
U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended February 28, 2017

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____

Commission File Number 0-23386

CRYO-CELL INTERNATIONAL, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE
(State or other Jurisdiction of
Incorporation or Organization)

22-3023093
(I.R.S. Employer
Identification No.)

700 Brooker Creek Blvd. Oldsmar, FL 34677
(Address of Principal Executive Offices) (Zip Code)

Issuer's phone number, including area code: (813) 749-2100

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

Check 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 Not Applicable

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

As of April 7, 2017, 12,868,647 shares of \$0.01 par value common stock were issued and 7,152,062 were outstanding.

CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) February 28, 2017	November 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,507,270	\$ 3,499,881
Marketable securities	476,456	624,223
Accounts receivable (net of allowance for doubtful accounts of \$2,305,459 and \$2,278,862, respectively)	4,449,511	4,052,728
Prepaid expenses	459,952	395,501
Inventory, net	285,961	361,142
Other current assets	142,877	78,448
Total current assets	<u>9,322,027</u>	<u>9,011,923</u>
Property and Equipment-net	<u>933,396</u>	<u>979,463</u>
Other Assets		
Intangible assets, net	252,354	261,000
Deferred tax assets	9,216,690	9,260,582
Deposits and other assets, net	28,888	25,500
Total other assets	<u>9,497,932</u>	<u>9,547,082</u>
Total assets	<u>\$ 19,753,355</u>	<u>\$ 19,538,468</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 1,520,151	\$ 1,485,430
Accrued expenses	2,066,510	2,554,330
Current portion of note payable	2,000,000	2,000,000
Deferred revenue	7,003,889	7,071,924
Total current liabilities	<u>12,590,550</u>	<u>13,111,684</u>
Other Liabilities		
Deferred revenue, net of current portion	13,296,136	12,596,292
Note payable, net of current portion and debt issuance costs	7,353,903	7,819,750
Long-term liability—revenue sharing agreements	1,425,000	1,425,000
Total other liabilities	<u>22,075,039</u>	<u>21,841,042</u>
Total liabilities	<u>34,665,589</u>	<u>34,952,726</u>
Commitments and contingencies (Note 10)		
Stockholders' Deficit		
Preferred stock (\$.01 par value, 500,000 authorized and none issued and outstanding)	—	—
Series A Junior participating preferred stock (\$.01 par value, 20,000 authorized and none issued and outstanding)	—	—
Common stock (\$.01 par value, 20,000,000 authorized; 12,866,147 issued and 7,137,157 outstanding as of February 28, 2017 and 12,504,464 issued and 6,789,596 outstanding as of November 30, 2016)	128,661	125,044
Additional paid-in capital	30,447,809	30,340,573
Treasury stock, at cost	(19,213,183)	(19,124,492)
Accumulated other comprehensive income	27,347	34,408
Accumulated deficit	(26,302,868)	(26,789,791)
Total stockholders' deficit	<u>(14,912,234)</u>	<u>(15,414,258)</u>
Total liabilities and stockholders' deficit	<u>\$ 19,753,355</u>	<u>\$ 19,538,468</u>

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the Three Months Ended	
	February 28, 2017	February 29, 2016
Revenue:		
Processing and storage fees	\$5,611,824	\$5,020,459
Product revenue	164,800	131,739
Total revenue	<u>5,776,624</u>	<u>5,152,198</u>
Costs and Expenses:		
Cost of sales	1,516,097	1,348,291
Selling, general and administrative expenses	3,098,155	3,597,253
Research, development and related engineering	14,616	8,684
Depreciation and amortization	31,630	41,548
Total costs and expenses	<u>4,660,498</u>	<u>4,995,776</u>
Operating Income	<u>1,116,126</u>	<u>156,422</u>
Other Income (Expense):		
Other expense	(26,442)	(18,024)
Interest expense	(297,044)	(261,334)
Total other expense	<u>(323,486)</u>	<u>(279,358)</u>
Income (loss) before income tax expense	792,640	(122,936)
Income tax benefit (expense)	(305,717)	—
Net Income (Loss)	<u>\$ 486,923</u>	<u>\$ (122,936)</u>
Net income (loss) per common share—basic	<u>\$ 0.07</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding—basic	<u>6,901,108</u>	<u>8,971,373</u>
Net income (loss) per common share—diluted	<u>\$ 0.07</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding—diluted	<u>7,437,243</u>	<u>8,971,373</u>
Other Comprehensive Income (Loss)		
Unrealized loss on marketable securities (net of tax)	\$ (7,061)	\$ (93,727)
Comprehensive Income (Loss)	<u>\$ 479,862</u>	<u>\$ (216,663)</u>

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	February 28, 2017	February 29, 2016
Net income (loss)	\$ 486,923	\$ (122,936)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	57,634	74,618
Compensatory element of stock options	77,357	252,313
Provision for doubtful accounts	101,930	192,045
Amortization of debt issuance costs	34,153	—
Changes in assets and liabilities:		
Accounts receivable	(498,713)	(350,656)
Prepaid expenses	(64,451)	(1,490)
Inventory	75,181	(22,916)
Other current assets	(64,429)	30,051
Deposits and other assets, net	(3,388)	—
Accounts payable	34,721	357,156
Accrued expenses	(439,668)	(438,675)
Deferred revenue	631,809	131,907
Net cash provided by operating activities	<u>429,059</u>	<u>101,417</u>
Cash flows from investing activities:		
Release of restricted cash held in escrow	—	(56)
Purchases of property and equipment	(2,921)	(30,723)
Sales (purchases) of marketable securities and other investments, net	136,446	(157,238)
Net cash provided by (used in) investing activities	<u>133,525</u>	<u>(188,017)</u>
Cash flows from financing activities:		
Treasury stock purchases	(88,691)	(408,403)
Repayments of note payable	(500,000)	(75,423)
Proceeds from the exercise of stock options	33,496	—
Net cash used in financing activities	<u>(555,195)</u>	<u>(483,826)</u>
Increase (decrease) in cash and cash equivalents	7,389	(570,426)
Cash and cash equivalents - beginning of period	3,499,881	4,152,162
Cash and cash equivalents - end of period	<u>\$3,507,270</u>	<u>\$3,581,736</u>
Supplemental non-cash investing activities:		
Unrealized loss on marketable securities, net of tax	<u>\$ (7,061)</u>	<u>\$ (93,727)</u>

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

CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28, 2017
(Unaudited)

Note 1 – Description of Business, Basis of Presentation and Significant Accounting Policies

Cryo-Cell International, Inc. (“the Company” or “Cryo-Cell”) was incorporated in Delaware on September 11, 1989 and is located in Oldsmar, Florida. The Company is organized in two reportable segments, cellular processing and cryogenic cellular storage, with a current focus on the collection and preservation of umbilical cord blood stem cells for family use and the manufacture of PrepaCyte CB units, the processing technology used to process umbilical cord blood stem cells. Revenues recognized for the cellular processing and cryogenic cellular storage represent sales of the umbilical cord blood stem cells program to customers, and income from licensees selling the umbilical cord blood stem cells program to customers outside the United States. Revenues recognized for the manufacture of PrepaCyte CB units represent sales of the PrepaCyte CB units to customers. The Company’s headquarters facility in Oldsmar, Florida handles all aspects of its U.S.-based business operations including the processing and storage of specimens, including specimens obtained from certain of its licensees’ customers. The specimens are stored in commercially available cryogenic storage equipment.

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of February 28, 2017 and November 30, 2016, the related Consolidated Statements of Comprehensive Income (Loss) and Cash Flows for the three months ended February 28, 2017 and February 29, 2016 have been prepared by Cryo-Cell International, Inc. and its subsidiaries pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Certain financial information and note disclosures, which are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s November 30, 2016 Annual Report on Form 10-K. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for all periods presented have been made. The results of operations for the three months ended February 28, 2017 are not necessarily indicative of the results expected for any interim period in the future or the entire year ending November 30, 2017.

Revenue Recognition

Revenue Recognition for Arrangements with Multiple Deliverables

For multi-element arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price (“TPE”), and (iii) best estimate of the selling price (“ESP”). VSOE generally exists only when the Company sells the deliverable separately and it is the price actually charged by the Company for that deliverable.

The Company has identified two deliverables generally contained in the arrangements involving the sale of its umbilical cord blood product. The first deliverable is the processing of a specimen. The second deliverable is either the annual storage of a specimen, the 21-year storage fee charged for a specimen or the life-time storage fee charged for a specimen. The Company has allocated revenue between these deliverables using the relative selling price method. The Company has VSOE for its

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annual storage fees as the Company renews storage fees annually with its customers on a stand-alone basis. Because the Company has neither VSOE nor TPE for the processing, 21-year storage and life-time storage deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to processing a specimen are recognized at the time the processing of the specimen is complete. Amounts allocated to the storage of a specimen are recognized ratably over the contractual storage period. Any discounts given to the customer are recognized by applying the relative selling price method whereby after the Company determines the selling price to be allocated to each deliverable (processing and storage), the sum of the prices of the deliverables is then compared to the arrangement consideration, and any difference is applied to the separate deliverables ratably.

The Company's process for determining its ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors considered by the Company in developing the ESPs for its processing, 21 year storage and life-time storage fee include the Company's historical pricing practices, as well as expected profit margins.

The Company records revenue from processing and storage of specimens and pursuant to agreements with licensees. The Company recognizes revenue from processing fees upon completion of processing and recognizes storage fees ratably over the contractual storage period as well as other income from royalties paid by licensees related to long-term storage contracts which the Company has under license agreements. Contracted storage periods are annual, twenty-one years and lifetime. Deferred revenue on the accompanying consolidated balance sheets includes the portion of the annual storage fee, the twenty-one-year storage fee and the life-time storage fee that is being recognized over the contractual storage period as well as royalties received from foreign licensees related to long-term storage contracts in which the Company has future obligations under the license agreement. The Company classifies deferred revenue as current if the Company expects to recognize the related revenue over the next 12 months. The Company also records revenue within processing and storage fees from shipping and handling billed to customers when earned. Shipping and handling costs that the Company incurs are expensed and included in cost of sales.

The Company records revenue from the sale of the PrepaCyte CB product line upon shipment of the product to the Company's customers.

Accounts Receivable

Accounts receivable consist of uncollateralized amounts due from clients that have enrolled and processed in the umbilical cord blood stem cell processing and storage programs and amounts due from license affiliates, and sublicense territories. Accounts receivable are due within 30 days and are stated at amounts net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering the length of time accounts receivable are past due, the Company's previous loss history, and the client's current ability to pay its obligations. Therefore, if the financial condition of the Company's clients were to deteriorate beyond the estimates, the Company may have to increase the allowance for doubtful accounts which could have a negative impact on earnings. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

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Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The Company has recorded a valuation allowance of \$2,301,000 and \$2,301,000 as of February 28, 2017 and November 30, 2016, respectively, as the Company does not believe it is “more likely than not” that all future income tax benefits will be realized. When the Company changes its determination as to the amount of deferred income tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to income tax expense in the period in which such determination is made. The ultimate realization of the Company’s deferred income tax assets depends upon generating sufficient taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, the Company projects future levels of taxable income. This assessment requires significant judgment. The Company examines the evidence related to the recent history of losses, the economic conditions in which the Company operates and forecasts and projections to make that determination.

The Company recorded U.S. income taxes of approximately \$306,000 during the three months ended February 28, 2017. There was no U.S. income tax expense for the three months ended February 29, 2016 due to the utilization of net operating losses and foreign tax credit carryforwards, which were not previously benefited in the Company’s financial statements.

The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recognized approximately \$0 and \$0 for the three months ended February 28, 2017 and February 29, 2016, respectively, of foreign income tax expense. Foreign income tax expense is included in income tax expense in the accompanying consolidated statements of comprehensive income (loss).

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Increases or decreases to the unrecognized tax benefits could result from management’s belief that a position can or cannot be sustained upon examination based on subsequent information or potential lapse of the applicable statute of limitation for certain tax positions.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. For the three months ended February 28, 2017 and February 29, 2016, the Company had no provisions for interest or penalties related to uncertain tax positions.

Long-Lived Assets

The Company evaluates the realizability of its long-lived assets, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment, such as reductions in demand or when significant economic slowdowns are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment and carrying value is in excess of fair value, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing a discount rate. The Company did not note any impairment for the three months ended February 28, 2017 and February 29, 2016.

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Goodwill

Goodwill represents the excess of the purchase price of the assets acquired from CMDG (Note 2) over the estimated fair value of the net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment at least annually at the PrepaCyte CB reporting segment level or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment loss, if any, is recognized based on a comparison of the fair value of the asset to its carrying value, without consideration of any recoverability. The annual impairment assessment is performed during the fourth quarter and at other times if an event occurs or indicators of impairment exist by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the reporting segment is less than its carrying amount. If we conclude it is more likely than not that the fair value of goodwill is less than its carrying amount, a quantitative impairment test is performed. During the third quarter of fiscal 2016, the Company determined that there were sufficient indicators to trigger an impairment analysis. During the fourth quarter of fiscal 2016, the Company performed its annual impairment analysis. The Company concluded that an impairment of the PrepaCyte CB reporting segment existed during fiscal year 2016 and a goodwill impairment charge of \$1,777,822 was recorded during fiscal year 2016.

Stock Compensation

As of February 28, 2017, the Company has two stock-based compensation plans, which are described in Note 8 to the consolidated financial statements. The Company's most recent stock-based employee compensation plan became effective December 1, 2011 as approved by the Board of Directors and approved by the stockholders at the 2012 Annual Meeting. The Company recognized approximately \$77,000 and \$252,000 for the three months ended February 28, 2017 and February 29, 2016, respectively, of stock-based compensation expense.

The Company recognizes stock-based compensation based on the fair value of the related awards. Under the fair value recognition guidance of stock-based compensation accounting rules, stock-based compensation expense is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The fair value of service-based vesting condition and performance-based vesting condition stock option awards is determined using the Black-Scholes valuation model. For stock option awards with only service-based vesting conditions and graded vesting features, the Company recognizes stock compensation expense based on the graded-vesting method. To value awards with market-based vesting conditions the Company uses a binomial valuation model. The Company recognizes compensation cost for awards with market-based vesting conditions on a graded-vesting basis over the derived service period calculated by the binomial valuation model. The use of these valuation models involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period.

The estimation of stock awards that will ultimately vest requires judgment and to the extent that actual results or updated estimates differ from current estimates, such amounts will be recorded as a cumulative adjustment in the period they become known. The Company considered many factors when estimating forfeitures, including the recipient groups and historical experience. Actual results and future changes in estimates may differ substantially from current estimates.

The Company issues performance-based equity awards which vest upon the achievement of certain financial performance goals, including revenue and income targets. Determining the appropriate amount to expense based on the anticipated achievement of the stated goals requires judgment, including forecasting future financial results. The estimate of the timing of the expense recognition is revised periodically based on the probability of achieving the required performance targets and adjustments are made as appropriate. The cumulative impact of any revision is reflected in the period of the change. If the financial performance goals are not met, the award does not vest, so no compensation cost is recognized and any previously stock-recognized stock-based compensation expense is reversed.

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The Company issues equity awards with market-based vesting conditions which vest upon the achievement of certain stock price targets. If the awards are forfeited prior to the completion of the derived service period, any recognized compensation is reversed. If the awards are forfeited after the completion of the derived service period, the compensation cost is not reversed, even if the awards never vest.

Fair Value of Financial Instruments

Management uses a fair value hierarchy, which gives the highest priority to quoted prices in active markets. The fair value of financial instruments is estimated based on market trading information, where available. Absent published market values for an instrument or other assets, management uses observable market data to arrive at its estimates of fair value. Management believes that the carrying amount of cash and cash equivalents, accounts receivable, notes receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. The Company believes that the fair value of its Revenue Sharing Agreements ("RSA") liability recorded on the balance sheet is between the recorded book value and up to the Company's previous settlement experience, due to the various terms and conditions associated with each RSA.

The Company uses an accounting standard that defines fair value as an exit price, representing the amount 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of February 28, 2017 and November 30, 2016, respectively, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value at February 28, 2017	Fair Value Measurements at February 28, 2017 Using		
		Level 1	Level 2	Level 3
Assets:				
Trading Securities	\$ 167,696	\$167,696	—	—
Available-for-sale	308,760	308,760	—	—
	<u>\$ 476,456</u>	<u>\$476,456</u>	<u>—</u>	<u>—</u>

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Description	Fair Value at November 30, 2016	Fair Value Measurements at November 30, 2016 Using		
		Level 1	Level 2	Level 3
Assets:				
Trading Securities	\$ 304,142	\$304,142	—	—
Available-for-sale	320,081	320,081	—	—
	<u>\$ 624,223</u>	<u>\$624,223</u>	<u>—</u>	<u>—</u>

The following is a description of the valuation techniques used for these items, as well as the general classification of such items pursuant to the fair value hierarchy:

Trading securities – Fair values for these investments are based on quoted prices in active markets and are therefore classified within Level 1 of the fair value hierarchy. For trading securities, there was (\$26,600) and (\$19,800) in unrealized holding losses, respectively, recorded in other income and expense on the accompanying consolidated statements of comprehensive loss for the three months ended February 28, 2017 and February 29, 2016, respectively.

Available-for-sale securities – These investments are classified as available for sale and consist of marketable equity securities that we intend to hold for an indefinite period of time. Investments are stated at fair value and unrealized holding gains and losses are reported as a component of accumulated other comprehensive income until realized. Realized gains or losses on disposition of investments are computed using the first in, first out (FIFO) method and reported as income or loss in the period of disposition in the accompanying consolidated statements of comprehensive income (loss). For available-for-sale securities, there was approximately (\$7,000) and (\$94,000) in unrealized holding losses, net of tax, respectively, reported as comprehensive loss on the accompanying statements of comprehensive income (loss) for the three months ended February 28, 2017 and February 29, 2016, respectively.

Product Warranty and Cryo-Cell Cares™ Program

In December 2005, the Company began providing its customers that enrolled after December 2005 a payment warranty under which the Company agrees to pay \$50,000 to its client if the umbilical cord blood product retrieved is used for a stem cell transplant for the donor or an immediate family member and fails to engraft, subject to various restrictions. Effective February 1, 2012, the Company increased the \$50,000 payment warranty to a \$75,000 payment warranty to all of its new clients. Additionally, under the Cryo-Cell Cares™ program, the Company was paying \$10,000 to the client to offset personal expenses if the umbilical cord blood product is used for bone marrow reconstitution in a myeloblastic transplant procedure. Effective October 13, 2014, the Company no longer offers the Cryo-Cell Cares™ program to new clients. The product warranty is available to clients who enroll under this structure for as long as the specimen is stored with the Company. The Company has not experienced any claims under the warranty program nor has it incurred costs related to these warranties. The Company does not maintain insurance for this warranty program and therefore maintains reserves to cover any estimated potential liabilities. The Company's reserve balance is based on the \$75,000 or \$50,000 (as applicable) maximum payment and the \$10,000 maximum expense reimbursement multiplied by formulas to determine the projected number of units requiring a payout. The Company determined the estimated expected usage and engraftment failure rates based on an analysis of the historical usage and

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failure rates and the historical usage and failure rates in other private and public cord blood banks based on published data. The Company's estimates of expected usage and engraftment failure could change as a result of changes in actual usage rates or failure rates and such changes would require an adjustment to the established reserves. The historical usage and failure rates have been very low and a small increase in the number of transplants or engraftment failures could cause a significant increase in the estimated rates used in determining the Company's reserve. In addition, the reserve will increase as additional umbilical cord blood specimens are stored which are subject to the warranty. As of February 28, 2017 and November 30, 2016 the Company recorded reserves under these programs in the amounts of approximately \$17,000 and \$17,000, respectively, which are included in accrued expenses in the accompanying consolidated balance sheets.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The update removes Step 2 from the goodwill impairment test. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, although early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In December 2016, the FASB issued Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This update clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires a reconciliation of totals in the statement of cash flows to the related cash and cash equivalents and restricted cash captions in the balance sheet. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In May 2016, the FASB issued Accounting Standards Update No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This update clarifies the objectives of collectability, sales and other taxes, noncash consideration, contract modifications at transition, completed contracts at transition and technical correction. The amendments in this update

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affect the guidance in Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective but will become effective for annual and interim periods beginning after December 15, 2017. The Company has not yet selected a transition method nor has it determined the effect of the standard on its consolidated financial statements and related disclosures.

In April 2016, the FASB issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This update clarifies how an entity identifies performance obligations related to customer contracts as well as help to improve the operability and understanding of the licensing implementation guidance. The amendments in this update affect the guidance in Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective but will become effective for annual and interim periods beginning after December 15, 2017. The Company has not yet selected a transition method nor has it determined the effect of the standard on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This update amends the principal-versus-agent implementation guidance and illustrations in the Board's new revenue standard (ASC 606). The FASB issued the ASU in response to concerns identified by stakeholders, including those related to (1) determining the appropriate unit of account under the revenue standard's principal-versus-agent guidance and (2) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard's control principle. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. This update requires organizations that lease assets with lease terms of more than 12 months to recognize assets and liabilities for the rights and obligations created by those leases on their balance sheets. It also requires new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on its consolidated balance sheets and related disclosures.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This update requires all equity investments to be measured at fair value with changes in fair value recognized in net income, requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, and eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. The Company is currently evaluating the impact of the new standard on our financial statements.

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In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This update simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard should be applied prospectively and is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of the guidance in Accounting Standards Update No. 2014-09 by one year. This update is now effective for annual and interim periods beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of fiscal 2019. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. This update permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the standard its consolidated financial statements and related disclosures.

Note 2 – Goodwill

On June 11, 2015, the Company entered into an Asset Purchase Agreement (the "APA") with CytoMedical Design Group LLC ("CMDG"), for the purchase of certain assets and assumption of certain liabilities and contracts that CMDG used in the operation of its cord blood business, including the Prepacyte-CB Processing System which is used in cell processing laboratories to process and store stem cells from umbilical cord blood (the "Acquisition"). This transaction was accounted for as a business combination. The purchase price was \$2,400,000, plus the value of inventory, comprised of \$1,553,272 in cash and assumed liabilities of the seller less any prepayment made by the Company to CMDG (\$966,597 at closing and \$586,675 on or before September 30, 2015) and a note payable to the seller in the amount of \$1,300,000. The closing was effective on June 30, 2015.

In connection with the APA, the Company assumed an exclusive perpetual license agreement which enables the Company to use licensed technology in its umbilical cord blood processing and storage product for cord blood banking. Under the terms of the APA, the Company will pay a royalty of \$5 per bag set unit sold, subject to minimum annual royalties totaling \$35,000.

Goodwill represents the excess of the purchase price of the assets acquired from CMDG over the estimated fair value of the net tangible and identifiable intangible assets acquired. The annual impairment assessment is performed as of September 30th each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. Step one of the impairment assessment compares the fair value of the reporting unit to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss would be recorded by the amount the carrying value exceeds the implied fair value.

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During the third quarter of fiscal 2016, the Company determined that there were sufficient indicators to trigger an interim goodwill impairment analysis. Goodwill is included in the PrepaCyte CB reporting segment and the indicators included, among other factors: (1) decline in projected revenues, (2) decline in forecasted cash flows, and (3) loss of a key customer.

Goodwill impairment testing is a two-step process. Step one involves comparing the fair value of the reporting unit to its carrying amount. If the carrying amount of the reporting unit is greater than zero and its fair value is greater than its carrying amount, there is no impairment. Fair value can be determined using market, income or cost-based approaches. Our determination of estimated fair value of the reporting unit is based on a combination of the income-based and market-based approaches. Under the income-based approach, the Company determined fair value based on estimated discounted cash flows. The cash flows are discounted by an estimated weighted-average cost of capital, which is intended to reflect the overall level of inherent risk of the reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others. Under the market-based approach, we determined fair value using the Guideline Company Method, comparing our reporting unit to similar, publicly-traded companies, developing multiples and applying them to our earnings and revenue bases. As a result of the analysis, the Company concluded that the carrying value of the reporting unit exceeded its estimated fair value. The second step of the process was then performed to measure the amount of impairment loss.

Step two involves comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. As a result of the analysis, the Company concluded that an impairment of the PrepaCyte CB reporting segment existed as the carrying amount of the reporting unit exceeded the implied fair value. Applying ASC 350, *Intangibles-Goodwill and Other* guidance, the Company recorded a goodwill impairment charge of \$1,666,430 as of August 31, 2016.

The annual impairment assessment was performed as of September 30, 2016. The Company concluded that there was an additional impairment of the PrepaCyte CB reporting segment as the carrying amount of the reporting unit exceeded the implied fair value. Applying ASC 350, *Intangibles-Goodwill and Other* guidance, the Company recorded an additional goodwill impairment charge of \$111,392 as of November 30, 2016.

As of February 28, 2017, and November 30, 2016, there is no goodwill is reflected on the consolidated balance sheets.

The operating results of Prepacyte CB have been included in the consolidated statements of comprehensive income (loss) since the date of acquisition.

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Note 3 – Inventory

Inventory has been pledged as collateral on the note payable incurred in connection with the APA (Note 2). The components of inventory at February 28, 2017 and November 30, 2016 are as follows:

	February 28, 2017	November 30, 2016
Raw materials	\$ —	\$ 9,100
Work-in-process	70,753	—
Finished goods	150,213	261,000
Collection kits	72,713	98,760
Inventory reserve	(7,718)	(7,718)
Total inventory	<u>\$ 285,961</u>	<u>\$ 361,142</u>

Note 4 – Intangible Assets

The Company incurs certain legal and related costs in connection with patent and trademark applications. If a future economic benefit is anticipated from the resulting patent or trademark or an alternate future use is available to the Company, such costs are capitalized and amortized over the expected life of the patent or trademark. The Company's assessment of future economic benefit involves considerable management judgment. A different conclusion could result in the reduction of the carrying value of these assets.

During the quarter ended August 31, 2016, the Company determined that there were sufficient indicators to trigger an interim goodwill impairment analysis (Note 2). The Company reviews intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires a comparison of the carrying amount to the sum of the future forecasted undiscounted cash flows expected to be generated by the asset per ASC 360, *Property, Plant and Equipment*. As a result of the Company's two-step impairment analysis, an impairment of intangible assets within the Prepacyte® CB reporting segment, license agreement and customer relationships, existed and an intangible asset impairment charge of \$211,267 during the third quarter of fiscal 2016.

Intangible assets were as follows as of February 28, 2017 and November 30, 2016:

	Useful lives	February 28, 2017	November 30, 2016
Patents	10-20 years	\$ 34,570	\$ 34,570
Less: Accumulated amortization		(10,403)	(9,937)
License agreement	10 years	470,000	470,000
Less: Intangible asset impairment		(185,000)	(185,000)
Less: Accumulated amortization		(68,111)	(60,194)
Customer relationships	15 years	41,000	41,000
Less: Intangible asset impairment		(26,267)	(26,267)
Less: Accumulated amortization		<u>(3,435)</u>	<u>(3,172)</u>
Net Intangible Assets		<u>\$ 252,354</u>	<u>\$ 261,000</u>

Amortization expense of intangibles was approximately \$9,000 and \$12,000 for the three months ended February 28, 2017 and February 29, 2016, respectively.

Note 5 – Note Payable

On June 30, 2015, the Company entered into a note payable in the amount of \$1,300,000 in connection with the APA (Note 2). The note was payable in 48 monthly installments of \$29,938 including principal and interest at the rate of 5% per annum, commencing on July 31, 2015, and ending on June 30, 2019. Pursuant to the APA, the note was secured by all assets, inventory, molds and tools sold and transferred to the Company, tangible personal property held for sale or lease, accounts, contract rights, and other rights to payment and general intangibles.

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On April 22, 2016, the Company paid \$778,287 which constituted payment in full of the Company's payment obligations to CMDG pursuant to the terms of the original APA and Promissory Note, as well as pursuant to the terms of the Loan/Promissory Note Sale Agreement and Mutual Release executed by the Company and CMDG on April 22, 2016. Prior to making the payment in full, the Company made payments totaling \$269,443 pursuant to the terms of the original APA and Promissory Note. The difference between the remaining principal balance and the final payment made on April 22, 2016 was \$300,593 which was recorded as gain on extinguishment of debt for the twelve months ended November 30, 2016. As of the three months ended February 29, 2016, the Company recognized \$14,391 of interest expense related to the note payable.

On May 20, 2016, the Company entered into a Credit Agreement ("Agreement") with Texas Capital Bank, National Association ("TCB") for a term loan of \$8.0 million in senior credit facilities. The proceeds of the term loan were used by the Company to fund repurchases of the Company's common stock. Subject to the terms of the Agreement, on May 20, 2016, TCB advanced the Company \$100.00. On July 1, 2016, TCB advanced the remaining principal amount of \$7,999,900 per a promissory note dated May 20, 2016 between the Company and TCB, at a rate of 3.75% per annum plus LIBOR, payable monthly with a maturity date of July 2021. On August 26, 2016, the Company entered into a First Amendment to Credit Agreement with TCB. Pursuant to terms of the First Amendment to Credit Agreement, on August 26, 2016, TCB made an additional advance to the Company in principal amount of \$2,133,433 per an Amended and Restated Promissory Note dated August 26, 2016 between the Company and TCB. The additional proceeds of the term loan were used by the Company to fund a portion of the Settlement Agreement and Release of All Claims with Charles D. Nyberg and Mary J. Nyberg, individually and as Trustees of the CDMJ Nyberg Family. As of February 28, 2017 and November 30, 2016, principal paid to date is \$1,133,000 and \$633,000, respectively, at a rate of 3.75% per annum plus LIBOR. As of the three months ended February 28, 2017 and February 29, 2016, the Company paid interest of \$102,488 and \$0, respectively, which is reflected in interest expense on the accompanying consolidated statements of comprehensive income (loss).

On May 20, 2016, the Company also entered into a Subordination Agreement with TCB and CrowdOut Capital LLC ("CrowdOut") for a subordinated loan of the principal amount of \$650,000, which amount CrowdOut advanced to the Company on May 20, 2016. The proceeds of the subordinated loan will be used by the Company to fund continued repurchases of the Company's common stock. Per a promissory note dated May 20, 2016 between the Company and CrowdOut, interest at 12% per annum on the principal sum of \$650,000 is payable monthly with a maturity date of July 2021, at which time, the principal amount of \$650,000 is payable. As of February 28, 2017 and February 29, 2016, the Company paid interest of \$19,500 and \$0, respectively, which is reflected in interest expense on the accompanying consolidated statements of comprehensive income (loss).

Collateral of the term and subordinated loans includes all money, securities and property of the Company.

The Company incurred debt issuance costs related to the term and subordinated loans in the amount of \$378,785 which is recorded as a direct reduction of the carrying amount of the note payable and amortized over the life of the loan. As of the three months ended February 28, 2017 and February 29, 2016, \$34,153 and \$0, respectively, of the debt issuance costs were amortized and are reflected in interest expense on the accompanying consolidated statements of comprehensive income (loss).

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As of February 28, 2017 and November 30, 2016, the note payable obligation was as follows:

	February 28, 2017	November 30, 2016
Note payable	\$ 9,650,100	\$ 10,150,100
Unamortized debt issuance costs	(296,197)	(330,350)
Net note payable	<u>\$ 9,353,903</u>	<u>\$ 9,819,750</u>
Current portion of note payable	\$ 2,000,000	\$ 2,000,000
Long-term note payable, net of debt issuance costs	<u>7,353,903</u>	<u>7,819,750</u>
Total	<u>\$ 9,353,903</u>	<u>\$ 9,819,750</u>

Interest expense on the note payable for the three months ended February 28, 2017 was as follows:

	February 28, 2017
Interest expense on notes payable	\$ 121,988
Debt issuance costs	34,153
Total interest expense	<u>\$ 156,141</u>

There was \$0 interest expense related to the note payable for the three months ended February 29, 2016.

Note 6 – Segment Reporting

During the third quarter of fiscal 2015, the Company purchased certain assets and assumed certain liabilities and contracts that CytoMedical used in the operation of its cord blood business (See Note 2). The Company evaluated and determined that this acquisition qualifies as a separate segment.

The Company is organized in two reportable segments:

1. The cellular processing and cryogenic storage of umbilical cord blood and cord tissue stem cells for family use. Revenue is generated from the initial processing and testing fees and the annual storage fees charged each year for storage (the “Umbilical cord blood and cord tissue stem cell service”).
2. The manufacture of Prepacyte® CB units, the processing technology used to process umbilical cord blood stem cells. Revenue is generated from the sales of the Prepacyte® CB units (the “Prepacyte®-CB”).

The following table shows, by segment: net revenue, cost of sales, operating profit, depreciation and amortization, interest expense, income tax benefit (expense) and other comprehensive income for the three months ended February 28, 2017 and February 29, 2016:

	For the three months ended February 28, 2017	For the three months ended February 29, 2016
Net revenue		
Umbilical cord blood and cord tissue stem cell service	\$ 5,611,824	\$ 5,020,459
Prepacyte®-CB	<u>164,800</u>	<u>131,739</u>
Total net revenue	<u>\$ 5,776,624</u>	<u>\$ 5,152,198</u>

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Cost of sales		
Umbilical cord blood and cord tissue stem cell service	\$ 1,392,795	\$ 1,245,023
Prepacyte®-CB	123,302	103,268
Total cost of sales	\$ 1,516,097	\$ 1,348,291
Depreciation and amortization		
Umbilical cord blood and cord tissue stem cell service	\$ 22,566	\$ 28,678
Prepacyte®-CB	9,064	12,870
Total depreciation and amortization	\$ 31,630	\$ 41,548
Operating income		
Umbilical cord blood and cord tissue stem cell service	\$ 1,083,692	\$ 127,951
Prepacyte®-CB	32,434	28,471
Total operating income	\$ 1,116,126	\$ 156,422
Interest expense		
Umbilical cord blood and cord tissue stem cell service	\$ 297,044	\$ 246,943
Prepacyte®-CB	—	14,391
Total interest expense	\$ 297,044	\$ 261,334
Income tax benefit (expense)		
Umbilical cord blood and cord tissue stem cell service	\$ (305,717)	\$ —
Prepacyte®-CB	\$ —	\$ —
Total income tax benefit (expense)	\$ (305,717)	\$ —
Other comprehensive income (loss)		
Umbilical cord blood and cord tissue stem cell service	\$ (7,061)	\$ (93,727)
Prepacyte®-CB	—	—
Total other comprehensive income (loss)	\$ (7,061)	\$ (93,727)
	As of	As of
	February 28, 2017	November 30, 2016
Assets		
Umbilical cord blood and cord tissue stem cell service	\$ 19,186,558	\$ 18,960,261
Prepacyte®-CB	566,797	578,207
Total assets	\$ 19,753,355	\$ 19,538,468

Note 7 – Income (Loss) per Common Share

Net income (loss) per common share data are based on net income. The following table sets forth the calculation of basic and diluted (loss) earnings per share:

	For the three months ended February 28, 2017	For the three months ended February 29, 2016
Numerator:		
Net Income (Loss)	\$ 486,923	(\$ 122,936)
Denominator:		

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Weighted-average shares outstanding-basic	6,901,108	8,971,373
Dilutive common shares issuable upon exercise of stock options	536,135	—
Weighted-average shares-diluted	<u>7,437,243</u>	<u>8,971,373</u>
Earnings (Loss) per share:		
Basic	<u>\$ 0.07</u>	<u>(\$ 0.01)</u>
Diluted	<u>\$ 0.07</u>	<u>(\$ 0.01)</u>

For the three months ended February 28, 2017, the Company included the effect of all outstanding stock options in the computation of diluted earnings per share, as all of the outstanding stock options were in the money as of February 28, 2017. For the three months ended February 29, 2016, the Company excluded the effect of all outstanding stock options from the computation of diluted earnings per share, as the effect of potentially dilutive shares from the outstanding stock options would be anti-dilutive.

Note 8 – Stockholder’s Equity

The Company maintains the 2006 Stock Incentive Plan (the “2006 Plan”) under which it has reserved 1,000,000 shares of the Company’s common stock for issuance pursuant to stock options, restricted stock, stock-appreciation rights (commonly referred to as “SARs”) and stock awards (i.e. performance options to purchase shares and performance units). As of February 28, 2017 and November 30, 2016, there were 550,500 and 572,281 options issued, but not yet exercised, under the 2006 Plan, respectively. As of February 28, 2017, there were 229,429 shares available for future issuance under the 2006 Plan.

The Company also maintains the 2012 Equity Incentive Plan (the “2012 Plan”) which became effective December 1, 2011 as approved by the Board of Directors and approved by the stockholders at the 2012 Annual Meeting on July 10, 2012. The 2012 Plan originally reserved 1,500,000 shares of the Company’s common stock for issuance pursuant to stock options, restricted stock, SARs, and other stock awards (i.e. performance shares and performance units). In May 2012, the Board of Directors approved an amendment to the 2012 Plan to increase the number of shares of the Company’s common stock reserved for issuance to 2,500,000 shares. As of February 28, 2017, there were 569,729 service-based options issued, 129,729 service-based restricted common shares granted, 630,970 performance-based and 116,240 market-based restricted common shares granted under the 2012 Plan. As of February 28, 2017, there were 1,053,332 shares available for future issuance under the 2012 Plan.

Service-based vesting condition options

The fair value of each option award is estimated on the date of the grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company’s stock over the most recent period commensurate with the expected life of the Company’s stock options. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected term of options granted to employees is calculated, in accordance with the “simplified method” for “plain vanilla” stock options allowed under GAAP. Expected dividends are based on the historical trend of the Company not issuing dividends.

There were no options granted during the three months ended February 28, 2017 and February 29, 2016, respectively.

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Stock option activity for the three months ended February 28, 2017, was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2016	1,142,010	\$ 2.36	4.99	\$1,095,525
Granted	—	—	—	—
Exercised	(19,281)	1.74	—	57,949
Expired/forfeited	(2,500)	1.50	—	7,150
Outstanding at February 28, 2017	<u>1,120,229</u>	<u>\$ 2.37</u>	<u>4.82</u>	<u>\$2,225,014</u>
Exercisable at February 28, 2017	<u>1,041,780</u>	<u>\$ 2.31</u>	<u>4.56</u>	<u>\$2,132,983</u>

The aggregate intrinsic value represents the total value of the difference between the Company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on either February 28, 2017 or February 29, 2016, as applicable. The intrinsic value of the Company's stock options changes based on the closing price of the Company's stock.

For the three months ended February 28, 2017, the Company issued 19,281 common shares to option holders who exercised options for \$33,496.

There were no options exercised during the three months ended February 29, 2016.

Significant option groups exercisable at February 28, 2017 and related price and contractual life information are as follows:

Range of Exercise Prices	Outstanding			Exercisable	
	Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Outstanding	Weighted Average Exercise Price
\$1.01 to \$2.00	427,500	4.65	\$ 1.73	427,500	\$ 1.73
\$2.01 to \$3.00	465,500	3.28	\$ 2.57	465,500	\$ 2.57
\$3.01 to \$4.00	227,229	8.32	\$ 3.18	148,780	\$ 3.17
	<u>1,120,229</u>	<u>4.82</u>	<u>\$ 2.37</u>	<u>1,041,780</u>	<u>\$ 2.31</u>

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A summary of the status of the Company's non-vested options as of February 28, 2017, and changes during the three months ended February 28, 2017, is presented below:

	Options	Weighted Average Grant-Date Fair Value
Non-vested at November 30, 2016	97,406	\$ 1.84
Granted	—	—
Vested	(18,957)	1.83
Forfeited	—	—
Non-vested at February 28, 2017	<u>78,449</u>	<u>\$ 1.84</u>

As of February 28, 2017 there was approximately \$123,000 of total unrecognized compensation cost related to non-vested service related share-based compensation arrangements granted under the 2006 Plan and the 2012 Plan. The cost is expected to be recognized over a weighted-average period of .74 years as of February 28, 2017. The total fair value of shares vested during the three months ended February 28, 2017 was approximately \$35,000.

Performance and market-based vesting condition options

There were no performance-based or market-based vesting condition options granted during the three months ended February 28, 2017 and February 29, 2016.

As of February 28, 2017 and February 29, 2016, there were no performance or market-based vesting condition options outstanding.

Restricted common shares

During the first quarter 2014, the Company entered into Amended and Restated Employment Agreements ("Employment Agreements") with each of the Company's Co-CEOs. Per the Employment Agreements, each of the Co-CEOs is to receive base grant equity awards in the form of restricted shares of the Company's common stock. As of December 1, 2013, David Portnoy and Mark Portnoy were granted 70,270 and 59,459 shares of the Company's common stock, respectively. The shares were issued under the Company's 2012 Stock Plan and vested 1/3 upon grant, 1/3 on December 1, 2014 and the remaining 1/3 on December 1, 2015. As of February 28, 2017 and February 29, 2016, these shares are fully vested and there was \$0 of total unrecognized compensation cost related to these shares of restricted common stock.

The Employment Agreements also provide for the grant of restricted shares of the Company's common stock based on certain performance measures being attained by each of the Company's Co-CEOs. The Employment Agreements state if David Portnoy and Mark Portnoy are employed by the Company on November 30, 2014, then no later than February 15, 2015, the Company will grant up to 186,487 and 162,163 shares of restricted common shares, respectively, based on certain performance thresholds, as defined in the agreements. In addition, if David Portnoy and Mark Portnoy are employed by the Company on November 30, 2015, then no later than February 15, 2016, the Company will grant up to an additional 186,487 and 162,163 shares of restricted common shares, respectively, based on similar performance thresholds, as defined in the agreements.

As of February 28, 2015, certain market and performance thresholds were met during fiscal year 2014 and the Board agreed to grant David Portnoy and Mark Portnoy 31,087 and 27,033 shares of restricted common shares, respectively. The fair value of these shares as of February 28, 2015 was \$134,000 and is reflected as selling, general and administrative expense in the accompanying consolidated statements of comprehensive income (loss). As of February 29, 2016, certain market and performance thresholds were met during fiscal year 2015 and the Board agreed to grant David Portnoy and Mark Portnoy 118,062 and 102,663 shares of restricted common shares, respectively. The fair value of the shares with a grant date during the 2015 fiscal year was approximately \$336,000 and is reflected as selling, general and administrative expense in the accompanying consolidated statements of comprehensive income (loss) for the year ended November 30, 2015. There was approximately \$242,000

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of total unrecognized compensation cost as of November 30, 2015 which was recognized during the first quarter of fiscal year 2016 and is reflected as selling, general and administrative expense in the accompanying consolidated statements of comprehensive income (loss) as the Board granted certain subjective performance shares with a grant date during the 2016 fiscal year.

As of April 15, 2016, the Company entered into Amended and Restated Employment Agreements (“Employment Agreements”) with each of the Company’s Co-CEOs. The Employment Agreements provide for the grant of shares of the Company’s common stock based on certain performance measures being attained by each of the Company’s Co-CEOs during fiscal year 2016. The Employment Agreements state if David Portnoy and Mark Portnoy are employed by the Company on November 30, 2016, then no later than February 28, 2017, the Company will grant up to 186,487 and 162,163 shares of common stock. Based upon the performance measures being attained, the Company granted 183,145 and 159,257 shares of common stock to David Portnoy and Mark Portnoy, respectively. The fair value of the shares granted was approximately \$1,252,000 and was reflected as selling, general and administrative expense in the consolidated statements of comprehensive income (loss) for the year ended November 30, 2016. There was \$0 of total unrecognized compensation cost as of February 28, 2017.

As of April 18, 2016, the Company entered into a second Amendment Agreement (the “Amendment”), with the Company’s CIO Oleg Mikulinsky effective December 1, 2015, amending certain terms of the Amendment Agreement dated May 1, 2013 and Mikulinsky Employment Agreement dated March 5, 2012. The Amendment provides for the grant of shares of the Company’s common stock based on certain performance measures being attained by the Company during fiscal year 2016. The Amendment states if Executive is employed by the Company on November 30, 2016, then no later than February 28, 2017, the Company will grant Executive up to 20,000 shares of restricted stock based on performance as set forth in the Amendment. Based upon performance measures being attained, the Company granted 19,620 shares of common stock to Oleg Mikulinsky. The fair value of the shares granted was approximately \$31,747. There was \$0 of total unrecognized compensation cost as of February 28, 2017.

Note 9 – License Agreements

The Company enters into two types of licensing agreements and in both types, the Company earns revenue on the initial license fees. Under the technology agreements, the Company earns processing and storage royalties from the affiliates that process in their own facility. Under the marketing agreements, the Company earns processing and storage revenues from affiliates that store specimens in the Company’s facility in Oldsmar, Florida.

Technology Agreements

The Company has entered into a definitive License and Royalty Agreement with LifeCell International Private Limited, formerly Asia Cryo-Cell Private Limited, (“LifeCell”) to establish and market its umbilical cord blood and menstrual stem cell programs in India.

Per the License and Royalty Agreement with Lifecell, there is a \$1 Million cap on the amount of royalty due to the Company per year and a \$10 Million cap on the amount of royalties due to the Company for the term of the License and Royalty Agreement. As of February 28, 2017, Lifecell has paid the Company \$5.1 Million for royalties due under the terms of the License and Royalty Agreement.

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Marketing Agreements

The Company has definitive license agreements to market the Company's umbilical cord blood stem cell programs in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Pakistan.

For the three months ended February 28, 2017 and February 29, 2016, the Company recognized \$0 and \$0, respectively, for initial license fees and processing and storage royalties.

Note 10 – Legal Proceedings

On December 3, 2015, a complaint styled *Gary T. Brotherson, M.D., et al. v. Cryo-Cell International, Inc.*, Case No. 15-007461-CI, Circuit Court, Sixth Judicial Circuit, Pinellas County, Florida, was served on the Company, naming it as defendant and alleging, among other things, that the Company breached certain agreements with plaintiffs and seeking damages in excess of \$15,000, the jurisdictional amount of the court in which the action is pending. On January 12, 2016, the Company served its answer, affirmative defenses, and counterclaim against the plaintiffs. The Company believes the plaintiffs' claims are without merit and it intends to contest the action vigorously. At this time, it is not possible for the Company to estimate the loss or the range of possible loss in the event of an unfavorable outcome, as the ultimate resolution of the complaint is uncertain at this time. No amounts have been accrued as of February 28, 2017.

In addition, from time to time the Company is subject to proceedings, lawsuits, contract disputes and other claims in the normal course of its business. The Company believes that the ultimate resolution of current matters should not have a material adverse effect on the Company's business, consolidated financial position or results of operations. It is possible, however, that there could be an unfavorable ultimate outcome for or resolution which could be material to the Company's results of operations for a particular quarterly reporting period. Litigation is inherently uncertain and there can be no assurance that the Company will prevail. The Company does not include an estimate of legal fees and other related defense costs in its estimate of loss contingencies.

Note 11 – Share Repurchase Plan

In December 2011, the Company's Board of Directors authorized management at its discretion to repurchase up to one million (1,000,000) shares of the Company's outstanding common stock. On June 6, 2012, the Board of Directors of the Company increased the number of shares of the Company's outstanding common stock that management is authorized to repurchase to up to three million (3,000,000). On April 8, 2015, the Board of Directors of the Company increased the number of shares of the Company's outstanding common stock that management is authorized to repurchase to up to six million (6,000,000) shares. On October 6, 2016, the Board of Directors of the Company increased the number of shares of the Company's outstanding common stock that management is authorized to repurchase to up to eight million (8,000,000) shares. The repurchases must be effectuated through open market purchases, privately negotiated block trades, unsolicited negotiated transactions, and/or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission or in such other manner as will comply with the provisions of the Securities Exchange Act of 1934.

On June 30, 2015, the Company commenced a partial tender offer to purchase up to 750,000 shares of its common stock, at a price of \$3.25 per share. The maximum number of shares proposed to be purchased in the tender offer represented 7.76% of Cryo-Cell's outstanding common shares (including shares of unvested restricted stock) as of June 30, 2015. On June 29, 2015, the last trading day prior to the commencement of the tender offer, the last sale price of Cryo-Cell's shares reported on the OTCBB was \$2.29 per share. The tender offer expired on July 28, 2015. Cryo-Cell accepted for purchase 557,805 shares of its common stock, including all "odd lots" properly tendered, at a purchase price of \$3.25 per share, for an aggregate cost of \$1,812,866 excluding fees and expenses relating to the tender offer.

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On June 20, 2016, the Company entered into a Stock Purchase Agreement with Ki Yong Choi and Michael Cho. Pursuant to the Stock Purchase Agreement, the Company purchased 2,179,068 Shares from Ki Yong Choi and 13,416 Shares from Michael Cho for \$4.50 per share, \$9,866,178 in the aggregate, that was funded through the proceeds of a term loan for approximately \$8 million in senior credit facilities and the remainder through the working capital of the Company.

As of February 28, 2017, the Company had repurchased an aggregate of 5,733,900 shares of the Company's common stock at an average price of \$3.35 per share through open market and privately negotiated transactions. The Company purchased 19,729 and 133,575 shares of the Company's common stock during the first quarters of fiscal 2017 and 2016, respectively, at an average price of \$4.50 per share and \$3.06 per share, respectively.

The repurchased shares will be held as treasury stock at cost and have been removed from common shares outstanding as of February 28, 2017 and November 30, 2016. As of February 28, 2017 and November 30, 2016, 5,734,597 and 5,714,868 shares, respectively, were held as treasury stock.

Subsequent to the balance sheet date, the Company repurchased an additional 4,265 shares of the Company's common stock at an average price of 4.54 per share through open market and privately negotiated transactions.

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

Forward Looking Statements

This Form 10-Q, press releases and certain information provided periodically in writing or orally by the Company's officers or its agents may contain statements which constitute "forward-looking statements". The terms "Cryo-Cell International, Inc.," "Cryo-Cell," "Company," "we," "our" and "us" refer to Cryo-Cell International, Inc. The words "expect," "anticipate," "believe," "goal," "strategy," "plan," "intend," "estimate" and similar expressions and variations thereof, if used, are intended to specifically identify forward-looking statements. Those statements appear in a number of places in this Form 10-Q and in other places, and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things:

- (i) our future performance and operating results;
- (ii) our future operating plans;
- (iii) our liquidity and capital resources; and
- (iv) our financial condition, accounting policies and management judgments.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include:

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- (i) any adverse effect or limitations caused by recent increases in government regulation of stem cell storage facilities;
- (ii) any increased competition in our business including increasing competition from public cord blood banks particularly in overseas markets but also in the U.S.;
- (iii) any decrease or slowdown in the number of people seeking to store umbilical cord blood stem cells or decrease in the number of people paying annual storage fees;
- (iv) any new services relating to other types of stem cells that have not yet been offered commercially, and there is no assurance that other stem cell services will be launched or will gain market acceptance;
- (v) any adverse impacts on revenue or operating margins due to the costs associated with increased growth in our business, including the possibility of unanticipated costs relating to the operation of our facility and costs relating to the commercial launch of new types of stem cells;
- (vi) any unique risks posed by our international activities, including but not limited to local business laws or practices that diminish our affiliates' ability to effectively compete in their local markets;
- (vii) any technological or medical breakthroughs that would render our business of stem cell preservation obsolete;
- (viii) any material failure or malfunction in our storage facilities; or any natural disaster or act of terrorism that adversely affects stored specimens;
- (ix) any adverse results to our prospects, financial condition or reputation arising from any material failure or compromise of our information systems;
- (x) the costs associated with defending or prosecuting litigation matters, particularly including litigation related to intellectual property, and any material adverse result from such matters;
- (xi) the success of our licensing agreements and their ability to provide us with royalty fees;
- (xii) any difficulties and increased expense in enforcing our international licensing agreements;
- (xiii) any adverse performance by or relations with any of our licensees;
- (xiv) any inability to enter into new licensing arrangements including arrangements with non-refundable upfront fees;
- (xv) any inability to realize cost savings as a result of recent acquisitions;
- (xvi) any inability to realize a return on an investment;
- (xvii) any increased U.S. income tax expense as a result of inability to utilize or exhaustion of net operating losses;

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- (xviii) any adverse impact on our revenues and operating margins as a result of discounting of our services in order to generate new business in tough economic times where consumers are selective with discretionary spending;
- (xix) the success of our global expansion initiatives;
- (xx) our actual future ownership stake in future therapies emerging from our collaborative research partnerships;
- (xxi) our ability to minimize our future costs related to R&D initiatives and collaborations and the success of such initiatives and collaborations;
- (xxii) any inability to successfully identify and consummate strategic acquisitions;
- (xxiii) any inability to realize benefits from any strategic acquisitions;
- (xxiv) the Company's ability to realize a profit on the acquisition of Prepacyte-CB;
- (xxv) the costs associated with proxy contests and its impact on our business and
- (xxvi) other factors many of which are beyond our control.

We undertake no obligation to publicly update or revise the forward-looking statements made in this Form 10-Q to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Cryo-Cell International, Inc. undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K filed by the Company and any Current Reports on Form 8-K filed by the Company.

Overview

The Company's principal sources of revenues are service fees for cord blood processing and preservation for new customers and recurring annual storage fees. Effective April 2016, the Company offers two pricing models, a standard plan and premium plan. The Company charges fees of \$1,600 for the standard plan and \$1,950 for the premium plan to new clients for the collection kit, processing, testing and return medical courier service, with discounts in the case of multiple children from the same family and in other circumstances. The Company charges an annual storage fee of \$150 for new clients that enroll in the standard and premium plans; storage fees for existing customers depend on the contracts with such customers. The Company continues to offer a one-time payment plan for 21 years of storage and a life-time payment plan, pursuant to which the client is charged \$4,099 for the standard plan and \$4,449 for the premium plan and \$6,000 for the standard plan and \$7,000 for the premium plan, respectively, less discounts in the case of multiple children from the same family and in other circumstances. The one-time plan includes the collection kit, processing and testing, return medical courier service and 21 years of pre-paid storage fees. The life-time plan includes the collection kit, processing and testing, return medical courier service and pre-paid storage fees for the life of the client. The Company also receives other income from licensing fees and royalties from global affiliates.

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On June 11, 2015, the Company entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Cytomedical Design Group LLC ("CMDG"), for the purchase of certain assets and assumption of certain liabilities and contracts that CMDG used in the operation of its cord blood business. The PrepaCyte CB Processing System is used in cell processing laboratories to process and store stem cells from umbilical cord blood. The purchase price was \$2,400,000, plus the value of inventory, comprised of \$1,553,272 in cash and assumed liabilities less any prepayment made by the Company to CMDG.

During the three months ended February 28, 2017, the Company's revenues increased 12% as compared to the same period in 2016. The Company reported net income of approximately \$487,000, or \$0.07 per basic common share for the three months ended February 28, 2017 compared to a net loss of approximately (\$123,000) or (\$0.01) per basic common share for the same period in 2016. Net income for the three months ended February 28, 2017 principally resulted from a 12% increase in revenue and a 13% decrease in selling, general and administrative expenses. This was partially offset by a 16% increase in cost of sales.

At February 28, 2017, the Company had cash and cash equivalents of \$3,507,270. The Company's cash increased by approximately \$7,000 during the first three months of fiscal 2017. Cash provided by operations was approximately \$429,000 and cash provided by the sale of marketable securities was approximately \$136,000 which were offset by approximately \$89,000 used for stock repurchases and \$500,000 used to repay the note payable. On May 20, 2016, the Company entered into a Credit Agreement ("Agreement") with Texas Capital Bank, National Association ("TCB") for a term loan of \$8.0 million in senior credit facilities. The proceeds of the term loan were used by the Company to fund repurchases of the Company's common stock. Subject to the terms of the Agreement, on May 20, 2016, TCB advanced the Company \$100,000. On July 1, 2016, TCB advanced the remaining principal amount of \$7,999,900 per a promissory note dated May 20, 2016 between the Company and TCB. On May 20, 2016, the Company entered into a Subordination Agreement with Texas Capital Bank and CrowdOut Capital LLC ("CrowdOut") for a subordinated loan of the principal amount of \$650,000, which amount CrowdOut advanced to the Company on May 20, 2016. The proceeds of the subordinated loan will be used by the Company to fund continued repurchases of the Company's common stock.

On August 26, 2016, the Company entered into a First Amendment to Credit Agreement with TCB. Pursuant to terms of the First Amendment to Credit Agreement, on August 26, 2016, TCB made an additional advance to the Company in principal amount of \$2,133,433 per an Amended and Restated Promissory Note dated August 26, 2016 between the Company and TCB. The proceeds of the term loan were used by the Company to fund a portion of the Settlement Agreement and Release of All Claims with Charles D. Nyberg and Mary J. Nyberg, individually and as Trustees of the CDMJ Nyberg Family Trust.

Consistent with its fiduciary duties, the board of directors and management has reviewed and will continue to review strategic options and opportunities for the Company, in order to maximize shareholder value. These options may include, but are not limited to, strategic mergers or acquisitions, investments in other public and/or private companies, repurchases of RSA interests, a deregistration of the Company's common stock under the Securities Exchange Act of 1934 or a going-private transaction. These options may or may not be related to the Company's current business. In order to undertake any of the aforementioned activities, the Company may take on substantial debt or equity capital which could increase the risk of investment in the Company.

Results of Operations

Revenues. Revenues for the three months ended February 28, 2017 were \$5,776,624 as compared to \$5,152,198 for the same period in 2016, a 12% increase. The increase in revenue was primarily attributable to a 12% increase in processing and storage fees.

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Processing and Storage Fees. The increase in processing and storage fee revenue is attributable to a 10% increase in recurring annual storage fee revenue and a 15% increase in the number of new cord blood specimens processed in the first quarter of fiscal 2017 versus the same period in 2016.

Product Revenue. On June 11, 2015, the Company entered into an Asset Purchase Agreement as described in Note 2 of the Company's financial statements. For the three months ended February 28, 2017, revenue from the product sales was \$164,800 compared to \$131,739 for the three months ended February 29, 2016.

Licensee Income. Licensee income for the three months ended February 28, 2017, was \$0 as compared to \$0 for the 2016 period.

Per the License and Royalty Agreement with Lifecell, there is a \$1,000,000 cap on the amount of royalty due to the Company per year and a \$10,000,000 cap on the amount of royalties due to the Company for the term of the License and Royalty Agreement. As of February 28, 2017, Lifecell has paid the Company \$5,100,000 for royalties due under the terms of the License and Royalty Agreement.

Cost of Sales. Cost of sales for the three months ended February 28, 2017 was \$1,516,097 as compared to \$1,348,291 for the same period in 2016, representing a 12% increase. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and depreciation expense of approximately \$26,000 and \$33,000 for the three months ended February 28, 2017 and February 29, 2016, respectively. Also, included in Cost of Sales is \$122,302 and \$103,268 related to the costs associated with production of the Prepacyte®-CB processing and storage system for the three months ended February 28, 2017 and February 29, 2016, respectively. The increase in cost of sales for the three months ended February 28, 2017 versus February 29, 2016 is due to the increased costs associated with the 15% increase in the number of new cord blood specimens processed in the first quarter of fiscal 2017 versus the first quarter of fiscal 2016.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended February 28, 2017 were \$3,098,155 as compared to \$3,597,253 for the 2016 period representing a 14% decrease. These expenses are primarily comprised of expenses for consumer advertising, salaries and wages for personnel and professional fees. The decrease in selling, general and administrative expenses is primarily due to approximately \$152,000 or 10% decrease in selling and marketing expenses which is mainly due to an expenditure of \$250,000 during the three months ended February 29, 2016 which was related to the implementation of a new consumer marketing campaign. This was partially offset by an increase of approximately 15% or \$78,000 in printing and advertising. Also, contributing to the decrease in selling, general and administrative expenses is a decrease of approximately \$175,000 in stock compensation expense and a decrease of approximately \$112,000 in professional fees related to accounting services.

Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the three months ended February 28, 2017 were \$14,616 as compared to \$8,684 for the three months ended February 29, 2016.

Depreciation and Amortization. Depreciation and Amortization (not included in Cost of Sales) for the three months ended February 28, 2017 was \$31,630 compared to \$41,548 for the 2016 period.

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Interest Expense. Interest expense for the three months ended February 28, 2017 were \$297,044 compared to \$261,334 for the three months ended February 29, 2016. Interest expense for the three months ended February 28, 2017 and February 29, 2016 was \$0 and of \$14,391, respectively, related to the repayment of the note payable as a result of the Asset Purchase Agreement (Note 2 and Note 6) and \$121,988 and \$0, respectively, related to the credit and subordination agreements with Texas Capital Bank, National Association and CrowdOut Capital LLC as described in Note 6. The remaining interest expense is mainly comprised of amounts due to the parties to the Company's revenue sharing agreements ("RSAs") based on the Company's storage revenue collected.

Income Taxes. Income tax expense for the three months ended February 28, 2017 was \$305,717. There was no U.S. income tax expense for the three months ended February 29, 2016 due to the utilization of net operating losses and foreign tax credit carryforwards, which were not previously benefited in the Company's financial statements.

Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The ultimate realization of our deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, we must project future levels of taxable income. This assessment requires significant judgment. We examine the evidence related to the recent history of tax losses, the economic conditions in which we operate and our forecasts and projections to make that determination.

The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recorded \$0 and \$0 for the three months ended February 28, 2017 and February 29, 2016, respectively, of foreign income tax expense, which is included in income tax expense in the accompanying consolidated statements of comprehensive loss.

Liquidity and Capital Resources

On May 20, 2016, the Company entered into a Credit Agreement ("Agreement") with Texas Capital Bank, National Association ("TCB") for a term loan of \$8.0 million in senior credit facilities. The proceeds of the term loan were used by the Company to fund repurchases of the Company's common stock. Subject to the terms of the Agreement, on May 20, 2016, TCB advanced the Company \$100,000. On July 1, 2016, TCB advanced the remaining principal amount of \$7,999,900 per a promissory note dated May 20, 2016 between the Company and TCB. On May 20, 2016, the Company entered into a Subordination Agreement with Texas Capital Bank and CrowdOut Capital LLC ("CrowdOut") for a subordinated loan of the principal amount of \$650,000, which amount CrowdOut advanced to the Company on May 20, 2016. The proceeds of the subordinated loan will be used by the Company to fund continued repurchases of the Company's common stock. Per a promissory note dated May 20, 2016 between the Company and CrowdOut, interest at 12% per annum on the principal sum of \$650,000 is payable monthly with a maturity date of July 2021, at which time, the principal amount of \$650,000 is payable.

On August 26, 2016, the Company entered into a First Amendment to Credit Agreement with TCB. Pursuant to terms of the First Amendment to Credit Agreement, on August 26, 2016, TCB made an additional advance to the Company in principal amount of \$2,133,433 per an Amended and Restated Promissory Note dated August 26, 2016 between the Company and TCB. The additional proceeds of the term loan were used by the Company to fund a portion of the Settlement Agreement and Release of All Claims with Charles D. Nyberg and Mary J. Nyberg, individually and as Trustees of the CDMJ Nyberg Family Trust as described in Note 12.

Prior to the loans, the Company's principal source of cash has been from sales of its umbilical cord blood program to customers and royalties from licensees.

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At February 28, 2017, the Company had cash and cash equivalents of \$3,507,270 as compared to \$3,499,881 at November 30, 2016. The increase in cash and cash equivalents during the three months ended February 28, 2017 was primarily attributable to the following:

Net cash provided by operating activities for the three months ended February 28, 2017 was \$429,059 which was primarily attributable to the Company's operating results and an increase in the Company's new clients choosing the prepaid storage plans versus the annual storage fee plan.

Net cash provided by operating activities for the three months ended February 29, 2016 was \$101,417, which was primarily attributable to the Company's operating results.

Net cash provided by investing activities for the three months ended February 28, 2017 was \$133,525, which was primarily attributable to sales and purchases of marketable securities and other investments in the amount of \$136,446 slightly offset by the purchases of property and equipment in the amount of \$2,921.

Net cash used in investing activities for the three months ended February 29, 2016 was \$188,017, which was primarily attributable to the purchases of property and equipment in the amount of \$30,723 and sales and purchases of marketable securities and other investments in the amount of \$157,238.

Net cash used by financing activities for the three months ended February 28, 2017 was \$555,195 which was primarily attributable to the stock repurchase plan pursuant to which the Company has repurchased 19,729 shares of the Company's common stock for approximately \$89,000 and \$500,000 used to repay the note payable described above.

Net cash used by financing activities for the three months ended February 29, 2016 was \$483,826 which was primarily attributable to the stock repurchase plan pursuant to which the Company has repurchased 133,575 shares of the Company's common stock for approximately \$408,000.

The Company does not have a line of credit.

The Company anticipates making discretionary capital expenditures of approximately \$500,000 over the next twelve months for software enhancements and purchases of property and equipment. The Company anticipates funding future property and equipment purchases with cash-on-hand and cash flows from future operations.

The Company anticipates that its cash and cash equivalents, marketable securities and cash flows from future operations will be sufficient to fund its known cash needs for at least the next 12 months. Cash flows from operations will depend primarily upon increasing revenues from sales of its umbilical cord blood and cord tissue cellular storage services and managing discretionary expenses. If expected increases in revenues are not realized, or if expenses are higher than anticipated, the Company may be required to reduce or defer cash expenditures or otherwise manage its cash resources during the next 12 months so that they are sufficient to meet the Company's cash needs for that period. In addition, the Company may consider seeking equity or debt financing if deemed appropriate for its plan of operations, and if such financing can be obtained on acceptable terms. There is no assurance that any reductions in expenditures, if necessary, will not have an adverse effect on the Company's business operations, including sales activities and the development of new services and technology.

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Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. For a full discussion of our accounting policies please refer to Note 1 to the Consolidated Financial Statements included in our 2016 Annual Report on Form 10-K filed with the SEC. Our most critical accounting policies and estimates include: recognition of revenue and the related allowance for doubtful accounts, stock-based compensation, income taxes and license and revenue sharing agreements. We continually evaluate our judgments, estimates and assumptions. We base our estimates on the terms of underlying agreements, historical experience and other factors that we believe are reasonable based on the circumstances, the results of which form our management's basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our 2016 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonable likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on their most recent review, as of the end of the period covered by this report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective, and that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are ineffective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The Company has not made an amended 8-K filing with respect to the Current Reports on Form 8-K that was filed on July 16, 2015 to announce the acquisition of Prepacyte. Accordingly, the Company is not deemed a timely filer. Management intends to subsequently make this amended 8-K filing to include the required pre-acquisition financial statements of Prepacyte as well as the required pro forma financial information.

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Changes in Internal Control Over Financial Reporting

There were no other changes in the Company's internal controls over financial reporting during the three months ended February 28, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Co-CEOs and CFO, does not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO and CFO Certifications

Appearing as exhibits 31.1, 31.2 and 31.3 to this report there are Certifications of the Co-CEOs and the CFO. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This Item of this report is the information concerning the evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 3, 2015, a complaint styled *Gary T. Brotherson, M.D., et al. v. Cryo-Cell International, Inc.*, Case No. 15-007461-CI, Circuit Court, Sixth Judicial Circuit, Pinellas County, Florida, was served on the Company, naming it as defendant and alleging, among other things, that the Company breached certain agreements with plaintiffs and seeking damages in excess of \$15,000, the jurisdictional amount of the court in which the action is pending. On January 12, 2016, the Company served its answer, affirmative defenses, and counterclaim against the plaintiffs. The Company believes the plaintiffs' claims are without merit and it intends to contest the action vigorously. At this time, it is not possible for the Company to estimate the loss or the range of possible loss in the event of an unfavorable outcome, as the ultimate resolution of the complaint is uncertain at this time. No amounts have been accrued as of February 28, 2017.

In addition, from time to time the Company is subject to proceedings, lawsuits, contract disputes and other claims in the normal course of its business. The Company believes that the ultimate resolution of current matters should not have a material adverse effect on the Company's business, consolidated financial position or results of operations. It is possible, however, that there could be an unfavorable

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ultimate outcome for or resolution which could be material to the Company's results of operations for a particular quarterly reporting period. Litigation is inherently uncertain and there can be no assurance that the Company will prevail. The Company does not include an estimate of legal fees and other related defense costs in its estimate of loss contingencies.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASE OF EQUITY SECURITIES

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
December 1 – 31, 2016	7,207	\$ 4.26	7,207	2,278,622
January 1 – 31, 2017	5,194	\$ 4.69	5,194	2,273,428
February 1 – 28, 2017	7,328	\$ 4.59	7,328	2,266,100

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

- 31.1 Certification of Co-CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *(filed herewith)*.
- 31.2 Certification of Co-CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *(filed herewith)*.
- 31.3 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *(filed herewith)*.
- 32 Certification 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.DEF XBRL Taxonomy Extension Definition Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Cryo-Cell International, Inc.

/s/ DAVID PORTNOY

David Portnoy
Co-Chief Executive Officer

Cryo-Cell International, Inc.

/s/ MARK PORTNOY

Mark Portnoy
Co-Chief Executive Officer

Cryo-Cell International, Inc.

/s/ JILL M. TAYMANS

Jill M. Taymans
Vice President, Finance, Chief Financial Officer

Date: April 13, 2017

CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER

I, David Portnoy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cryo-Cell International, Inc. (the “Registrant”);
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 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 registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) 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) for the Registrant 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 Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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 Registrant’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 Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting;
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’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 Registrant’s internal control over financial reporting.

Dated: April 13, 2017

/s/ David Portnoy
David Portnoy

CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER

I, Mark Portnoy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cryo-Cell International, Inc. (the “Registrant”);
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 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 registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) 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) for the Registrant 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 Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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 Registrant’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 Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting;
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’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 Registrant’s internal control over financial reporting.

Dated: April 13, 2017

/s/ Mark Portnoy
Mark Portnoy

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jill M. Taymans, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cryo-Cell International, Inc. (the “Registrant”);
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 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 registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) 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) for the Registrant 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 Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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 Registrant’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 Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting;
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’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 Registrant’s internal control over financial reporting.

Dated: April 13, 2017

/s/ Jill M. Taymans
Jill M. Taymans

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 Quarterly Report of Cryo-Cell International, Inc. (the "Company") on Form10-Q for the quarter ended February 28, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Portnoy, Co-Chief Executive Officer of the Company, I, Mark Portnoy, Co-Chief Executive Officer of the Company and I, Jill M. Taymans, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities 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.

/s/ David Portnoy
David Portnoy
Co-Chief Executive Officer

April 13, 2017

/s/ Mark Portnoy
Mark Portnoy
Co-Chief Executive Officer

April 13, 2017

/s/ Jill M. Taymans
Jill M. Taymans
Vice President, Finance (Chief Financial Officer)

April 13, 2017