

CRYO CELL INTERNATIONAL INC

Form 10-Q

October 17, 2016

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**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 August 31, 2016**

**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**

**22-3023093**  
**(I.R.S. Employer**

**Incorporation or Organization)**

**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, a non-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 October 10, 2016, 12,504,464 shares of \$0.01 par value common stock were issued and 6,796,421 were outstanding.

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**CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES**

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## CONSOLIDATED BALANCE SHEETS

	August 31, 2016 (Unaudited)	November 30, 2015
<b><u>ASSETS</u></b>		
<b><u>Current Assets</u></b>		
Cash and cash equivalents	\$ 2,026,199	\$ 4,152,162
Restricted cash		204,344
Marketable securities	630,023	610,424
Accounts receivable (net of allowance for doubtful accounts of \$2,289,644 and \$2,067,130, respectively)	4,381,110	3,058,379
Deferred tax assets, current portion	2,178,000	1,336,000
Prepaid expenses	472,146	427,819
Inventory, net	410,885	475,608
Other current assets	46,838	88,392
<b>Total current assets</b>	<b>10,145,201</b>	<b>10,353,128</b>
<b><u>Property and Equipment-net</u></b>	<b>993,409</b>	<b>879,070</b>
<b><u>Other Assets</u></b>		
Intangible assets, net	266,809	516,328
Goodwill	111,392	1,777,822
Deferred tax assets, net of current portion	5,999,974	5,930,987
Deposits and other assets, net	25,500	40,611
<b>Total other assets</b>	<b>6,403,675</b>	<b>8,265,748</b>
<b>Total assets</b>	<b>\$ 17,542,285</b>	<b>\$ 19,497,946</b>
<b><u>LIABILITIES AND STOCKHOLDERS DEFICIT</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts payable	\$ 1,605,411	\$ 1,328,619
Accrued expenses	1,719,313	2,005,351
Current portion of note payable	2,000,000	307,420
Deferred revenue	7,086,515	6,782,562
<b>Total current liabilities</b>	<b>12,411,239</b>	<b>10,423,952</b>
<b><u>Other Liabilities</u></b>		
Deferred revenue, net of current portion	12,071,215	10,869,218
Note payable, net of current portion	8,650,100	868,947
Long-term liability - revenue sharing agreements	1,425,000	2,300,000

Total other liabilities	22,146,315	14,038,165
Total liabilities	34,557,554	24,462,117
Commitments and contingencies (Note 12)		
<b>Stockholders Deficit</b>		
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; 12,504,464 issued and 6,825,413 outstanding as of August 31, 2016 and 12,260,340 issued and 9,010,322 outstanding as of November 30, 2015)	125,044	122,603
Additional paid-in capital	29,389,683	28,530,368
Treasury stock, at cost	(18,986,430)	(8,318,083)
Accumulated other comprehensive income	55,590	169,932
Accumulated deficit	(27,599,156)	(25,468,991)
Total stockholders deficit	(17,015,269)	(4,964,171)
Total liabilities and stockholders deficit	\$ 17,542,285	\$ 19,497,946

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

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	For the Three Months		For the Nine Months Ended	
	Ended August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
<b>Revenue:</b>				
Processing and storage fees	\$ 5,634,758	\$ 5,000,731	\$ 16,004,962	\$ 14,519,177
Licensee and royalty income	609,045	169,411	965,977	508,235
Product revenue	88,135	265,848	286,253	265,848
<b>Total revenue</b>	<b>6,331,938</b>	<b>5,435,990</b>	<b>17,257,192</b>	<b>15,293,260</b>
<b>Costs and Expenses:</b>				
Cost of sales	1,551,231	1,507,393	4,330,622	4,158,767
Selling, general and administrative expenses	3,911,559	2,628,970	10,914,524	8,549,722
Impairment of goodwill and intangible assets	1,877,697		1,877,697	
Research, development and related engineering	13,780	9,952	34,452	32,471
Depreciation and amortization	39,746	25,359	123,166	60,702
<b>Total costs and expenses</b>	<b>7,394,013</b>	<b>4,171,674</b>	<b>17,280,461</b>	<b>12,801,662</b>
<b>Operating (Loss) Income</b>	<b>(1,062,075)</b>	<b>1,264,316</b>	<b>(23,269)</b>	<b>2,491,598</b>
<b>Other Income (Expense):</b>				
Other expense	(29,297)	(11,469)	(47,968)	(4,142)
Interest expense	(199,439)	(353,534)	(804,236)	(1,024,621)
Gain on extinguishment of debt			300,593	
Loss on extinguishment of revenue sharing agreement	(2,252,388)		(2,252,388)	
<b>Total other expense</b>	<b>(2,481,124)</b>	<b>(365,003)</b>	<b>(2,803,999)</b>	<b>(1,028,763)</b>
Income (Loss) before equity in losses of affiliate and income tax expense	(3,543,199)	899,313	(2,827,268)	1,462,835
Equity in losses of affiliate		(1,164)		(17,660)
Income (Loss) before income tax expense	(3,543,199)	898,149	(2,827,268)	1,445,175
Income tax benefit	898,838	6,931,423	697,103	6,880,599
<b>Net (Loss) Income</b>	<b>\$ (2,644,361)</b>	<b>\$ 7,829,572</b>	<b>\$ (2,130,165)</b>	<b>\$ 8,325,774</b>

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Net (loss) income per common share - basic	\$ (0.35)	\$ 0.83	\$ (0.25)	\$ 0.86
Weighted average common shares outstanding - basic	7,583,771	9,462,102	8,546,110	9,697,679
Net (loss) income per common share - diluted	\$ (0.35)	\$ 0.80	\$ (0.25)	\$ 0.84
Weighted average common shares outstanding - diluted	7,583,771	9,750,197	8,546,110	9,945,618
<b>Other Comprehensive (Loss) Income</b>				
Unrealized (loss) gain on marketable securities (net of tax)	\$ (14,122)	\$ (82,958)	\$ (114,342)	\$ 143,318
<b>Comprehensive (Loss) Income</b>	<b>\$ (2,658,483)</b>	<b>\$ 7,746,614</b>	<b>\$ (2,244,507)</b>	<b>\$ 8,469,092</b>

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

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended	
	August 31, 2016	August 31, 2015
Net (loss) income	\$ (2,130,165)	\$ 8,325,774
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	222,513	174,964
Impairment of goodwill and intangible assets	1,877,697	
Compensatory element of stock options	821,416	304,585
Provision for doubtful accounts	578,860	149,596
Equity in losses of affiliate		17,660
Gain on extinguishment of debt	(300,593)	
Loss on extinguishment of revenue sharing agreements	2,252,388	
Deferred income tax benefit	(842,000)	(6,956,834)
Changes in assets and liabilities:		
Accounts receivable	(1,901,591)	(240,369)
Prepaid expenses	(44,327)	159,163
Inventory	64,723	53,746
Other current assets	41,554	25,483
Deposits and other assets, net	15,111	10,548
Accounts payable	449,541	455,532
Accrued expenses	(186,175)	(789,783)
Deferred revenue	1,505,950	1,173,443
<b>Net cash provided by operating activities</b>	<b>2,424,902</b>	<b>2,863,508</b>
<b>Cash flows from investing activities:</b>		
Release of restricted cash held in escrow	204,344	(148)
Purchases of property and equipment	(298,600)	(54,691)
Purchase of Prepacyte		(212,203)
Purchases of marketable securities and other investments, net	(202,928)	(214,520)
<b>Net cash used in investing activities</b>	<b>(297,184)</b>	<b>(481,562)</b>
<b>Cash flows from financing activities:</b>		
Extinguishment of revenue sharing agreements	(3,400,000)	
Treasury stock purchases	(10,668,347)	(2,946,705)
Repayments of note payable	(1,009,107)	(49,145)
Proceeds from the exercise of stock options	40,340	54,100
Proceeds from note payable	10,783,433	



<b>Net cash used in financing activities</b>	(4,253,681)	(2,941,750)
<b>Decrease in cash and cash equivalents</b>	(2,125,963)	(559,804)
Cash and cash equivalents - beginning of period	4,152,162	3,279,267
Cash and cash equivalents - end of period	\$ 2,026,199	\$ 2,719,463
<b>Supplemental non-cash investing activities:</b>		
Unrealized (loss) gain on marketable securities	\$ (114,342)	\$ 143,318
Increase of note payable in connection with the purchased business	\$	\$ 1,300,000
Increase in accrued expenses in connection with the purchased business	\$	\$ 586,675
Decrease in prepaid expenses in connection with the purchased business	\$	\$ 104,000

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

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**CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**August 31, 2016**

**(Unaudited)**

**Note 1 - Basis of Presentation and Significant Accounting Policies**

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of August 31, 2016 and November 30, 2015, the related Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended August 31, 2016 and August 31, 2015 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2016 and 2015 have been prepared by Cryo-Cell International, Inc. and its subsidiaries ( the Company or Cryo-Cell ) 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, 2015 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 and nine months ended August 31, 2016 are not necessarily indicative of the results expected for any interim period in the future or the entire year ending November 30, 2016.

**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 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.



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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 sublicensee 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. During the third quarter of fiscal 2015, the Company evaluated the reserve against the accounts receivable from the Company's affiliate in India. The Company determined that reserve of \$287,000 could be reversed due to evidence that India would pay the Company and recorded the amount in selling, general and administrative expenses on the accompanying consolidated statements of comprehensive (loss) income.

## **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 \$2,630,000 as of both August 31, 2016 and November 30, 2015, 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



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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.

For the three months ended August 31, 2016, there was income tax benefit of \$898,838. For the nine months ended August 31, 2016, there was an income tax benefit of \$697,103. There was approximately \$990,000 and \$842,000 of U.S. income tax benefit for the three and nine months ended August 31, 2016. The income tax benefit as of the three and nine months ended August 31, 2016 was due to the Company's net operating losses as of August 31, 2016. 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. For the three and nine months ended August 31, 2016, the Company recognized approximately \$91,000 and \$145,000, respectively. Foreign income tax expense is included in income tax expense in the accompanying consolidated statements of comprehensive (loss) income.

For the three and nine months ended August 31, 2015, the Company recorded an income tax benefit, net of foreign taxes, of \$6,931,000 and \$6,881,000, respectively, of which approximately \$6,957,000 relates to a reversal of a portion of the Company's valuation allowance for U.S. income taxes. The reversal of a portion of the deferred tax valuation allowance is based upon the Company's historical operating performance which includes profitability in ten of the last eleven quarters, steadily improving operations and positive expectations for future taxable income. 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. For the three and nine months ended August 31, 2015, the Company recognized approximately \$25,000 and \$76,000, respectively. Foreign income tax expense is included in income tax expense in the accompanying consolidated statements of comprehensive (loss) income.

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 and nine months ended August 31, 2016 and August 31, 2015, 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 and nine months ended August 31, 2016 and 2015.

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### **Stock Compensation**

As of August 31, 2016, the Company has two stock-based compensation plans, which are described in Note 10 to the unaudited consolidated financial statements. The Company's third 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 \$433,000 and \$60,000 for the three months ended August 31, 2016 and August 31, 2015, respectively, of stock-based option compensation expense. The Company recognized approximately \$821,000 and \$305,000 for the nine months ended August 31, 2016 and August 31, 2015, respectively, of stock 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 involve 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.

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.



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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 August 31, 2016 and November 30, 2015, respectively, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value at August 31, 2016	Fair Value Measurements at August 31, 2016 Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Trading securities	\$ 275,980	\$ 275,980		
Available-for-sale securities	354,043	354,043		
<b>Total</b>	<b>\$ 630,023</b>	<b>\$ 630,023</b>		
	Fair Value at	Fair Value Measurements at November 30, 2015 Using		

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Description	November 30, 2015	Level 1	Level 2	Level 3
<b>Assets:</b>				
Trading securities	\$ 136,798	\$ 136,798		
Available-for-sale securities	473,626	473,626		
<b>Total</b>	<b>\$ 610,424</b>	<b>\$ 610,424</b>		

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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 of identical securities in active markets and are therefore classified within Level 1 of the fair value hierarchy. For trading securities, there was (\$29,371) and (\$11,529) in unrealized holding loss recorded in other income and expense on the accompanying consolidated statements of comprehensive (loss) income for the three months ended August 31, 2016 and 2015. For trading securities, there was (\$50,023) and (\$4,813) in unrealized holding loss recorded in other income on the accompanying consolidated statements of comprehensive (loss) income for the nine months ended August 31, 2016 and 2015.

*Available-for-sale securities* During the second quarter of fiscal 2015, management reevaluated its marketable securities and determined that there was a change in certain securities from trading to 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. For available-for-sale securities, there was (\$14,122) and (\$82,985) in unrealized holding loss, net of tax, reported as comprehensive loss on the accompanying statements of comprehensive (loss) income for the three months ended August 31, 2016 and 2015. For available-for-sale securities, there was (\$114,342) and \$143,318 in unrealized holding loss and gain, net of tax, respectively, reported as a component of comprehensive (loss) income on the accompanying consolidated statements of comprehensive (loss) income for the nine month period ended August 31, 2016 and 2015. Additionally, there was \$0 and \$7,361 in realized gains, respectively, on the disposition of available for sale securities recorded in other income and expense on the accompanying consolidated statements of comprehensive (loss) income for the three and nine months ended August 31, 2015.

**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 will pay \$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. The product warranty and the Cryo-Cell Cares program are 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 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



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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 August 31, 2016 and November 30, 2015 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 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 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.

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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.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which requires that deferred tax assets and liabilities be classified as non-current in a classified balance sheet. This update is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. The standard permits the use of either the retrospective or prospective transition method. The adoption of this standard is expected to result in a reclassification between current and non-current deferred tax assets within the Company's consolidated balance sheets and related disclosures.

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.





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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 Acquisition**

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 has been 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. As part of the closing, Cryo-Cell paid \$861,783 as required per the Disbursement of Funds Schedule in the Amendment No. 1 to Asset Purchase Agreement ( *Amended APA* ) dated June 30, 2015 with *CMDG*, dated June 30, 2015 and a prepayment for inventory of \$104,000 paid by the Company to *CMDG* during the second quarter of fiscal 2015 was applied to the purchase. On September 30, 2015, \$662,500 was due to be paid to *CMDG*. A portion of the amount due on September 30, 2015 (\$225,000) was contingent on the number of the Company's new clients choosing to have their umbilical cord blood processed using the Prepacyte-CB product during the months of July, August and September, 2015. This amount was reduced to \$149,175. On September 30, 2015, the Company paid \$586,675 in accordance with the *APA*. In connection with the *Acquisition*, the Company incurred approximately \$22,000 in transaction costs, which were included in selling, general and administrative expenses.

The following summarizes the fair value of the consideration for the *Acquisition*:

<b>Consideration</b>	
Cash	\$ 375,374
Assumed liabilities of seller	1,073,898
Note payable to seller	1,300,000
Prepaid expense paid to seller by purchaser	104,000
<b>Consideration</b>	<b>\$ 2,853,272</b>



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The following summarizes the allocation of the total purchase price for the Acquisition:

Inventory	\$ 529,097
Tooling molds	35,353
License agreement	470,000
Customer relationships	41,000
<b>Total identifiable net assets acquired</b>	<b>1,075,450</b>
 Goodwill	 \$ 1,777,822

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.

The goodwill is attributable to the manufacturing process used in the operation of the cord blood business. The goodwill recognized will be deductible for income tax purposes.

The fair value of inventory and tooling molds were estimated by applying a comparable cost/market approach, representing Level 2 measurements. The fair value of the license agreement and customer relationships were estimated by applying an income approach, representing Level 3 measurements. The fair value estimates are based on (1) an assumed discount rate of 16%, (2) long-term sustainable growth rate of 3%, and (3) a ten and fifteen year lives for the license agreement and customer relationships, respectively.

The fair values of the license agreement and customer relationships reflect the anticipated cash flows over their expected lives.

On June 30, 2015, the Company entered into a note payable in the amount of \$1,300,000 in connection with the APA, which the Company paid in full on April 22, 2016 (Note 2).

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

**Note 3 Inventory**

The components of inventory at August 31, 2016 and November 30, 2015 are as follows:

	August 31, 2016	November 30, 2015
Raw materials	\$ 14,228	\$ 9,041
Work-in-process	81,912	134,727
Finished goods	259,530	282,152
Collection kits	62,933	57,406
Inventory reserve	(7,718)	(7,718)

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Total inventory	\$	410,885	\$	475,608
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Inventory was pledged as collateral on the note payable incurred in connection with the APA (Note 2). As of August 31, 2016, the note payable was paid in full Pursuant to the APA (Note 6).

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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. The annual impairment assessment is performed as of September 1, 2015, 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.

During the quarter ended August 31, 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.

As of August 31, 2016 and November 30, 2015, goodwill is reflected on the consolidated balance sheets at \$111,392 and \$1,777,822, respectively.

**Note 5 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.



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During the quarter ended August 31, 2016, the Company determined that there were sufficient indicators to trigger an interim goodwill impairment analysis (Note 4). 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 was recorded as of August 31, 2016.

Intangible assets were as follows as of August 31, 2016 and November 30, 2015:

	Useful lives	August 31, 2016	November 30, 2015
Patents	10-20 years	\$ 34,570	\$ 34,570
Less: Accumulated amortization		(9,472)	(8,075)
License agreement	10 years	470,000	470,000
Less: Intangible asset impairment		(185,000)	
Less: Accumulated amortization		(54,833)	(17,917)
Customer relationships	15 years	41,000	41,000
Less: Intangible asset impairment		(26,267)	
Less: Accumulated amortization		(3,189)	(3,250)
<b>Net Intangible Assets</b>		<b>\$ 266,809</b>	<b>\$ 516,328</b>

Amortization expense of intangibles was \$12,902 and \$8,933 for the three months ended August 31, 2016 and August 31, 2015, respectively. Amortization expense of intangibles was \$38,252 and \$9,864 for the nine months ended August 31, 2016 and August 31, 2015, respectively.

**Note 6 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.

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 remaining principal balance of the note payable is \$0 and \$1,176,367 and is reflected on the accompanying balance sheets as of August 31, 2016 and November 30, 2015, respectively. 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 nine months ended August 31, 2016 on the accompanying consolidated statements of comprehensive (loss) income.





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As of the three months ended August 31, 2016, the Company recognized \$0 of interest expense related to the note payable. As of the nine months ended August 31, 2016, the Company recognized \$22,265 of interest expense related to the note payable.

**Note 7 Segment Reporting**

During the third quarter of fiscal 2015, the Company purchased certain assets and assumed certain liabilities and contracts that CMDG 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 and nine months ended August 31, 2016:

	For the three months ended August 31, 2016	For the nine months ended August 31, 2016
<b>Net revenue</b>		
Umbilical cord blood and cord tissue stem cell service	\$ 6,243,803	\$ 16,970,939
Prepacyte®-CB	88,135	286,253
<b>Total net revenue</b>	<b>\$ 6,331,938</b>	<b>\$ 17,257,192</b>
<b>Cost of sales</b>		
Umbilical cord blood and cord tissue stem cell service	\$ 1,482,900	\$ 4,073,293
Prepacyte®-CB	68,331	257,329
<b>Total cost of sales</b>	<b>\$ 1,551,231</b>	<b>\$ 4,330,622</b>
<b>Depreciation and amortization</b>		
Umbilical cord blood and cord tissue stem cell service	\$ 27,310	\$ 84,542

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Prepacyte®-CB		12,436		38,624
Total depreciation and amortization	\$	39,746	\$	123,166
<b>Operating (loss) income</b>				
Umbilical cord blood and cord tissue stem cell service	\$	808,254	\$	1,864,325
Prepacyte®-CB		(1,870,329)		(1,887,594)
Total operating loss	\$	(1,062,075)	\$	(23,269)
<b>Interest expense</b>				
Umbilical cord blood and cord tissue stem cell service	\$	199,439	\$	781,971
Prepacyte®-CB				22,265
Total interest expense	\$	199,439	\$	804,236

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The following table shows the assets by segment as of August 31, 2016 and November 30, 2015:

	As of August 31, 2016	As of November 30, 2015
<b>Assets</b>		
Umbilical cord blood and cord tissue stem cell service	\$ 16,755,419	\$ 16,697,621
Prepacyte®-CB	786,866	2,800,325
Total assets	\$ 17,542,285	\$ 19,497,946

**Note 8 (Loss) Income per Common Share**

The following table sets forth the calculation of basic and diluted net (loss) income per common share:

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
<b>Numerator:</b>				
Net (Loss) Income	(\$ 2,644,361)	\$ 7,829,572	(2,130,165)	\$ 8,325,774
<b>Denominator:</b>				
Weighted-average shares outstanding-basic	7,583,771	9,462,102	8,546,110	9,697,679
Dilutive common shares issuable upon exercise of stock options		288,095		247,939
Weighted-average shares-diluted	7,583,771	9,750,197	8,546,110	9,945,618
<b>Net (loss) income per common share:</b>				
Basic	(\$ 0.35)	\$ 0.83	(\$ 0.25)	\$ 0.86
Diluted	(\$ 0.35)	\$ 0.80	(\$ 0.25)	\$ 0.84

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For the three and nine months ended August 31, 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.

For the three and nine months ended August 31, 2015, the Company excluded the effect of 225,000 and 287,500, respectively, outstanding 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 9 - Investment in Saneron CCEL Therapeutics, Inc. ( Saneron )**

As of August 31, 2016 and November 30, 2015, the Company had an ownership interest of approximately 33% in Saneron, which is accounted for under the equity method. As of August 31, 2016 and November 30, 2015, the net Saneron investment, which represents underlying goodwill, is reflected on the consolidated balance sheets is \$0. During 2015 management reviewed the Saneron investment to determine if there were any indicators that would imply that the investment was impaired. Based on management's review, there was evidence of a loss in value in the fourth quarter of 2015 and the Company impaired the net Saneron investment, resulting in a charge of approximately \$684,000. The main factors that led to this decision included a decline in grant funding, reduction in employees, and the inability to sustain research activities due to lack of funding. Without the ability to perform current and future research activities, management believes the carrying amount of the investment is impaired and not recoverable.

In October 2013, the Company entered into a Convertible Promissory Note Purchase Agreement with Saneron. Cryo-Cell will loan Saneron in quarterly payments an aggregate amount up to \$300,000, subject to certain conditions. The initial loan amount was \$150,000 to be paid in four quarterly installments of \$37,500 per quarter. If after the initial loan amount, Saneron has made best efforts, satisfactory to Cryo-Cell in its sole discretion, to have started independently or via serving as a sponsor of a clinical trial related to its U-CORD-CELL program, then Cryo-Cell will agree to lend Saneron an additional \$150,000 through a series of four additional quarterly payments of \$37,500. Upon receipt of each quarterly payment, Saneron will deliver a convertible promissory note ( Note ) that matures five years from the date of the Note. Upon maturity of any Note, Saneron will have the option to repay all or a portion of the loan in cash or convert the outstanding principal and accrued interest under the applicable Note(s) into shares of Saneron common stock. The Company made five payments of \$37,500 through November 30, 2014. The Company has made no additional payments through August 31, 2016.

For the three and nine months ended August 31, 2016, the Company recorded equity in losses of Saneron operations of \$0. For the three and nine months ended August 31, 2015, the Company recorded equity in losses of Saneron operations of \$1,000 and \$18,000, respectively, which solely related to certain stock and warrant awards in Saneron common stock that were granted by Saneron at below fair value to certain employees, consultants and members of Saneron management who represent owners of Saneron and serve on its board of directors.

## **Note 10 Stockholders Equity**

### **Employee Stock Incentive Plan**

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 August 31, 2016 and November



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30, 2015, there were 572,281 and 568,930 options issued, but not yet exercised, under the 2006 Plan, respectively. As of August 31, 2016, there were 221,179 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 August 31, 2016, there were 569,729 service-based options issued, 129,729 service-based restricted common shares granted, 278,948 performance-based and 116,240 market-based restricted common shares granted under the 2012 Plan. As of November 30, 2015, there were 400,000 service-based options issued, 129,729 service-based restricted common shares granted, 203,403 performance-based and 116,240 market-based restricted common shares granted under the 2012 Plan. As of August 31, 2016, there were 1,405,354 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 35,000 and 204,729 options granted during the three and nine months ended August 31, 2016.

There were 22,500 options granted during the three and nine months ended August 31, 2015.

Variables used to determine the fair value of the options granted for the three and nine months ended August 31, 2016 and August 31, 2015, respectively, are as follows:

	Three Months Ended August 31, 2016	Three Months Ended August 31, 2015	Nine Months Ended August 31, 2016	Nine Months Ended August 31, 2015
<b>Weighted average values:</b>				
Expected dividends	0%	0%	0%	0%
Expected volatility	66.09%	75.50%	66.39%	75.50%
Risk free interest rate	1.09%	1.57%	1.22%	1.57%
Expected life	5.0 years	5.0 years	5.6 years	5.0 years

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Stock option activity for options with only service-based vesting conditions for the nine months ended August 31, 2016, was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2015	968,930	\$ 2.17	5.01	\$ 1,095,525
Granted	204,729	3.19		155,830
Exercised	(23,399)	1.72		51,384
Expired/forfeited	(8,250)	2.18		14,565
<b>Outstanding at August 31, 2016</b>	<b>1,142,010</b>	<b>\$ 2.36</b>	<b>5.24</b>	<b>\$ 1,814,509</b>
Exercisable at August 31, 2016	995,740	\$ 2.24	4.69	\$ 1,704,556

The weighted average grant date fair value of options granted during the nine months ended August 31, 2016 and August 31, 2015 was \$1.86 and \$1.90, respectively.

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 August 31, 2016 or November 30, 2015, as applicable. The intrinsic value of the Company's stock options changes based on the closing price of the Company's stock.

During the three and nine months ended August 31, 2016, the Company issued 23,399 common shares to option holders who exercised options for \$40,340.

During the three and nine months ended August 31, 2015, the Company issued 27,500 common shares to option holders who exercised options for \$54,100.

Significant option groups outstanding and exercisable at August 31, 2016 and related price and contractual life information are as follows:

Range of Exercise Prices	Outstanding			Exercisable	
	Outstanding	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Outstanding	Weighted Average Exercise Price
\$1.01 to \$2.00	441,781	4.99	\$ 1.72	441,781	\$ 1.72
\$2.01 to \$3.00	473,000	3.76	2.57	473,000	2.57

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\$3.00 to \$4.00	227,229	8.82	3.18	80,959	3.14
	1,142,010	5.24	\$ 2.36	995,740	\$ 2.24



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A summary of the status of the Company's non-vested options as of August 31, 2016, and changes during the nine months ended August 31, 2016, is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at November 30, 2015	15,003	\$ 1.90
Granted	204,729	1.86
Vested	(73,462)	1.87
Forfeited		
Non-vested at August 31, 2016	146,270	\$ 1.86

As of August 31, 2016, there was approximately \$225,000 of total unrecognized compensation cost related to non-vested 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 1.1 years as of August 31, 2016. The total fair value of shares vested during the nine months ended August 31, 2016 was approximately \$137,000.

During the second fiscal quarter of 2016, the Company entered into Amended and Restated Employment Agreements ( 2016 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 qualified options of the Company's common stock. As of April 15, 2016, David Portnoy and Mark Portnoy were granted 70,270 and 59,459 options of the Company's common stock, respectively. The options were issued under the Company's 2012 Stock Plan and will vest 1/3 upon grant, 1/3 on December 1, 2016 and the remaining 1/3 on November 30, 2017. The fair value of these options vested as of August 31, 2016 was approximately \$107,000 and is reflected as selling, general and administrative expenses in the accompanying consolidated statement of comprehensive (loss) income. As of August 31, 2016, there was approximately \$137,000 of total unrecognized compensation cost related to the non-vested options of common stock and these will continue to vest as notated above and per the 2016 Employment Agreements through November 30, 2017.

*Performance and market-based vesting condition options*

There were no performance-based or market-based vesting condition options granted during the three months and nine months ended August 31, 2016 and August 31, 2015, respectively. As of August 31, 2016 and August 31, 2015, there were no performance or market-based vesting condition options outstanding.

*Restricted common shares*

During the first fiscal quarter of 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 received 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 vest 1/3 upon grant, 1/3 on December 1, 2014 and the remaining 1/3 on December 1, 2015. The stock compensation expense of the shares vested as of August 31, 2015 was \$220,000 and is reflected as selling, general and administration expenses in the

accompanying consolidated statement of comprehensive (loss) income. As of August 31, 2015, there was approximately \$20,000 of total unrecognized compensation cost which was recognized during the remainder of fiscal year 2015, related to the non-vested shares of restricted common stock. As of August 31, 2016, there was \$0 of total unrecognized compensation cost related to the non-vested shares of restricted common stock.

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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 provide that 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. The Company issued David Portnoy 93,244 shares and Mark Portnoy 81,082 shares during the first quarter of fiscal 2015. 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. The Company issued David Portnoy 118,062 shares and Mark Portnoy 102,663 shares during the first quarter of fiscal 2016. As of August 31, 2016, there was \$0 of total unrecognized compensation cost related to the issuance of these shares of restricted common shares.

The 2016 Employment Agreements also 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. The 2016 Employment Agreements provide that 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, 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, 2017, then no later than February 28, 2018, the Company will grant up to an additional 186,487 and 162,163 qualified options of common stock, respectively, based on similar performance thresholds, as defined in the 2016 Employment Agreements. As of August 31, 2016, based upon certain performance thresholds being attained by each of the Company's Co-CEOs, the Company recognized approximately \$403,000 of compensation cost. As of August 31, 2016, there was approximately \$134,000 of unrecognized compensation cost related to these performance shares.

*Preferred Stock Rights Plan*

On November 26, 2014, the Board of Directors of the Company declared a dividend payable December 5, 2014 of one preferred share purchase right (a "Right") for each share of common stock, par value \$0.01 per share, of the Company (a "Common Share") outstanding as of the close of business on December 5, 2014 (the "Record Date") and authorized the issuance of one Right for each additional Common Share that becomes outstanding between the Record Date and the earliest of the close of business on the Distribution Date (hereinafter defined), the Redemption Date (hereinafter defined), and the close of business on the Final Expiration Date (hereinafter defined), and for certain additional Common Shares that become outstanding after the Distribution Date, such as upon the exercise of stock options or conversion or exchange of securities or notes.

The Rights will be issued pursuant to a Rights Agreement dated as of December 5, 2014 (the "Rights Agreement"), between the Company and Continental Stock and Transfer Trust, as Rights Agent (the "Rights Agent"). The Rights will not and are not intended to prevent an acquisition of the Company that the Board of Directors of the Company considers favorable to and in the best interests of all shareholders of the Company. Rather, because the exercise of the Rights may cause substantial dilution to an Acquiring Person (hereinafter defined) unless the Rights are redeemed by the Board of Directors before an acquisition transaction, the Rights Agreement ensures that the Board of Directors has the ability to negotiate with an Acquiring Person on behalf of unaffiliated shareholders. A description of the material terms and general effect of the Rights Agreement is set forth below.

Each Right represents the right to purchase from the Company one one-thousandth (1/1,000) of a share of Series A Junior Participating Preferred Stock (the "Preferred Shares"), subject to adjustment as provided in the Rights Agreement. This fraction of a Preferred Share is substantially similar to a Common Share, in that the Rights

Agreement provides for each Preferred Share to have the voting, liquidation and dividend rights that are equivalent to 1,000 times the rights of a Common Share.

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Initially, the Rights are not exercisable, are transferable only in connection with the transfer of Common Shares, and, generally, are evidenced only by the certificates for Common Shares. The holders of Rights will, solely by reason of their ownership of Rights, have no rights as shareholders of the Company, including, without limitation, the right to vote or to receive dividends. The Rights will become exercisable and trade separately from the Common Shares upon the Distribution Date (the Distribution Date ), which takes place upon the earlier of:

- (i) The tenth day after the earlier of either the public announcement or public disclosure of facts indicating that a person has become an Acquiring Person; or
- (ii) The tenth business day (or such later date as may be determined by the Board of Directors of the Company prior to any person becoming an Acquiring Person) after the date of the commencement or announcement of the intention to commence a tender or exchange offer, the consummation of which would result in any person becoming an Acquiring Person.

For the purposes of the Rights Agreement, an Acquiring Person is any person who, together with all affiliates and associates, becomes the Beneficial Owner (as defined in the Rights Agreement) of 20% or more of the outstanding Common Shares, other than: the Company; any subsidiary of the Company; any employee benefit plan of the Company or of any subsidiary of the Company, or any entity holding Common Shares pursuant to any such plan; any person who becomes the Beneficial Owner of 20% or more of outstanding Common Shares solely as a result of an acquisition of Common Shares by the Company, until such person thereafter becomes the Beneficial Owner (other than through a dividend or stock split) of an additional 0.25% or more of the outstanding Common Shares; any person who, the Board determines in good faith, inadvertently crossed the ownership threshold and then promptly sells down below the threshold (unless such divestiture requirement is waived by the Board); any person, along with its affiliates and associates, that, as of the time of the adoption of the Rights Agreement, is the Beneficial Owner of 20% or more of the Common Shares, until such person increases their ownership to 22.5% or above; and any person who or which is the Beneficial Owner of the common shares of an existing shareholder who is the Beneficial Owner of 20% or more of the Common Shares, until such person increases their percentage ownership by 0.25% or more.

In the event that a person becomes an Acquiring Person, the Board of Directors of the Company may elect to exchange any then-unexercised Rights (other than those of an Acquiring Person, which Rights become void), in whole or in part, for Common Shares at an exchange ratio of one Common Share per Right (subject to adjustment as provided in the Rights Agreement). In lieu of fractional Common Shares, the Company will pay to the Rights holders an amount of cash equal to the same fraction of the current per share market value of a whole Common Share, based upon the closing market price of the last trading day prior to exchange. If the Board of Directors determines, before the Distribution Date, to effect an exchange, the Board may delay the occurrence of the Distribution Date, provided that the Distribution Date must occur no later than 20 days after the earlier of the public announcement or public disclosure of facts indicating that an Acquiring Person has become such. However, notwithstanding the foregoing, the Board of Directors may not effect such an exchange at any time after an Acquiring Person, together with all affiliates and associates, becomes the Beneficial Owner of a majority of the outstanding Common Shares.

The Board of Directors may, at its option, at any time prior to a person becoming an Acquiring Person, redeem the Rights in whole, but not in part, at a price of \$0.01 per Right (the Redemption Price ) (the date of such action by the Board of Directors being the Redemption Date ). Immediately upon the



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action of the Board of Directors electing to redeem the Rights, without any further action and without any notice, the right to exercise the Rights will terminate and each Right will thereafter represent only the right to receive the Redemption Price.

Assuming that the Board of Directors has not elected to exchange or redeem the Rights, in the event that, after any person becomes an Acquiring Person, (i) the Company merges into another entity, (ii) another entity merges into the Company and all of the outstanding Common Shares do not remain outstanding after such merger, or (iii) the Company sells 50% or more of its assets, each holder of a Right will, upon exercise, become entitled to receive the number of common shares of the acquiring entity having a value equal to (x) multiplying the Purchase Price of a Right by the number of Rights exercisable by the holder, and dividing that product by (y) 50% of the current per share market price of the common shares of the acquiring entity. The acquiring entity is required to assume the obligations of the Company under the Rights Agreement and to reserve sufficient shares of its common stock to satisfy its obligations under the Rights Agreement. Pursuant to the Rights Agreement, the Company will not enter into any consolidation, merger or sale, unless it enters into a supplemental agreement with the acquiring entity for the benefit of the Rights holders.

Any of the terms of the Rights may be amended or terminated by the Board of Directors at any time, without the consent of the holders of the Rights, except that after such time as any person becomes an Acquiring Person, no such amendment may adversely affect the interests of the holders of the Rights (other than the Acquiring Person).

The Rights will expire on December 5, 2017, unless earlier redeemed, exchanged, terminated, or unless the expiration date is extended.

## **Note 11 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.

The Company changed the methodology used to record the processing and storage royalty income during fiscal year 2015 from recognizing royalty income based on historical estimates of specimens processed and stored to utilizing actual specimens processed and stored. The Company accounted for this change as a change in accounting estimate.

Per the License and Royalty Agreement with Lifecell, there is a \$1 Million cap on the amount of royalties 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. The cap(s) are calculated based on Lifecell's fiscal year end, March 31. As of the end of the Company's fiscal year ended November 30, 2015, Lifecell had reached the \$1 Million cap and paid the Company in full for Lifecell's fiscal year ended March 31, 2016. As of August 31, 2016, Lifecell has paid the Company \$4.4 Million for royalties due under the terms of the License and Royalty Agreement.





**Table of Contents****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. In October 2012, the Company sent a notice of termination to the Company's Venezuelan affiliate for failure to meet its payment obligation in accordance with the contract. Subsequent to the notice of termination, payment was received for outstanding processing and storage fees due from Venezuela. The Company is in the process of discussing a new agreement. The Company continues to accept umbilical cord blood stem cell specimens to be processed and stored during the negotiations. In December 2012, the Company sent a notice of termination to the Company's affiliate in Ecuador for failure to meet its payment obligation in accordance with the contract. Subsequent to the notice of termination, payment was received for outstanding processing and storage fees due from Ecuador. In August 2013, the Company was notified that its affiliate in Ecuador was closed by the National Institute of Organic Donation (INDOT). As a result, the Company recorded an allowance for uncollectible receivables for the \$150,000 processing and storage fee receivable due from Ecuador in the third quarter of fiscal 2013. During the fourth quarter of fiscal 2013, the Company began to bill the Ecuadorian clients directly for cord blood specimens that are stored at the Company's facility in Oldsmar, Florida.

The following table details the initial license fees for the technology and marketing agreements and processing and storage royalties earned under the technology agreements for the three and nine months ended August 31, 2016 and August 31, 2015. The initial license fees and processing and storage royalties are reflected in licensee and royalty income in the accompanying consolidated statements of comprehensive (loss) income.

## Processing and Storage Royalties

	Three Months Ended August 31, 2016	Nine Months Ended August 31, 2016
India	\$ 609,045	\$ 965,977
Total	\$ 609,045	\$ 965,977

	Three Months Ended August 31, 2016	Nine Months Ended August 31, 2015
India	\$ 169,411	\$ 508,235
Total	\$ 169,411	\$ 508,235

**Note 12 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

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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 August 31, 2016.

On January 20, 2016, a class action complaint was filed in the Court of the Chancery of the State of Delaware against the Company and certain current officers and directors of the Company (Case No. 11915-VCG). The complaint alleged breaches of fiduciary duties and sought appropriate injunctive relief and a declaratory judgment against defendants that a certain provision of the Company's Amended and Restated Bylaws, as amended through September 22, 2014, violated Section 141(k) of the Delaware General Corporation Law relating to the removal of directors. The plaintiff amended the complaint on March 4, 2016 to remove the breach of fiduciary duty count and to move forward only on its claim that one provision of the Bylaws violated Section 141(k). On March 18, 2016, the Company announced that the Board of Directors had amended the Bylaw in question. Plaintiff filed a stipulation dismissing the action as moot on June 2. The Court retained jurisdiction to hear plaintiff's request for \$200,000 in attorneys' fee associated with mooted litigation. The Court heard argument on plaintiff's request for attorneys' fees on September 29, 2016. On October 7, 2016, the Court issued its order awarding Plaintiff \$50,000 in attorneys' fees and expenses which is reflected in the accompanying consolidated statements of comprehensive (loss) income. The Company's maximum deductible under its Directors and Officers insurance policy for this claim was \$500,000.

On February 24, 2016, a complaint styled *Charles D. Nyberg and Mary J. Nyberg and as trustees of the CDMJ Nyberg Family Trust v. Cryo-Cell International, Inc.*, Case No. 8:16CV408t30, United States District Court, Middle District of Florida, Hillsborough 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 \$75,000, the jurisdictional amount of the court in which the action is pending. 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. On July 27, 2016 the Company entered into a Settlement Agreement and Release of All Claims (Agreement) with Charles D. Nyberg and Mary J. Nyberg, individually and as Trustees of the CDMJ Nyberg Family Trust (collectively, the Nybergs). Pursuant to the terms of the Agreement, the Company made a payment of \$3,400,000 (the Settlement Payment) on August 26, 2016. In consideration of the Settlement Payment, all legal claims brought against the Company by the Nybergs pursuant to the lawsuit, will be settled. Additionally, in consideration of the Settlement Payment, the Nybergs, who owned the rights to and interests in 50% of each of the Florida Revenue Sharing Agreement and the Texas Revenue Sharing Agreement (together, the RSAs) terminated their rights to these interests in the RSAs, resulting in a 50% reduction in the Company's ongoing payment obligations under the RSAs (see Note 14).

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.

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**Table of Contents****Note 13 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.

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 August 31, 2016, the Company had repurchased an aggregate of 5,678,354 shares of the Company's common stock, inclusive of the shares that were accepted as part of the tender offer the Stock Purchase Agreement with Ki Yond Choi and Michael Cho, at an average price of \$3.34 per share through open market and privately negotiated transactions. The Company purchased 2,429,033 and 957,956 shares of the Company's common stock during the nine months ended August 31, 2016 and August 31, 2015, respectively, at an average price of \$4.39 per share and \$3.08 per share, respectively.

The repurchased shares will be held as treasury stock and have been removed from common shares outstanding as of August 31, 2016 and November 30, 2015. As of August 31, 2016 and November 30, 2015, 5,678,354 and 3,249,790 shares, respectively, were held as treasury stock.

Subsequent to the balance sheet date, the Company repurchased an additional 17,900 shares of the Company's common stock at an average price of \$3.94 per share through open market and privately negotiated transactions.

**Note 14 Cancellation of Revenue Sharing Agreements**

On July 27, 2016 the Company entered into a Settlement Agreement and Release of All Claims ( Agreement ) with Charles D. Nyberg and Mary J. Nyberg, individually and as Trustees of the CDMJ Nyberg Family Trust (collectively, the Nybergs ). Pursuant to the terms of the Agreement, on August 26, 2016, the Company made a one-time lump-sum

payment in the amount of \$3.4 million (the

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Settlement Payment ). In consideration of the Settlement Payment, all legal claims brought against the Company by the Nybergs pursuant to a lawsuit (see Note 12), will be settled. Additionally, in consideration of the Settlement Payment, the Nybergs, who owned the rights to and interests in 50% of each of the Florida Revenue Sharing Agreement and the Texas Revenue Sharing Agreement (together, the RSAs ) terminated their rights to these interests in the RSAs, resulting in a 50% reduction in the Company s ongoing payment obligations under the RSAs. Pursuant to the terms of the Agreement, the Nybergs no longer have the rights to share in a portion of the Company s storage revenues derived from specimens which originated in the states of Florida and Texas, including all rights to any storage revenues generated and unpaid prior to the date of the Agreement including entitlements that were due for the quarter ended May 31, 2016. The payment amount of \$3.4 million was offset by the carrying amount of the long-term liability related to the RSAs in the amount of \$875,000 and accrued expenses in the amount of \$272,612 to reflect the extinguishment of revenue sharing agreements in the amount of \$2,252,388 for the three and nine months ended August 31, 2016.

**Note 15 Term Loans**

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 Trust as described in Note 14.

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.

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**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:

- (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;



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- (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;
- (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.

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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 July 2015, the Company offers two pricing models, a standard plan and premium plan. The Company charges fees of \$1,400 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 \$3,799 for the standard plan and \$4,249 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.

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 (\$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. 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. The difference between the remaining principal balance and the final payment made on April 22, 2016 was \$300,593 which was recorded as a gain on extinguishment of debt during the second quarter of fiscal 2016 and reflected on the accompanying consolidated statements of comprehensive (loss) income.

During the fiscal quarter ended August 31, 2016, the Company determined that there were sufficient indicators to trigger an interim goodwill and intangible assets impairment analysis. The Company's analysis indicated that the Prepacyte-CB reporting unit had a goodwill and intangible assets impairment as of the nine months ended August 31, 2016. Goodwill and intangible assets are 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. The Company's analysis indicated that the Prepacyte-CB reporting unit had a goodwill and intangible assets impairment as of the nine months ended August 31, 2016. Accordingly, the Company recorded a non-cash charge for the nine months ended August 31, 2016 to reduce the carrying value of goodwill and intangible assets by \$1,877,995. The goodwill and intangible assets impairment analysis indicated that there was an impairment of goodwill related to Prepacyte-CB in the amount of \$1,666,430 and an impairment of intangible assets related to Prepacyte-CB in the amount of \$211,267 as of the nine months ended August 31, 2016. See Note 4, "Goodwill" and Note 5 "Intangible Assets" for further information regarding the process of assessing goodwill impairment.

During the nine months ended August 31, 2016, total revenue increased 13% as compared to the same period in 2015. The Company reported a net loss of (\$2,130,105) or (\$0.25) per basic common share for the nine months ended August 31, 2016, compared to net income of \$8,326,000 or \$0.86 per basic



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common share for the same period in 2015. The net loss for the nine months ended August 31, 2016 resulted from the cancellation of certain interests in the state of Florida Revenue Sharing Agreement and certain interests in the state of Texas Revenue Sharing Agreement resulting in extinguishment of revenue sharing agreement in the amount of \$2,300,000, goodwill and intangible assets impairment of \$1,878,000, as described above, a 28% increase in selling, general and administrative expenses and a 4% increase in cost of sales. This was offset by a 13% increase in total revenue, an income tax benefit of \$842,000 and the \$300,593 gain on extinguishment of debt as a result of the early payoff of the loan with CMDG. During the nine months ended August 31, 2015, the Company reversed \$7.0 million of its valuation allowance for income taxes. The decision to reverse a portion of the allowance is based on the Company's historical operating performance, which includes profitability in ten of the last eleven quarters, steadily improving operations and positive expectations for future taxable income.

At August 31, 2016, the Company had cash and cash equivalents of \$2,026,199. The Company's cash decreased by approximately \$2,126,000 during the first nine months of fiscal 2016, primarily as a result of approximately \$10,668,000 used for the stock repurchase plan pursuant to which the Company repurchased 2,429,033 shares of the Company's common stock during the nine months ended August 31, 2016, \$501,000 of cash used to purchase property and equipment and marketable securities and approximately \$876,000 used for the repayment of the Promissory Note to CMDG which were partially offset by cash flow from operations of approximately \$2,425,000 and \$204,000 of cash provided by the redemption of a Certificate of Deposit. 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. 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 as described in Note 14.

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. 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 – Nine Month Period Ended August 31, 2016 Compared to the Nine Month Period Ended August 31, 2015**

**Revenue.** Revenue for the nine months ended August 31, 2016 was \$17,257,192 as compared to \$15,293,260 for the same period in 2015. The increase in revenue was primarily attributable to a 10% 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 6% increase in domestic recurring annual storage fee revenue and a 12% increase in the number of new cord blood specimens processed in the first nine months of fiscal 2016 versus the same period in 2015.

**Product Revenue.** On June 11, 2015, the Company entered into an Asset Purchase Agreement as described in Note 2. For the nine months ended August 31, 2016, revenue from the product sales was \$286,253 compared to \$265,848 for the nine months ended August 31, 2015.

**Licensee Income.** Licensee income for the nine months ended August 31, 2016 was \$965,977 as compared to \$508,235 for the 2015 period. Licensee and royalty income for the nine months ended August 31, 2016 and August 31, 2015 consists of royalty income earned on the processing and storage of specimens in India where the Company has a definitive License and Royalty Agreement.

Per the License and Royalty Agreement with Lifecell, there is a \$1,000,000 limit on the amount of royalties due to the Company per year and a \$10,000,000 limit on the amount of royalties due to the Company for the term of the License and Royalty Agreement. The limit(s) are calculated based on Lifecell's fiscal year end, March 31. As of the end of the Company's fiscal year ended November 30, 2015, Lifecell had reached the \$1,000,000 limit and paid the Company in full for Lifecell's fiscal year ended March 31, 2016. The Company began recording licensee income again during the second quarter of fiscal 2016. As of August 31, 2016, Lifecell has paid the Company \$4,400,000 for royalties due under the terms of the License and Royalty Agreement.

**Cost of Sales.** Cost of sales for the nine months ended August 31, 2016 was \$4,330,622 as compared to \$4,158,767 for the same period in 2015, representing a 4% increase. Cost of sales was 25% of revenues for the nine months ended August 31, 2016 and 27% for the nine months ended August 31, 2015. 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 \$99,000 and \$114,000 for the nine months ended August 31, 2016 and 2015, respectively. Also, included in Cost of Sales is \$257,329 and \$191,243 for the nine months ended August 31, 2016 and August 31, 2015, respectively, related to the costs associated with production of the Prepacyte<sup>®</sup>-CB processing and storage system. The increase in cost of sales for the nine months ended August 31, 2016 versus August 31, 2015 is due to the costs associated with Prepacyte<sup>®</sup>-CB and the increased costs associated with the 12% increase in the number of new cord blood specimens processed in the first nine months of fiscal 2016 versus the same period in 2015.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the nine months ended August 31, 2016 were \$10,914,524 as compared to \$8,549,722 for the 2015 period representing a 28% increase. These expenses are primarily comprised of selling and marketing expenses, salaries and wages for personnel and professional fees. The increase in selling, general and administrative expenses is primarily due to an increase of \$563,000, or 15%, increase in selling and marketing expenses of which \$375,000 is related to the implementation of a new consumer marketing campaign, an increase of \$410,000 in professional fees due to legal fees and fees associated with obtaining the credit and subordination agreements with Texas Capital Bank, National Association and CrowdOut Capital LLC as described in Note 15 and a \$467,000 increase in salaries, wages and bonuses and \$517,000 increase in stock compensation expense mainly due to the accrual of executive bonuses per previously disclosed employment agreements.

**Impairment of Goodwill and Intangible Assets.** At August 31, 2016, management determined that there were sufficient indicators to trigger an interim goodwill and intangible assets impairment analysis. The





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Company's analysis indicated that the Prepacyte-CB reporting unit had a goodwill and intangible assets impairment as of the nine months ended August 31, 2016. Accordingly, the Company recorded a non-cash charge for the nine months ended August 31, 2016 to reduce the carrying value of goodwill and intangible assets by \$1,877,697. The goodwill and intangible assets impairment analysis indicated that there was an impairment of goodwill related to Prepacyte-CB in the amount of \$1,666,430 and an impairment of intangible assets related to Prepacyte-CB in the amount of \$211,267 as of the nine months ended August 31, 2016. See Note 4, Goodwill and Note 5 Intangible Assets for further information regarding the process of assessing goodwill impairment.

**Research, Development and Related Engineering Expenses.** Research, development and related engineering expenses for the nine months ended August 31, 2016 were \$34,452 as compared to \$32,471 for the 2015 period representing slight increase.

**Depreciation and Amortization.** Depreciation and amortization (not included in Cost of Sales) for the nine months ended August 31, 2016 was \$123,166 compared to \$60,702 for the 2015 period.

**Interest Expense.** Interest expense during the nine months ended August 31, 2016, was \$804,236 compared to \$1,024,621 during the comparable period in 2015. Interest expense for the nine months ended August 31, 2016 and August 31, 2015 was \$22,265 and \$10,731, respectively, related to the repayment of the note payable as a result of the Asset Purchase Agreement (Note 2 and Note 6) and \$45,763 and \$0, respectively, related to the credit and subordination agreements with Texas Capital Bank, National Association and CrowdOut Capital LLC as described in Note 15. The remaining interest expense is comprised of amounts due to the parties to the Company's revenue sharing agreements based on the Company's storage revenue collected.

**Equity in Losses of Affiliate.** Equity in losses of affiliate was \$0 for the nine months ended August 31, 2016, compared to \$17,660 for the 2015 period. Equity in losses of affiliate for the nine months ended August 31, 2015 solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees

**Gain on extinguishment of Debt.** Gain on extinguishment of debt was \$300,593 for the nine months ended August 31, 2016 which is the difference between the remaining principal balance and the payment made on April 22, 2016 constituting 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 (see Note 6) on April 22, 2016.

**Extinguishment of Revenue Sharing Agreement.** During the nine months ended August 31, 2016, the Company entered into a Settlement and Release of Claims Agreement with certain investors canceling their interest in the Florida and Texas Revenue Sharing Agreements. Pursuant to the terms of the Settlement and Release of Claims Agreement, the Company made a one-time, lump-sum payment in the amount of \$3,400,000 to the investors and the investors sold, assigned, conveyed, transferred, and delivered to the Company all of its rights, interest and title in their interests in the RSAs. The payment amount of \$3,400,000 was offset by the carrying amount of the short-term liability related to the RSAs in the amount of \$875,000 and accrued expenses in the amount of \$272,612 to reflect the extinguishment of revenue sharing agreements in the amount of \$2,252,388 for the nine months ended August 31, 2016.

**Income Taxes.** The Company recorded an income tax benefit of \$697,103, net of foreign income taxes for the nine months ended August 31, 2016. The U.S. income tax benefit as of the nine months ended August 31, 2016 was \$842,000 due to the Company's net operating losses as of August 31, 2016. The Company recorded an income tax benefit of \$6,880,599, net of foreign income taxes for the nine months



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ended August 31, 2015. During the third quarter August 31, 2015, the Company reversed a portion of its valuation allowance for U.S. income taxes of approximately \$6,957,000. The reversal of a portion of the deferred tax valuation allowance is based upon the Company's historical operating performance which includes profitability in ten of the last eleven quarters, steadily improving operations and positive expectations for future taxable income.

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 \$144,897 and \$76,235 for the nine months ended August 31, 2016 and 2015, respectively, of foreign income tax expense which is included in income tax expense in the accompanying consolidated statements of comprehensive (loss) income.

### **Results of Operations - Three Month Period Ended August 31, 2016 Compared to the Three Month Period Ended August 31, 2015**

**Revenue.** Revenue for the three months ended August 31, 2016 was \$6,331,938 as compared to \$5,435,990 for the same period in 2015, an increase of 16%. The increase in revenue was primarily attributable to a 13% increase in processing and storage fees and a 260% increase in license and royalty income.

**Processing and Storage Fees.** The increase in processing and storage fee revenue is primarily attributable to a 17% increase in the number of new cord blood specimens processed for three months ended August 31, 2016 versus the same period in 2015.

**Product Revenue.** On June 11, 2015, the Company entered into an Asset Purchase Agreement as described in Note 2. For the three months ended August 31, 2016, revenue from the product sales was \$88,135 compared to \$265,848 for the three months ended August 31, 2015.

**Licensee Income.** Licensee income for the three months ended August 31, 2016, was \$609,045 as compared to \$169,411 for the 2015 quarter. Licensee income for the three months ended August 31, 2016 and August 31, 2015 consisted of royalty income earned on the processing and storage of cord blood stem cell specimens in India where the Company has a definitive License and Royalty Agreement.

The Company changed the methodology used to record the processing and storage royalty income during the fourth quarter of fiscal year 2015 from recognizing royalty income based on historical estimates of specimens processed and stored to utilizing actual specimens processed and stored. The Company accounted for this change as a change in accounting estimate.

Per the License and Royalty Agreement with Lifecell, there is a \$1,000,000 limit on the amount of royalties due to the Company per year and a \$10,000,000 limit on the amount of royalties due to the Company for the term of the License and Royalty Agreement. The limit(s) are calculated based on Lifecell's fiscal year end, March 31. As of the end of the Company's fiscal year ended November 30, 2015, Lifecell had reached the \$1,000,000 limit and paid the Company in full for Lifecell's fiscal year ended March 31, 2016. The Company began recording licensee income again during the

second quarter of fiscal 2016. As of August 31, 2016, Lifecell has paid the Company \$4,400,000 for royalties due under the terms of the License and Royalty Agreement.

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**Cost of Sales.** Cost of sales for the three months ended August 31, 2016 was \$1,551,231 as compared to \$1,507,393 for the same period in 2015, representing a 3% increase. Cost of sales was 24% of revenues for the three months ended August 31, 2016 and 28% for the three months ended August 31, 2015. 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 \$35,000 and \$36,000 for the three months ended August 31, 2016 and 2015, respectively. Also, included in Cost of Sales is \$68,331 and \$191,243 related to the costs associated with production of the Prepacyte®-CB processing and storage system for the three months ended August 31, 2016 and August 31, 2015, respectively.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the three months ended August 31, 2016 were \$3,911,559 as compared to \$2,628,970 for the 2015 period, representing a 49% increase. Selling, general and administrative expenses is primarily comprised of expenses for selling and marketing expenses, salaries and wages for personnel and professional fees. The increase in selling, general and administrative expenses is primarily due to approximately \$272,000 increase in professional fees due to legal fees and fees associated with obtaining the credit and subordination agreements with Texas Capital Bank, National Association and CrowdOut Capital LLC as described in Note 15, \$272,000 increase in salaries, wages and bonuses and \$374,000 increase in stock compensation expense mainly due to the accrual of executive bonuses per previously disclosed employment agreements and \$151,000 increase in selling and marketing expenses.

**Impairment of Goodwill and Intangible Assets.** At August 31, 2016, management determined that there were sufficient indicators to trigger an interim goodwill and intangible assets impairment analysis. The Company's analysis indicated that the Prepacyte-CB reporting unit had a goodwill and intangible assets impairment as of the three months ended August 31, 2016. Accordingly, the Company recorded a non-cash charge for the three months ended August 31, 2016 to reduce the carrying value of goodwill and intangible assets by \$1,877,697. The goodwill and intangible assets impairment analysis indicated that there was an impairment of goodwill related to Prepacyte-CB in the amount of \$1,666,430 and an impairment of intangible assets related to Prepacyte-CB in the amount of \$211,267 as of the three months ended August 31, 2016. See Note 4, Goodwill and Note 5 Intangible Assets for further information regarding the process of assessing goodwill impairment.

**Research, Development and Related Engineering Expenses.** Research, development and related engineering expenses for the three months ended August 31, 2016 were \$13,780 as compared to \$9,952 for the 2015 period.

**Depreciation and Amortization.** Depreciation and amortization (not included in Cost of Sales) for the three months ended August 31, 2016 was \$39,746 compared to \$25,359 for the 2015 period.

**Interest Expense.** Interest expense during the three months ended August 31, 2016, was \$199,439 compared to \$353,534 during the comparable quarter in 2015. Interest expense for the three months ended August 31, 2016 and August 31, 2015 consists of \$0 and \$10,731, respectively, related to the repayment of the note payable as a result of the Asset Purchase Agreement (Note 2 and Note 6) and \$45,763 and \$0, respectively, related to the credit and subordination agreements with Texas Capital Bank, National Association and CrowdOut Capital LLC as described in Note 15. The remaining interest expense is comprised of amounts due to the parties to the Company's revenue sharing agreements based on the Company's storage revenue collected.

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**Equity in Losses of Affiliate.** Equity in losses of affiliate was \$0 for the three months ended August 31, 2016, compared to \$1,164 for the 2015 period. Equity in losses of affiliate for the three months ended August 31, 2016 and August 31, 2015 consists solely of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

**Extinguishment of Revenue Sharing Agreement.** During the three months ended August 31, 2016, the Company entered into a Settlement and Release of Claims Agreement with certain investors canceling their interest in the Florida and Texas Revenue Sharing Agreements. Pursuant to the terms of the Settlement and Release of Claims Agreement, the Company made a one-time, lump-sum payment in the amount of \$3,400,000 to the investors and the investors sold, assigned, conveyed, transferred, and delivered to the Company all of its rights, interest and title in their interests in the RSAs. The payment amount of \$3,400,000 was offset by the carrying amount of the short-term liability related to the RSAs in the amount of \$875,000 and accrued expenses in the amount of \$272,612 to reflect the extinguishment of revenue sharing agreements in the amount of \$2,252,388 for the three months ended August 31, 2016.

**Income Taxes.** The Company recorded an income tax benefit of \$898,838 net of foreign taxes, for the three months ended August 31, 2016. The U.S. income tax benefit of the three months ended August 31, 2016 was \$990,000 due to the Company's net operating losses as of August 31, 2016. The Company recorded an income tax benefit of \$6,931,423, net of foreign income taxes for the three months ended August 31, 2015. During the third quarter August 31, 2015, the Company reversed a portion of its valuation allowance for U.S. income taxes of approximately \$6,957,000. The reversal of a portion of the deferred tax valuation allowance is based upon the Company's historical operating performance which includes profitability in ten of the last eleven quarters, steadily improving operations and positive expectations for future taxable income.

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, the Company must project future levels of taxable income. This assessment requires significant judgment. The Company examined 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 \$91,357 and \$25,411 for the three months ended August 31, 2016 and 2015, respectively, of foreign income tax expense, which is included in income tax expense in the accompanying consolidated statements of comprehensive (loss) income.

## **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 \$100.00. 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. 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



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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 14.

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.

At August 31, 2016, the Company had cash and cash equivalents of \$2,026,199 as compared to \$4,152,162 at November 30, 2015. The decrease in cash and cash equivalents during the nine months ended August 31, 2015 was primarily attributable to the following:

Net cash provided by operating activities for the nine months ended August 31, 2016 was \$2,424,902, which was attributable to the Company's operating activities 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 nine months ended August 31, 2015 was \$2,863,508, which was attributable to an increase in the Company's new clients choosing the prepaid storage plans versus the annual storage fee plan, a 4% decrease in cost of sales and a 4% decrease in selling, general and administrative expenses.

Net cash used in investing activities for the nine months ended August 31, 2016 was \$297,184 which was primarily attributable to the purchases of property and equipment in the amount of \$298,600 and sales and purchases of marketable securities and other investments in the amount of \$202,928 which were partially offset by the redemption of a Certificate of Deposit in the amount of \$204,344.

Net cash used in investing activities for the nine months ended August 31, 2015 was \$481,562 which was primarily attributable to the purchase of Prepacyte®-CB (See Note 2 to the consolidated financial statements) in the amount of \$212,203 and the sales and purchases of marketable securities and other investments of \$214,520.

Net cash used in financing activities for the nine months ended August 31, 2016 was \$4,253,681, which was primarily attributable to the stock repurchase plan pursuant to which the Company has repurchased 2,429,033 shares of the Company's common stock for \$10,668,347, the repayments of the note payables for \$1,009,107 and the payment of \$3,400,000 for the cancellation of certain interests in certain Revenue Sharing Agreements, which was partially offset by the term and subordinated loan in the amount of \$10,783,433.

Net cash used in financing activities for the nine months ended August 31, 2015 was \$2,941,750, which was primarily attributable to the stock repurchase plan and tender offer pursuant to which the Company has repurchased 968,302 shares of the Company's common stock for \$2,946,705.





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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.

On June 20, 2016, the Company entered into a repurchase agreement of 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, which was funded in part with the \$8.0 million term loan advanced by TCB. On May 20, 2016, TCB advanced the Company \$100 and on July 1, 2016, TCB advanced the remaining principal amount of \$7,999,900. 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 described in Note 14.

The subordinated loan of \$650,000 received in May 2016, will also be used by the Company to fund continued repurchases of the Company's common stock.

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.

## **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 2015 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 2015 Annual Report on Form 10-K.



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### **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 officers and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance 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 officers and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

As previously disclosed in the Company's 10-K filed February 29, 2016 and the Company's 10-Qs filed April 14, 2016 and July 11, 2016, the Company's principal executive officers and principal financial officer concluded that the Company's internal controls over financial reporting were not effective, due to a material weakness surrounding the Company's identification and application of the appropriate accounting treatment for non-routine transactions and related documentation thereof. The Company's controls over non-routine transactions were not conducive to identify certain items with sufficient precision. Management has undertaken steps to design and implement more effective internal controls over financial reporting, including the implementation of a review process of non-routine transactions and has engaged qualified consultants to assist the Company with the application of the appropriate accounting treatment of non-routine transactions when necessary.

During the quarter ended November 30, 2015, the Company's principal executive officers and principal financial officer concluded that the Company's internal controls over financial reporting were not effective, due to a material weakness surrounding manual controls related to storage revenue for customers that are on a payment plan. The Company's control over the manual process was not conducive to identify the timeliness of recording the revenue. Management has undertaken steps to design and implement more effective internal controls, including the implementation of a more comprehensive review process of manual invoicing procedures.

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**

The changes in the Company's internal control over financial reporting described in the previous paragraph were implemented during the quarter ended November 30, 2015 and were remediated during the quarters ended May 31, 2016 and August 31, 2016.

There were no other changes in the Company's internal controls over financial reporting during the nine months ended August 31, 2016 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, controls 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



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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 August 31, 2016.

On January 20, 2016, a class action complaint was filed in the Court of the Chancery of the State of Delaware against the Company and certain current officers and directors of the Company (Case No. 11915-VCG). The complaint alleged breaches of fiduciary duties and sought appropriate injunctive relief and a declaratory judgment against defendants that a certain provision of the Company's Amended and Restated Bylaws, as amended through September 22, 2014, violated Section 141(k) of the Delaware General Corporation Law relating to the removal of directors. The plaintiff amended the complaint on March 4, 2016 to remove the breach of fiduciary duty count and to move forward only on its claim that one provision of the Bylaws violated Section 141(k). On March 18, 2016, the Company announced that the Board of Directors had amended the Bylaw in question. Plaintiff filed a stipulation dismissing the action as moot on June 2. The Court retained jurisdiction to hear plaintiff's request for \$200,000 in attorneys' fee associated with mooted litigation. The Court heard argument on plaintiff's request for attorneys' fees on September 29, 2016. On October 7, 2016, the Court issued its order awarding Plaintiff \$50,000 in attorneys' fees and expenses which is reflected in the accompanying consolidated statements of comprehensive (loss) income. The Company's maximum deductible under its Directors and Officers insurance policy for this claim was \$500,000.

On February 24, 2016, a complaint styled *Charles D. Nyberg and Mary J. Nyberg and as trustees of the CDMJ Nyberg Family Trust v. Cryo-Cell International, Inc.*, Case No. 8:16CV408t30, United States District Court, Middle District of Florida, Hillsborough 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 \$75,000, the jurisdictional amount of the court in which the action is pending. 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. On July 27, 2016 the Company entered into a Settlement Agreement and Release of All Claims (Agreement) with Charles D. Nyberg and Mary J. Nyberg, individually and as Trustees of the CDMJ Nyberg Family Trust (collectively, the Nybergs). Pursuant to the terms of the Agreement, the Company made a payment of \$3,400,000 (the Settlement Payment) on August 26, 2016. In consideration of the Settlement Payment, all legal claims brought against the Company by the Nybergs pursuant to the lawsuit, will be settled. Additionally, in consideration of the Settlement Payment, the Nybergs, who owned the rights to and interests in 50% of each of the Florida Revenue Sharing Agreement and the Texas Revenue Sharing Agreement (together, the RSAs) terminated their rights to these interests in the RSAs, resulting in a 50% reduction in the Company's ongoing payment obligations under the RSAs (see Note 14).

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.

**ITEM 1A. RISK FACTORS**

Not applicable.





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**ISSUER PURCHASE OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
June 1 30, 2016	3,000	\$ 3.47	3,000	2,603,886
July 1 31, 2016	2,233,049	\$ 4.49	2,233,049	370,837
August 1 31, 2016	49,191	\$ 3.97	49,191	321,646

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.

**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.
31.2	Certification of Co-CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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

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**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: October 17, 2016