Net cash flows provided by investing activities	<u>-</u>	<u>8</u>
Cash flows from financing activities:		
Related party payable	-	(60)
Proceeds from issuance of promissory note	-	100
Repayment of promissory note	-	(50)
Repayment of capital lease obligation	(6)	-
Net cash flows used in financing activities	<u>(6)</u>	<u>(10)</u>
Net change in cash	(193)	165
Cash at beginning of period	268	103
Cash at end of period	<u>\$75</u>	<u>\$268</u>
Supplemental disclosure of cash flow information:		
Income taxes paid	\$-	\$-
Interest paid	\$297	\$235
Non-Cash Financing Activities:		
Purchase of equipment on capital lease	\$13	\$-

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

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Nature of Business

AdvanSource Biomaterials Corporation (“AdvanSource”) 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 Wilmington, Massachusetts.

Fiscal Year

Our fiscal year ends on March 31. References herein to fiscal 2015 and/or fiscal 2014 refer to the fiscal years ended March 31, 2015 and/or 2014, respectively.

2. Summary of Significant Accounting Policies

Accounting Principles

The financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

Use of Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash includes cash on hand, is deposited at one area bank and may exceed federally insured limits at times.

Revenue Recognition

We generate revenues primarily from (i) the sale of polymer products and (ii) license, royalty and development agreements.

Product Sales

Revenues generated from the sale of polymer products is recognized upon shipment, provided that a purchase order has been received or a contract has been executed, there are no uncertainties regarding customer acceptance, the sales price is fixed or determinable and collection is deemed reasonably assured. If uncertainties regarding customer acceptance exist, we recognize revenues when those uncertainties are resolved and title has been transferred to the customer. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

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 is 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 first quarter ending June 30, 2015.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

License, Royalty and Development Fees

We also receive license, royalty and development fees, pursuant to agreements with our customers, for the use of our proprietary polymer biomaterials. The terms of the various license, royalty and development agreements may contain multiple deliverables which may include (i) licenses to use our polymer biomaterials in the customer's end-product medical device, (ii) research and development activities, (iii) services and/or (iv) the manufacturing of polymer biomaterials. Payments made to us under these agreements may include non-refundable license fees, payments for research and development activities, payments for the manufacture of polymer materials, payments based upon the achievement of certain milestones, payments for the use of our polymer biomaterials in the customer's end-product, and/or royalties earned on the sale of the customer's end-product.

In October 2009, the FASB issued Accounting Standards Update ("ASU") 2009-13, "*Multiple-Deliverable Revenue Arrangements ("ASU 2009-13")*." We adopted the provisions of the multiple-element arrangement guidance summarized in ASU 2009-13.

In determining the separate units of accounting, management evaluates whether the delivered element has standalone value to the customer based on the consideration of the relevant facts and circumstances for each arrangement. Factors considered in this determination include the customer's research, development, production and product commercialization capabilities and the availability of these capabilities, as well as polymer development and manufacture expertise in the general marketplace. In addition, we consider whether the customer can use the license for its intended purpose without the receipt of the remaining deliverables, whether the value of the license is dependent on the undelivered items and whether there are other vendors that can provide the undelivered item.

Management performs extensive analysis to determine the value, or selling price, of each unit of accounting. We have been unable to establish vendor-specific objective evidence ("VSOE") due to the fact that it does not typically enter into arrangements where technology is licensed separately, rather, its arrangements are commingled with fees from royalties, usage of polymers within customer end-products, minimum purchases of polymer products manufactured and sold to customers by us, or a combination of the aforementioned. Additionally, we have been unable to obtain third-party evidence ("TPE") for any of our deliverables, without undue cost and effort. Generally, our go-to-market strategy differs from that of our peers and our offerings contain a significant level of customization and differentiation such that our services are not interchangeable with those of our competitors. Furthermore, we are unable to reliably determine what similar competitor products' selling prices are on a standalone basis.

Management's estimated selling price ("ESP") is used for our licensing, royalty and development arrangements. We determine that ESP for the elements of these arrangements is based on several factors, including, but not limited to, the terms of the arrangements, market conditions, historical analysis of contracts having similar elements, and our internal costs and gross margin objectives. The determination of ESP is made through consultation with and formal approval by our management. ESP for certain consultative services is determined based on consideration of our time incurred to perform these services, consulting fees charged on a per-hour basis by us and by our vendors, and our pricing methodologies.

Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

In June 2011, we entered into a non-exclusive license agreement and a consulting services agreement (collectively, the "Agreements") with a major international developer and manufacturer of medical devices ("Customer"), which generally provides the Customer the right to use and know-how to produce a specific proprietary polymer biomaterial for a specific field of use (the "Licensed Polymer") within the Customer's suite of medical device products. In accordance with the applicable accounting guidance, we determined the Agreements included the following units of accounting: (i) transfer of technology and know-how related to the Licensed Polymer, (ii) consulting services related to the establishment of a facility to manufacture the Licensed Polymer by the Customer, (iii) assisting the Customer in validating the Licensed Polymer produced by the Customer, and (iv) consulting with the Customer in connection with the Customer's efforts to obtain various regulatory approvals for medical devices incorporating the Licensed Polymer.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

Upon the execution of the Agreements, we received an up-front payment of \$150,000, and in July 2011, we received an additional \$250,000 upon the transfer of technology and know-how related to the Licensed Polymer. The Agreements also provide for additional payments upon the achievement of certain milestones, as previously described, each of which we consider substantive, and could total up to an additional \$1,100,000. The Agreements do not provide for any royalties or other fees upon the achievement of any or all of the milestones.

From the inception of the Agreements through June 30, 2013, we achieved milestones that resulted in the cumulative recognition of revenues in the aggregate amount of \$540,000. Although the Agreements did provide for up to an additional \$970,000 in payments based upon the achievement of additional milestones, we mutually agreed with our Customer to amend the Agreements (the "Amended Agreements") on September 27, 2013 to provide for a fixed payment of \$560,000 over a fixed 12 month term ending September 2014. We received \$176,000 on September 30, 2013, which was recorded as deferred revenue in our condensed balance sheet as of September 30, 2013 and amortized on a straight-line basis beginning October 1, 2013. The terms of the Amended Agreements also provided for 12 monthly payments of \$32,000 per month to commence on October 20, 2013 with the final monthly payment to be received in September 2014. During the fiscal year ended March 31, 2014 we recognized \$120,000 of revenue pursuant to the Agreements and \$280,000 of revenue pursuant to the terms of the Amended Agreements. During the fiscal year ended March 31, 2015 we recognized \$280,000 of revenue pursuant to the terms of the Amended Agreements. As of March 31, 2015 and 2014, the unamortized balance of deferred revenue in connection with the Amended Agreements was \$0 and \$88,000, respectively.

Research, Development and Regulatory Expense

Research, development and regulatory expenditures for the years ended March 31, 2015 and 2014 were \$356,000 and \$394,000, respectively, and consisted primarily of salaries and related costs and are expensed as incurred. We had two full time research and development employees that work on a variety of projects, including production support.

Advertising Costs

Advertising costs are expensed as incurred or at the first time the advertising takes place. We incurred no advertising costs for the years ended March 31, 2015 and 2014.

Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is based upon the weighted-average number of 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 loss that would result from the assumed conversion of potential shares. At March 31, 2015 and 2014, potentially dilutive shares of 2,175,750 and 3,270,048, respectively, were excluded from the loss per share calculations because their effect would be antidilutive. Shares deemed to be antidilutive include stock options and warrants.

Accounts Receivable

We perform various analyses to evaluate accounts receivable balances and record an allowance for bad debts based on the estimated collectability of the accounts such that the amounts reflect estimated net realizable value. Account balances are charged off against the allowance after significant collection efforts have been made and potential for recovery is not considered probable. As of March 31, 2015 and 2014, our allowance for doubtful accounts was \$5,000 and \$5,000, respectively.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

Inventories

We value our inventory at the lower of our actual cost or the current estimated market value. We regularly review inventory quantities on hand and inventory commitments with suppliers and records a provision for excess and obsolete inventory based primarily on our historical usage for the prior twelve-month period. During the fiscal years ended March 31, 2015 and 2014, we provided an additional \$30,000 and \$5,000, respectively, for excess and obsolete inventory. During the fiscal year ended March 31, 2015 and 2014, we disposed of certain obsolete inventory items in the aggregate amount of approximately \$133,000 and \$62,000, respectively. As of March 31, 2015 and 2014, our allowance for obsolete and excess inventory was \$130,000 and \$234,000, respectively.

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"). Although the polymer products met the requested specifications at the time of shipment, the material did not work well with this customer's process. Accordingly, as an accommodation to our customer, and in the interest of helping our customer avoid any process, we opted to take the material back and replace it with another lot. As a result, the significant customer was issued a credit in the amount of the selling price of the polymer products, which was approximately \$127,000. The inventory cost of the Returned Goods was approximately \$25,000. Although we believe we will be able to sell some or all of the Returned Goods, there can be no assurance that any of the Returned Goods will be sold in future periods. Accordingly, an additional allowance for the excess inventory of approximately \$25,000 was recorded as of March 31, 2015.

Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated change in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.

Property and Equipment

Property and equipment are stated at cost. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Building improvements are amortized using the straight-line method over the remaining estimated life of the building at the time the improvement is put into service. Our building is depreciated using the straight-line method over 40 years. Land is not depreciated. Expenditures for repairs and maintenance are charged to expense as incurred. We record construction in process in the appropriate asset category and commence depreciation upon completion and commencement of use of the asset. Equipment purchased pursuant to capital lease obligations, primarily computer equipment, is recorded at cost and depreciated on a straight line basis over the life of the lease.

Deferred Financing Costs

We have capitalized certain costs related to the issuance of debt. These costs are amortized to interest expense on a straight-line basis over the term of the debt. During the fiscal years ended March 31, 2015 and 2014, amortization expense related to deferred financing costs were \$7,000 and \$7,000, respectively.

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 establish a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized.

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. (See Note 7).

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

Impairment of Long-Lived Assets

We evaluate our long-lived assets, which include property and equipment, for impairment as events and circumstances indicate that the carrying amount may not be recoverable. We evaluate the realizability of our long-lived assets based on reviews of results of sales of similar assets and independent appraisals. As a result of the continued operating losses described above, we evaluated the recoverability of our property and equipment as of March 31, 2015 and 2014 and determined that there existed no impairment of long-lived assets.

Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the estimated fair value of the award and is recognized as an expense over the requisite service period. The valuation of employee stock options is an inherently subjective process, since market values are generally not available for long-term, non-transferable employee stock options. Accordingly, the Black-Scholes option pricing model is utilized to derive an estimated fair value. The Black-Scholes pricing model requires the consideration of the following six variables for purposes of estimating fair value:

- the stock option exercise price;
- the expected term of the option;
- the grant date price of our common stock, which is issuable upon exercise of the option;
- the expected volatility of our common stock;
- the expected dividends on our common stock (we do not anticipate paying dividends in the foreseeable future); and
- the risk free interest rate for the expected option term.

Expected Dividends. We have never declared or paid any cash dividends on any of our capital stock and do not expect to do so in the foreseeable future. Accordingly, we use an expected dividend yield of zero to calculate the grant-date fair value of a stock option.

Expected Volatility. The expected volatility is a measure of the amount by which our stock price is expected to fluctuate during the expected term of options granted. We determine the expected volatility solely based upon the historical volatility of our common stock over a period commensurate with the option's expected term. We do not believe that the future volatility of our common stock over an option's expected term is likely to differ significantly from the past.

Risk-Free Interest Rate. The risk-free interest rate is the implied yield available on U.S. Treasury zero-coupon issues with a remaining term equal to the option's expected term on the grant date.

Expected Term. For option grants subsequent to the adoption of the fair value recognition provisions of the accounting standards, the expected life of stock options granted is based on the actual vesting date and the end of the contractual term.

Stock Option Exercise Price and Grant Date Price of Common Stock. The closing market price of our common stock on the date of grant.

We are required to estimate the level of award forfeitures expected to occur and record compensation expense only for those awards that are ultimately expected to vest. This requirement applies to all awards that are not yet vested. Due to the limited number of unvested options outstanding, the majority of which are held by executives and members of our Board of Directors, we have estimated a zero forfeiture rate. We will revisit this assumption periodically and as changes in the composition of the option pool dictate.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

Fair Value of Financial Instruments

We follow Accounting Standards Codification 820-10 (“ASC 820-10”), “*Fair Value Measurements and Disclosures*,” for fair value measurements. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The hierarchy established under ASC 820-10 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1 - Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date. As required by ASC 820-10, we do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2 - Pricing inputs are quoted prices for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 - Pricing inputs are unobservable for the investment, that is, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes investments that are supported by little or no market activity.

Recent Accounting Pronouncements

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 June 2014, the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board jointly issued an exposure draft (“ED”), Revenue from Contracts with Customers. The ED was released by the FASB as a proposed Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”. The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The proposed ASU, which would apply to any entity that enters into contracts to provide goods or services, would supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the update would supersede some cost guidance included in Subtopic 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts. The update removes inconsistencies and weaknesses in revenue requirements and provides a more robust framework for addressing revenue issues and more useful information to users of financial statements through improved disclosure requirements. In addition, the update improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. It is not anticipated that this updated guidance will have a material impact on our results of operations, cash flows or financial condition.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

In August 2014, the FASB issued Accounting Standards Update “ASU” 2014-15 on “Presentation of Financial Statements Going Concern (Subtopic 205-40) - Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. Currently, there is no guidance in U.S. GAAP about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern or to provide related footnote disclosures. The amendments in this Update provide that guidance. In doing so, the amendments are intended to reduce diversity in the timing and content of footnote disclosures. The amendments require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this Update are effective for public and nonpublic entities for annual periods ending after December 15, 2016. Early adoption is permitted. It is not anticipated that this guidance will have a material impact on our results of operations, cash flows or financial condition.

3. Related Party Transactions

On January 16, 2013, Michael Adams, our President and Chief Executive Officer, provided us a cash advance of \$60,000 for working capital purposes. The advance was payable on demand and did not bear interest. During fiscal 2014, the advance was repaid and there was no outstanding balance due as of March 31, 2014.

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 8). 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 in 54,375 shares of our common stock at an exercise price of \$0.075 per share (see Note 12). As of March 31, 2015 and 2014, the principle balance of the promissory notes was \$50,000 in the aggregate, of which \$12,500 in the aggregate was due to Messrs. Adams and Volpe. All warrants issued in connection with this transaction expired on August 21, 2014. Additionally, since February 22, 2014, the promissory notes accrued interest at the rate of 2% per month. As of March 31, 2015 and 2014, the accrued interest recorded on the promissory notes was approximately \$13,000 and \$0, respectively, of which \$3,000 and \$0, respectively, was due to Messrs. Adams and Volpe.

4. License Agreements

PolyMedica Corporation (“PolyMedica”) granted us an exclusive, perpetual, worldwide, royalty-free license for use of all of the necessary patent and other intellectual property owned by PolyMedica in the implantable devices and materials field (collectively, “Licensed Technology”). We will file patents or other applications, at our own expense, for the protection of all new inventions formulated, made, or conceived by us during the term of the license that related to Licensed Technology and all such inventions shall be exclusively licensed to PolyMedica for use by PolyMedica in fields other than the implantable devices and materials field. We have no financial commitments in connection with this license.

5. Inventories

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

<u>(in thousands)</u>	March 31,	
	2015	2014
Raw materials	\$80	\$120
Work in progress	76	52
Finished goods	278	243
	434	415
Less: allowance for obsolete and excess inventory	(130)	(234)
Total inventories, net	\$304	\$181

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

During the fiscal years ended March 31, 2015 and 2014, we recorded charges of approximately \$133,000 and \$62,000, respectively, for the write-off of inventory.

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 credit in the amount of the selling price of the polymer products, which was approximately \$127,000. Accordingly, we recorded a current liability in the approximate amount of \$127,000, as an effective sales credit/discount to the future sales to this significant customer. Such sales credit/discount is included in accrued expenses in our balance sheet as of March 31, 2015. We also recorded a sales allowance of \$127,000 with respect to the Returned Goods, which is recorded in product sales in our statement of operations for the fiscal year ended 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 first quarter ending June 30, 2015.

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.

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.

6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

<i>(in thousands)</i>	March 31,	
	2015	2014
Land	\$500	\$500
Building	2,705	2,705
Machinery, equipment and tooling	1,214	1,214
Furniture, fixtures and office equipment	298	285
	<u>4,717</u>	<u>4,704</u>
Less: accumulated depreciation	<u>(2,719)</u>	<u>(2,594)</u>
	<u>\$1,998</u>	<u>\$2,110</u>

Depreciation expense for the fiscal years ended March 31, 2015 and 2014 was approximately \$126,000 and \$180,000, respectively.

During the fiscal year ended March 31, 2015, we acquired computer equipment at an approximate cost of \$13,000 pursuant to a two year capital lease agreement. We recorded the equipment under capital lease as furniture, fixtures and office equipment and are depreciating the equipment over the life of the lease. We also recorded the capital lease obligation on the balance sheet and as of March 31, 2015, our capital lease obligation is approximately \$8,000. During the fiscal year ended March 31, 2015 we recorded depreciation expense and interest expense of approximately \$2,000 and \$2,000, respectively.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

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. 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. Under the terms of the lease, we have provided, as collateral, a security interest in all furnishings, fixtures and equipment owned and used by us, having a net book value of approximately \$25,000 as of March 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. The building, building improvements and land remain on the 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.

7. Income Taxes

As of March 31, 2015 and 2014, we had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

We may, from time to time, be assessed interest or penalties by major tax jurisdictions. We recognize interest and penalties related to uncertain tax positions in income tax expense. To date, we have not recognized any interest or penalties.

Tax years 2011 through 2015 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Reconciliation between our effective tax rate and the United States statutory rate is as follows:

	For The Years Ended March 31,	
	2015	2014
Expected federal tax rate	34.0%	34.0%
State income taxes, net of federal tax benefit	5.5%	5.5%
Non-deductible expenses	(28.8%)	(12.5%)
Federal R&D tax credits, net	1.3%	0.6%
Change in valuation allowance	(12.0%)	(27.6%)
Effective tax rate	<u>0.0%</u>	<u>0.0%</u>

Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax basis of the assets and liabilities using the enacted tax rate in effect in the years in which the differences are expected to reverse. A valuation allowance has been recorded against the deferred tax asset as it is more likely than not, based upon our analysis of all available evidence, that the tax benefit of the deferred tax asset will not be realized.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

The following is a summary of the significant components of our deferred tax assets as of March 31, 2015 and 2014:

<i>(in thousands)</i>	March 31,	
	2015	2014
Deferred Tax Assets:		
Net operating loss carryforwards	\$9,187	\$9,429
Capital loss carry forward	125	125
Tax credit carry forward	292	279
Inventory and receivable allowances	53	92
Accrued expenses deductible when paid	53	51
Deferred tax assets	<u>9,710</u>	<u>9,976</u>
Deferred Tax Liabilities:		
Depreciation and amortization	<u>(208)</u>	<u>(207)</u>
Deferred tax liabilities	<u>(208)</u>	<u>(207)</u>
Net deferred tax assets	9,502	9,770
Valuation allowance	<u>(9,502)</u>	<u>(9,770)</u>
Net deferred tax assets	<u>\$-</u>	<u>\$-</u>

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 had no significant deferred tax liabilities as of March 31, 2015 and 2014. Approximately \$2,400,000 of state net operating loss carry forwards expired during 2015.

As of March 31, 2015, we have the following unused net operating loss and tax credit carryforwards available to offset future federal and state taxable income, both of which expire at various times as noted below:

<i>(in thousands)</i>	Net Operating Losses	Investment & Research Credits	Expiration Dates
Federal	<u>\$26,056</u>	<u>\$131</u>	2020 to 2035
State	<u>\$5,692</u>	<u>\$243</u>	2015 to 2030
Capital loss carryforward	<u>\$316</u>		2015

Our net operating loss carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities for the years ended March 31, 2012 to 2015.

Approximately \$1,400,000 of the above Federal net operating loss carryforwards relate to stock compensation. The related tax benefit of approximately \$553,000 will be credited to additional paid-in capital upon realization.

8. Promissory Notes

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 have a six-month term, bear interest at the rate of 1.75% per month and all principal and accrued interest, if any, is 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 have a one-year term and are 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 are 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. As of March 31, 2014, the principle balance of \$50,000 which remained outstanding resulted in an event of default. The Investors waived this event of default through July 2, 2015. As of March 31, 2015, the principal balance of \$50,000 remained outstanding. As of May 22, 2015, we repaid all of the principal outstanding of \$50,000 and accrued interest through that date of approximately \$14,000.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

In addition, the Promissory Notes provided for the accrual of default interest at the rate of 2.0% per month in the event the principal balance was not repaid on February 21, 2014. As of March 31, 2015 and 2014, interest of approximately \$13,000 and \$1,000, respectively, was accrued and included in accrued expenses on our balance sheet.

As of March 31, 2014, all of the Warrants were outstanding. The Warrants expired on August 21, 2014 and there were no Warrants outstanding in connection with this transaction as of March 31, 2015. No Warrants were exercised during the Warrant exercise period.

9. 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. Under the terms of the lease, we were required to place \$280,000 of the net proceeds in escrow as a prepayment of the calendar year 2012 lease payments. 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 \$25,000 as of March 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 March 31, 2015 and 2014, the total financing obligation was \$1,986,000 and \$1,986,000, respectively, and accrued interest on financing obligation was \$147,000 and \$136,000, 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 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. The future minimum lease payments as of March 31, 2015 are as follows:

(in thousands)

<u>Fiscal Years Ending March 31,</u>	
2016	\$335
2017	345
2018	355
2019	366
2020	377
Thereafter	<u>2,512</u>
	<u>\$4,290</u>

10. 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.

11. Concentration of Credit Risk and Major Customers

For the year ended March 31, 2015, three customers represented 42%, 14% and 11% of revenues, respectively. For the year ended March 31, 2014, three customers represented 34%, 20% and 10%, respectively, of our revenues.

As of March 31, 2015, we had accounts receivable-trade of \$133,000, or 62%, due from two customers. As of March 31, 2014, we had accounts receivable-trade of \$72,000, or 59%, due from three customers.

As of March 31, 2015, we had \$76,000 due from two customers related to receivables on license fees and royalties. As of March 31, 2014, we had \$73,000 due from two customers related to receivables on license fees and royalties. These amounts are classified as accounts receivable-other in our balance sheets.

ADVANSOURCE BIOMATERIALS CORPORATION

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During the year ended March 31, 2015, one vendor represented \$274,000, or 69%, of material purchases used in the production process. During the year ended March 31, 2014, two vendors represented, in the aggregate, \$324,000, or 77%, of material purchases used in the production process.

12. Stockholders' Equity (Deficit)

Preferred Stock

We have authorized 5,000,000 shares, \$0.001 par value, Preferred Stock (the Preferred Stock") of which 500,000 shares have been issued and redeemed, therefore are not considered outstanding. In addition, 500,000 shares of Preferred Stock have been designated as Series A Junior Participating Preferred Stock (the "Junior Preferred Stock") with the designations and the powers, preferences and rights, and the qualifications, limitations and restrictions specified in the Certificate of Designation of the Junior Preferred Stock filed with the Delaware Department of State on January 28, 2008. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Junior Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by us that is convertible into Junior Preferred Stock. As of March 31, 2015, there was no Junior Preferred Stock issued or outstanding.

Common Stock Options and Warrants

On March 31, 2008, we issued warrants to the investment bankers, who assisted in the sale of a former subsidiary, to purchase 219,298 shares of common stock at an exercise price of \$0.874 per share, which are exercisable until March 31, 2015. The warrants were valued at \$76,000 using the Black-Scholes model and treated as permanent equity. As of March 31, 2015, the warrants expired and no warrants were exercised during the warrant exercise period.

On August 22, 2013, in connection with the issuance of Promissory Notes (the "Notes") to the Investors (see Note 8), and in lieu of cash payment of interest on the Notes, we entered into Warrant Agreements (the "Warrants") with the Investors to purchase an aggregate of 435,000 shares of our common stock. The Warrants have a one-year term and are exercisable at a 150% premium over the closing price of our common stock as of August 21, 2013, or \$0.075 per share. In calculating the estimated fair value of the Warrants, we use the Black-Scholes pricing model with the following assumptions: i) exercise price of \$0.075 per share; ii) expected term of one year; iii) expected volatility of 156.9%; iv) risk-free interest rate of 1.64%; and v) expected dividend yield of 0.0%. The estimated fair value of approximately \$10,000 was recorded as interest expense in our statements of operations for the fiscal year ended March 31, 2014. The Warrants expired on August 21, 2014 and there were no Warrants outstanding in connection with this transaction as of March 31, 2015. No Warrants were exercised during the Warrant exercise period.

There were no exercises of options or warrants by employees and consultants during the fiscal years ended March 31, 2015 and 2014.

Treasury Stock and Other Transactions

In June 2001, the Board of Directors adopted a share repurchase program authorizing the repurchase of up to 250,000 of our shares of common stock. In June 2004, the Board of Directors authorized the purchase of an additional 500,000 shares of common stock. Since June 2001, we have repurchased a total of 251,379 shares under the share repurchase program, leaving 498,621 shares remaining to purchase under the share repurchase program. No repurchases were made during the years ended March 31, 2015 and 2014. The share repurchase program authorizes repurchases from time to time in open market transactions, through privately negotiated transactions, block transactions or otherwise, at times and prices deemed appropriate by management, and is not subject to an expiration date.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

Stockholder Rights Plan

Our Board of Directors approved the adoption of a stockholder rights plan (the “Rights Plan”) under which all stockholders of record as of February 8, 2008 will receive rights to purchase shares of the Junior Preferred Stock (the “Rights”). The Rights will be distributed as a dividend. Initially, the Rights will attach to, and trade with, our common stock. Subject to the terms, conditions and limitations of the Rights Plan, the Rights will become exercisable if (among other things) a person or group acquires 15% or more of our common stock. Upon such an event, and payment of the purchase price, each Right (except those held by the acquiring person or group) will entitle the holder to acquire shares of our common stock (or the economic equivalent thereof) having a value equal to twice the purchase price. Our Board of Directors may redeem the Rights prior to the time they are triggered. In the event of an unsolicited attempt to acquire us, the Rights Plan is intended to facilitate the full realization of our stockholder value and the fair and equal treatment of all of our stockholders. The Rights Plan does not prevent a takeover attempt.

13. Stock Based Compensation

AdvanSource’s 1996 Employee, Director and Consultants Stock Option Plan (the “1996 Plan”) was approved by AdvanSource’s Board of Directors and Stockholders in March 1996. A total of 7,000,000 shares have been reserved for issuance under the Plan. Under the terms of the Plan, the exercise price of Incentive Stock Options issued under the 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 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 AdvanSource 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 Securities and Exchange Commission 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 control. A similar provision is not included in the 2003 Plan. Normally, options granted expire ten years from the grant date. As of September 30, 2013, all Plans and shares not granted expired. As of March 31, 2015 and 2014, there are no other equity incentive plans in place for the future issuance of our common stock.

Activity under the Plans for the year ended March 31, 2015 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, 2014	2,615,750	\$0.66		
Granted	-	-		
Exercised	-	-		
Cancelled or forfeited	(440,000)	2.170		
Options outstanding as of March 31, 2015	<u>2,175,750</u>	0.36	5.47	\$-
Options exercisable as of March 31, 2015	<u>1,837,625</u>	0.42	4.93	\$-
Options vested or expected to vest as of March 31, 2015	<u>2,175,750</u>	0.36	5.47	\$-

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing price of the common stock on March 31, 2015 of \$0.0365 and the exercise price of each in-the-money option) that would have been received by the option holders had all option holders exercised their options on March 31, 2014. There were no stock options exercised under the Plan for the fiscal years ended March 31, 2015 and 2014. The total fair value of stock options that vested during the fiscal years ended March 31, 2015 and 2014 was \$11,000 and \$27,000, respectively.

At March 31, 2015 and 2014, there were no shares remaining to be granted under the 1996 Stock Option Plan and the 2003 Stock Option Plan.

ADVANSOURCE BIOMATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the fiscal years ended March 31, 2015 and 2014, we recorded stock-based compensation expense for options of approximately \$11,000 and \$37,000, respectively. As of March 31, 2015, we had approximately \$14,000 of unrecognized compensation cost related to stock options that is expected to be recognized as expense over a weighted-average period of 1.42 years.

14. Benefit Plans and Employment Agreements of Executive Officers

We established the AdvanSource 401(k) Retirement Savings Plan under Section 401(k) of the Internal Revenue Code. All full-time employees who are twenty-one years of age are eligible to participate on the beginning of the first month after 30 days of employment. Our contributions are discretionary. We made matching contributions of approximately \$13,000 and \$7,000 during the fiscal years ended March 31, 2015 and 2014, respectively.

On August 7, 2006, we appointed Michael F. Adams as our Chief Executive Officer and President. Mr. Adams has been one of our directors since May 1999 and became our Vice President of Regulatory Affairs and Business Development on April 1, 2006. We entered into an employment agreement with Mr. Adams (the "Adams Agreement") on September 13, 2006. Under the terms of the Adams Agreement, we agreed to employ Mr. Adams for two years at an annual base salary of \$290,000, as amended, which is subject to annual review by our Board of Directors. During the Employment Period, as defined in the Adams Agreement, Mr. Adams may receive an annual bonus to be determined at the sole discretion of the Compensation Committee of the Board of Directors. We did not renew the Adams Agreement at the end of the initial term, however, the Adams agreement provides that lacking any express agreement between the parties at the end of the Employment Period, the Adams Agreement shall be deemed to continue on a month-to-month basis. As a result, the Adams Agreement currently continues on a month-to-month basis and is subject to all of the terms and conditions of the Adams Agreement. Either party has the right to terminate the Adams Agreement upon 30 days written notice. Mr. Adams is eligible for participation in all executive benefit programs, including health insurance, life insurance, and stock-based compensation. If Mr. Adams' employment is terminated without cause, we are obligated to (i) pay Mr. Adams an amount equal to two times his annual base salary upon such termination, (ii) provide Mr. Adams with health insurance benefits for a period of 18 months after such termination, of which the premiums for the first six months after such termination shall be paid by us, and (iii) provide Mr. Adams life insurance benefits for one year after such termination at our expense.

During the fiscal year ended March 31, 2010, the Compensation Committee of the Board of Directors approved an increase in Mr. Adams' annual base salary to \$320,000. During the fiscal year ended March 31, 2014, Mr. Adams voluntarily reduced his annual base salary to \$315,000. There was no bonus awarded to Mr. Adams during the fiscal years ended March 31, 2015 and 2014.

15. Subsequent Events

We evaluated all events or transactions that occurred after the balance sheet date through the date when we filed these financial statements and determined that we did not have any material recognizable subsequent events.

SIGNATURES

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

Dated: July 13, 2015

AdvanSource Biomaterials Corporation

By: /s/ Michael F. Adams
Michael F. Adams
Chief Executive Officer and President

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

Dated: July 13, 2015 /s/ Michael F. Adams
Michael F. Adams
Chief Executive Officer and President
(Principal Executive Officer)

Dated: July 13, 2015 /s/ William J. O'Neill
William J. O'Neill, Jr.
Chairman

Dated: July 13, 2015 /s/ Michael L. Barretti
Michael L. Barretti
Director

Dated: July 13, 2015 /s/ Mark Tauscher
Mark Tauscher
Director

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As independent registered public accountants, we hereby consent to the incorporation by reference of our report dated July 8, 2015 relating to the consolidated financial statements of AdvanSource Biomaterials Corporation as of and for the years ended March 31, 2015 and 2014, included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (File Nos. 333-117594, 333-106607 and 333-05893).

/s/ Liggett, Vogt & Webb, P.A.
New York, NY
July 13, 2015

CERTIFICATION

I, Michael F. Adams, hereby certify that:

1. I have reviewed this Annual Report on Form 10-K of AdvanSource Biomaterials Corporation (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the condensed consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: July 13, 2015

/s/ Michael F. Adams

Michael F. Adams
Chairman, Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Michael F. Adams, hereby certify that:

1. I have reviewed this Annual Report on Form 10-Q of AdvanSource Biomaterials Corporation (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the condensed consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: July 13, 2015

/s/ Michael F. Adams

Michael F. Adams
Chairman, Chief Executive Officer
(Principal Financial and Accounting Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of AdvanSource Biomaterials Corporation, a Delaware corporation (the “Company”), on Form 10-K for the fiscal year ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael F. Adams, Chief Executive Officer and President of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 13, 2015

/s/ Michael F. Adams

Michael F. Adams

Chief Executive Officer and President

This certification accompanies each report of the Company on Form 10-Q and Form 10-K pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.