

CRYO CELL INTERNATIONAL INC

Form 10-Q

July 16, 2018

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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 May 31, 2018**

**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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

State the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date. As of July 9, 2018, 13,535,409 shares of \$0.01 par value common stock were issued and 7,739,833 were outstanding.

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

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| | (Unaudited) May 31, 2018 | November 30, 2017 |
|---|--------------------------------|-------------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash and cash equivalents | \$ 6,540,982 | \$ 6,279,154 |
| Marketable securities | 572,605 | 439,322 |
| Accounts receivable (net of allowance for doubtful accounts of \$2,020,640 and \$2,098,991, respectively) | 4,819,813 | 5,125,591 |
| Prepaid expenses | 488,818 | 372,152 |
| Inventory, net | 424,494 | 314,566 |
| Other current assets | 190,416 | 206,136 |
| Total current assets | 13,037,128 | 12,736,921 |
| <u>Property and Equipment-net</u> | 1,038,039 | 882,382 |
| <u>Other Assets</u> | | |
| Intangible assets, net | 404,127 | 226,418 |
| Deferred tax assets | 7,011,951 | 10,035,388 |
| Deposits and other assets, net | 728,888 | 28,888 |
| Total other assets | 8,144,966 | 10,290,694 |
| Total assets | \$ 22,220,133 | \$ 23,909,997 |
| <u>LIABILITIES AND STOCKHOLDERS DEFICIT</u> | | |
| <u>Current Liabilities</u> | | |
| Accounts payable | \$ 1,113,142 | \$ 1,928,542 |
| Accrued expenses | 2,182,099 | 2,582,475 |
| Current portion of note payable | 2,000,000 | 2,000,000 |
| Deferred revenue | 7,502,994 | 7,428,829 |
| Total current liabilities | 12,798,235 | 13,939,846 |
| <u>Other Liabilities</u> | | |
| Deferred revenue, net of current portion | 17,750,331 | 15,752,864 |
| Note payable, net of current portion and debt issuance costs | 4,346,723 | 5,295,183 |
| Long-term liability - revenue sharing agreements | 1,425,000 | 1,425,000 |
| Total other liabilities | 23,522,054 | 22,473,047 |
| Total liabilities | 36,320,289 | 36,412,893 |

Commitments and contingencies (Note 8)

Stockholders Deficit

| | | |
|---|----------------------|----------------------|
| Preferred stock (\$.01 par value, 500,000 authorized and none issued and outstanding) | | |
| Series A Junior participating preferred stock (\$.01 par value, 20,000 authorized and none issued and outstanding) | | |
| Common stock (\$.01 par value, 20,000,000 authorized; 13,069,483 issued and 7,273,907 outstanding as of May 31, 2018 and 12,899,517 issued and 7,103,941 outstanding as of November 30, 2017) | 130,695 | 128,995 |
| Additional paid-in capital | 31,644,654 | 31,373,048 |
| Treasury stock, at cost | (19,571,113) | (19,571,113) |
| Accumulated other comprehensive income | 160,865 | 40,865 |
| Accumulated deficit | (26,465,257) | (24,474,691) |
| Total stockholders deficit | (14,100,156) | (12,502,896) |
| Total liabilities and stockholders deficit | \$ 22,220,133 | \$ 23,909,997 |

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

Table of Contents**CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|-------------------|--------------------------|-------------------|
| | May 31, 2018 | May 31, 2017 | May 31, 2018 | May 31, 2017 |
| Revenue: | | | | |
| Processing and storage fees | \$ 6,295,455 | \$ 5,846,227 | \$ 12,495,522 | \$ 11,458,051 |
| Licensee and royalty income | 203,159 | 328,669 | 203,159 | 328,669 |
| Product revenue | 26,849 | 61,855 | 54,900 | 226,655 |
| Total revenue | 6,525,463 | 6,236,751 | 12,753,581 | 12,013,375 |
| Costs and Expenses: | | | | |
| Cost of sales | 1,777,138 | 1,591,966 | 3,378,646 | 3,108,063 |
| Selling, general and administrative expenses | 3,533,057 | 3,411,759 | 7,122,576 | 6,509,914 |
| Research, development and related engineering | 29,284 | 8,840 | 42,693 | 23,456 |
| Depreciation and amortization | 36,248 | 31,936 | 72,793 | 63,566 |
| Total costs and expenses | 5,375,727 | 5,044,501 | 10,616,708 | 9,704,999 |
| Operating Income | 1,149,736 | 1,192,250 | 2,136,873 | 2,308,376 |
| Other Expense: | | | | |
| Other income (expense) | 9,785 | (38,259) | (23,780) | (64,701) |
| Interest expense | (304,094) | (325,314) | (585,071) | (622,358) |
| Total other expense | (294,309) | (363,573) | (608,851) | (687,059) |
| Income before income tax expense | 855,427 | 828,677 | 1,528,022 | 1,621,317 |
| Income tax expense | (315,921) | (331,737) | (3,518,588) | (637,454) |
| Net Income (Loss) | \$ 539,506 | \$ 496,940 | \$ (1,990,566) | \$ 983,863 |
| Net income (loss) per common share - basic | \$ 0.07 | \$ 0.07 | \$ (0.28) | \$ 0.14 |
| Weighted average common shares outstanding - basic | 7,247,464 | 7,144,775 | 7,177,082 | 7,024,280 |
| Net income (loss) per common share - diluted | \$ 0.07 | \$ 0.06 | \$ (0.28) | \$ 0.13 |
| Weighted average common shares outstanding - diluted | 7,917,735 | 7,726,560 | 7,177,082 | 7,582,535 |

Other Comprehensive Income

| | | | | |
|---|----------|-----------|------------|-----------|
| Unrealized gain on marketable securities (net of tax) | \$ 1,254 | \$ 33,701 | \$ 120,000 | \$ 26,640 |
|---|----------|-----------|------------|-----------|

| | | | | |
|------------------------------------|------------|------------|----------------|--------------|
| Comprehensive Income (Loss) | \$ 540,760 | \$ 530,641 | \$ (1,870,566) | \$ 1,010,503 |
|------------------------------------|------------|------------|----------------|--------------|

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | For the Six Months Ended | |
|--|--------------------------|--------------------|
| | May 31, 2018 | May 31, 2017 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (1,990,566) | \$ 983,863 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 120,338 | 113,708 |
| Compensatory element of stock options | 268,386 | 471,019 |
| Provision for doubtful accounts | 185,107 | 81,563 |
| Deferred income tax expense | 3,023,437 | 66,795 |
| Amortization of debt issuance costs | 51,540 | 66,442 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 120,671 | (584,875) |
| Prepaid expenses | (116,666) | (103,203) |
| Inventory | (109,928) | 64,884 |
| Other current assets | 15,720 | (76,955) |
| Deposits and other assets, net | (700,000) | (3,388) |
| Accounts payable | (815,400) | (300,361) |
| Accrued expenses | (400,376) | 81,448 |
| Deferred revenue | 2,071,632 | 1,521,627 |
| Net cash provided by operating activities | 1,723,895 | 2,382,567 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (253,704) | (4,505) |
| Purchase of intangible asset | (200,000) | |
| (Purchases) sales of marketable securities and other investments, net | (13,283) | 172,523 |
| Net cash (used in) provided by investing activities | (466,987) | 168,018 |
| Cash flows from financing activities: | | |
| Treasury stock purchases | | (403,925) |
| Repayments of note payable | (1,000,000) | (1,000,000) |
| Proceeds from the exercise of stock options | 4,920 | 51,396 |
| Net cash used in financing activities | (995,080) | (1,352,529) |
| Increase in cash and cash equivalents | 261,828 | 1,198,056 |
| Cash and cash equivalents - beginning of period | 6,279,154 | 3,499,881 |

| | | |
|---|--------------|--------------|
| Cash and cash equivalents - end of period | \$ 6,540,982 | \$ 4,697,937 |
|---|--------------|--------------|

Supplemental non-cash investing activities:

| | | |
|--|------------|-----------|
| Unrealized gain on marketable securities, net of tax | \$ 120,000 | \$ 26,640 |
|--|------------|-----------|

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

May 31, 2018

(Unaudited)

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

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

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of May 31, 2018 and November 30, 2017, the related Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended May 31, 2018 and May 31, 2017 and the Consolidated Statements of Cash Flows for the six months ended May 31, 2018 and May 31, 2017 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, 2017 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 six months ended May 31, 2018 are not necessarily indicative of the results expected for any interim period in the future or the entire year ending November 30, 2018.

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

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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.

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.

Table of Contents**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 \$1,605,000 and \$2,316,000 as of May 31, 2018 and November 30, 2017, as the Company does not believe it is more likely than not that all future income tax benefits will be realized. When the Company changes its determination as to the amount of deferred income tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to income tax expense in the period in which such determination is made. The ultimate realization of the Company's deferred income tax assets depends upon generating sufficient taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, the Company projects future levels of taxable income. This assessment requires significant judgment. The Company examines the evidence related to the recent history of losses, the economic conditions in which the Company operates and forecasts and projections to make that determination.

The Company recorded U.S. income taxes of approximately \$294,000 and \$296,000, for the three months ended May 31, 2018 and May 31, 2017, respectively. The Company recorded U.S. income taxes of approximately \$3,497,000 and \$602,000 for the six months ended May 31, 2018 and May 31, 2017, respectively. Included in the \$3,497,000 tax expense for the six months ended May 31, 2018 is approximately \$2,985,000 of expense related to the reduction of the federal tax rate to 21% as of January 1, 2018 as a result of the Tax Cuts and Jobs Act that was signed into law on December 22, 2017. The decrease in the federal tax rate caused a decrease in the Company's deferred tax asset which resulted in an increase in the income tax expense.

The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recognized approximately \$22,000 and \$36,000 for the three months ended May 31, 2018 and 2017, respectively, of foreign income tax expense. The Company recognized approximately \$22,000 and \$36,000 for the six months ended May 31, 2018 and 2017, respectively, of foreign income tax expense. Foreign income tax expense is included in income tax expense in the accompanying consolidated statements of comprehensive 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 six months ended May 31, 2018 and May 31, 2017, 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

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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 six months ended May 31, 2018 and 2017.

Stock Compensation

As of May 31, 2018, the Company has two stock-based compensation plans, which are described in Note 7 to the unaudited consolidated financial statements. The Company's 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 \$156,000 and \$394,000 for the three months ended May 31, 2018 and May 31, 2017, respectively, of stock compensation expense. The Company recognized approximately \$268,000 and \$471,000 for the six months ended May 31, 2018 and May 31, 2017 respectively, of stock compensation expense. The Company reversed \$444,000 of stock compensation expense during the three months ended May 31, 2018 as the Co-CEOs each opted to receive a lump sum cash payment in lieu of 30,000 shares of earned common stock pursuant to the terms of their Employment Agreements. The reversal had no impact on the accompanying consolidated statements of comprehensive income (loss) as other compensation expense was recognized to offset the reversal.

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

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

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

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, 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 May 31, 2018 and November 30, 2017, respectively, segregated among the appropriate levels within the fair value hierarchy:

| Description | Fair Value at May 31, 2018 | Fair Value Measurements at May 31, 2018 Using | | |
|-------------------------------|-------------------------------|--|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Trading securities | \$ 71,392 | \$ 71,392 | | |
| Available-for-sale securities | 501,213 | 501,213 | | |
| Total | \$ 572,605 | \$ 572,605 | | |

| Description | Fair Value at | Fair Value Measurements at November 30, 2017 Using | | |
|-------------------------------|---------------|---|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Trading securities | \$ 71,392 | \$ 71,392 | | |
| Available-for-sale securities | 501,213 | 501,213 | | |
| Total | \$ 572,605 | \$ 572,605 | | |

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| Description | November 30, 2017 | Level 1 | Level 2 | Level 3 |
|--------------------|----------------------|------------|---------|---------|
| Assets: | | | | |
| Trading Securities | \$ 96,600 | \$ 96,600 | | |
| Available-for-sale | 342,722 | 342,722 | | |
| | \$ 439,322 | \$ 439,322 | | |

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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 in active markets and are therefore classified within Level 1 of the fair value hierarchy. For trading securities, there was \$9,016 and (\$38,590) in unrealized holding gain and loss, respectively, recorded in other income (loss) and expense on the accompanying consolidated statements of comprehensive income for the three months ended May 31, 2018 and 2017. For trading securities, there was (\$25,208) and (\$65,210) in unrealized holding loss, respectively, recorded in other income and expense on the accompanying consolidated statements of comprehensive income (loss) for the six months ended May 31, 2018 and 2017.

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 \$1,254 and \$33,701 in unrealized holding gain, net of tax, respectively, reported as comprehensive income on the accompanying statements of comprehensive income for the three months ended May 31, 2018 and 2017. For available-for-sale securities, there was \$120,000 and \$26,640 in unrealized holding gain, net of tax, respectively, reported as a component of comprehensive income on the accompanying consolidated statements of comprehensive income (loss) for the six-month period ended May 31, 2018 and 2017.

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 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 May 31, 2018 and November 30, 2017 the Company recorded reserves under these programs in the amounts of approximately \$18,000 and \$18,000, respectively, which are included in accrued expenses in the accompanying consolidated balance sheets.

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Recently Issued Accounting Pronouncements

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This update simplifies the accounting for nonemployee share-based payment transactions by expanding the scope of Topic 718, Compensation-Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance is effective for annual periods beginning after December 15, 2018, and interim periods within that reporting period. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This update relates to the impacts of the tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Act). The guidance permits the reclassification of certain income tax effects of the Act from Other Comprehensive Income to Retained Earnings (stranded tax effects). The guidance also requires certain new disclosures. The guidance is effective for annual periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. Entities may adopt the guidance using one of two transition methods; retrospective to each period (or periods) in which the income tax effects of the Act related to the items remaining in Other Comprehensive Income are recognized or at the beginning of the period of adoption. The Company is currently evaluating the impact that the guidance may have on its Consolidated Financial Statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. This update provides clarity, reduces the diversity in practice, and the cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, although early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

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

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

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts

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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. 2016-08, *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.

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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 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 Inventory

The components of inventory at May 31, 2018 and November 30, 2017 are as follows:

| | May 31, 2018 | November 30, 2017 |
|-------------------|--------------|-------------------|
| Raw materials | \$ | \$ |
| Work-in-process | 80,526 | 97,210 |
| Finished goods | 329,263 | 210,854 |
| Collection kits | 22,423 | 14,220 |
| Inventory reserve | (7,718) | (7,718) |
| Total inventory | \$ 424,494 | \$ 314,566 |

Note 3 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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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*.

Intangible assets were as follows as of May 31, 2018 and November 30, 2017:

| | Useful lives | May 31, 2018 | November 30, 2017 |
|-----------------------------------|--------------|-------------------|-------------------|
| Patents | 10-20 years | \$ 234,570 | \$ 34,570 |
| Less: Accumulated amortization | | (17,732) | (11,800) |
| License agreement | 10 years | 470,000 | 470,000 |
| Less: Intangible asset impairment | | (185,000) | (185,000) |
| Less: Accumulated amortization | | (107,694) | (91,861) |
| Customer relationships | 15 years | 41,000 | 41,000 |
| Less: Intangible asset impairment | | (26,267) | (26,267) |
| Less: Accumulated amortization | | (4,750) | (4,224) |
| Net Intangible Assets | | \$ 404,127 | \$ 226,418 |

Amortization expense of intangibles was approximately \$11,000 and \$9,000 for the three months ended May 31, 2018 and May 31, 2017, respectively. Amortization expense of intangibles was approximately 22,000 and \$17,000 for the six months ended May 31, 2018 and May 31, 2017, respectively.

Note 4 Notes Payable

On May 20, 2016, the Company entered into a Credit Agreement (Agreement) with Texas Capital Bank, National Association (TCB) for a term loan of \$8.0 million in senior credit facilities. The proceeds of the term loan were used by the Company to fund repurchases of the Company s common stock. Subject to the terms of the Agreement, on May 20, 2016, TCB advanced the Company \$100.00. On July 1, 2016, TCB advanced the remaining principal amount of \$7,999,900 per a promissory note dated May 20, 2016 between the Company and TCB, at a rate of 3.75% per annum plus LIBOR, payable monthly with a maturity date of July 2021. On August 26, 2016, the Company entered into a First Amendment to Credit Agreement with TCB. Pursuant to terms of the First Amendment to Credit Agreement, on August 26, 2016, TCB made an additional advance to the Company in principal amount of \$2,133,433 per an Amended and Restated Promissory Note dated August 26, 2016 between the Company and TCB. The additional proceeds of the term loan were used by the Company to fund the extinguishment of revenue sharing agreements. As of May 31, 2018 and November 30, 2017, principal paid to date is 3,633,000 and \$2,633,000, respectively, at a rate of 3.75% per annum plus LIBOR. As of the three month and six months ended May 31, 2018, the Company paid interest of \$94,818 and \$188,645, respectively, which is reflected in interest expense on the accompanying consolidated statements of comprehensive (loss) income. As of the three month and six months ended May 31, 2017, the Company paid interest of \$104,030 and \$206,518, respectively, which is reflected in interest expense on the accompanying consolidated statements of comprehensive (loss) income.

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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 were used by the Company to fund 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 was payable. On June 5, 2017, the principal sum of \$650,000 plus interest of \$867 was paid to CrowdOut and the subordinated loan was paid in full. As of the three and six months ended May 31, 2018, the Company paid interest of \$0 and \$0, respectively. As of the three and six months ended May 31, 2017, the Company paid interest of \$19,933 and \$39,433, respectively which is reflected in interest expense on the accompanying consolidated statements of comprehensive (loss) income.

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

The Company incurred debt issuance costs related to the term loan in the amount of \$378,785 which is recorded as a direct reduction of the carrying amount of the note payable and amortized over the life of the loan. As of the three and six months ended May 31, 2018, \$24,837 and \$51,540, respectively, of the debt issuance costs were amortized. As of the three and six months ended May 31, 2017, \$32,289 and \$66,442, respectively, of the debt issuance costs were amortized and are reflected in interest expense on the accompanying consolidated statements of comprehensive income.

As of May 31, 2018 and November 30, 2017, the note payable obligation was as follows:

| | May 31, 2018 | November 30, 2017 |
|--|---------------------|---------------------|
| Note payable | \$ 6,500,100 | \$ 7,500,100 |
| Unamortized debt issuance costs | (153,377) | (204,917) |
| Net note payable | \$ 6,346,723 | \$ 7,295,183 |
| Current portion of note payable | \$ 2,000,000 | \$ 2,000,000 |
| Long-term note payable, net of debt issuance costs | 4,346,723 | 5,295,183 |
| Total | \$ 6,346,723 | \$ 7,295,183 |

Interest expense on the note payable for the three and six months ended May 31, 2018 and May 31, 2017 was as follows:

| | For the three months ended May 31, 2018 | For the six months ended May 31, 2018 |
|-----------------------------------|---|---------------------------------------|
| Interest expense on notes payable | \$ 94,818 | \$ 188,645 |
| Debt issuance costs | 24,837 | 51,540 |
| Total Interest expense | \$ 119,655 | \$ 240,185 |

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| | For the three months ended May 31, 2017 | For the six months ended May 31, 2017 |
|-----------------------------------|---|---|
| Interest expense on notes payable | \$ 123,963 | \$ 245,951 |
| Debt issuance costs | 32,289 | 66,442 |
| Total interest expense | \$ 156,252 | \$ 312,393 |

Note 5 Income per Common Share

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | May 31, 2018 | May 31, 2017 | May 31, 2018 | May 31, 2017 |
| Numerator: | | | | |
| Net Income | \$ 539,506 | \$ 496,940 | \$ (1,990,566) | \$ 983,863 |
| Denominator: | | | | |
| Weighted-average shares outstanding-basic | 7,247,464 | 7,144,775 | 7,177,082 | 7,024,280 |
| Dilutive common shares issuable upon exercise of stock options | 670,271 | 581,785 | | 558,255 |
| Weighted-average shares-diluted | 7,917,735 | 7,726,560 | 7,177,082 | 7,582,535 |
| Net income per common share: | | | | |
| Basic | \$ 0.07 | \$ 0.07 | \$ (0.28) | \$ 0.14 |
| Diluted | \$ 0.07 | \$ 0.06 | \$ (0.28) | \$ 0.13 |

For the three months ended May 31, 2018, the Company excluded the effect of 51,636 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. For the six months ended May 31, 2018, the Company excluded the effect of all outstanding stock options from the calculation 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 six months ended May 31, 2017, the Company included the effect of all outstanding options in the computation of diluted earnings per share, as all of the outstanding stock options were in the money.

Note 6 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

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options to purchase shares and performance units). As of May 31, 2018 and November 30, 2017, there were 444,000 and 457,250 options issued, but not yet exercised, under the 2006 Plan, respectively. As of May 31, 2018, there were 319,929 shares available for future issuance under the 2006 Plan.

The Company 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 May 31, 2018, there were 621,365 service-based options issued, 129,729 service-based restricted common shares granted, 823,415 performance-based and 116,240 market-based restricted common shares granted under the 2012 Plan. As of May 31, 2018, there were 809,251 shares available for future issuance under the 2012 Plan. In March 2018, the Company received notice that shares of the Company's common stock issued to certain executive officers pursuant to the Company's 2012 Stock Incentive Plan had purportedly been issued in excess of the shares reserved for issuance under the Plan. The Company has established an independent committee of the Board of Directors to review this issue.

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 51,636 and 0 options granted during the three and six months ended May 31, 2018 and May 31, 2017, respectively.

Variables used to determine the fair value of the options granted for the three and six months ended May 31, 2018 are as follows:

| | Three Months Ended May 31, 2018 | Six Months Ended May 31, 2018 |
|---------------------------------|------------------------------------|----------------------------------|
| Weighted average values: | | |
| Expected dividends | 0% | 0% |
| Expected volatility | 50.8% | 50.8% |
| Risk free interest rate | 2.67% | 2.67% |
| Expected life | 5 years | 5 years |

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Stock option activity for options with only service-based vesting conditions for the six months ended May 31, 2018, was as follows:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|----------------------------------|-----------|--|---|---------------------------------|
| Outstanding at November 30, 2017 | 1,026,979 | \$ 2.50 | 4.48 | \$ 5,706,107 |
| Granted | 51,636 | 7.85 | | 80 |
| Exercised | (2,250) | 2.19 | | 12,815 |
| Expired/forfeited | (11,000) | 2.10 | | 59,380 |
| Outstanding at May 31, 2018 | 1,065,365 | \$ 2.77 | 4.22 | \$ 5,059,743 |
| Exercisable at May 31, 2018 | 1,016,358 | \$ 2.57 | 4.14 | \$ 5,018,648 |

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 May 31, 2018 or May 31, 2017, as applicable. The intrinsic value of the Company's stock options changes based on the closing price of the Company's stock.

For the three and six months ended May 31, 2018, the Company issued 1,000 and 2,250 common shares to option holders who exercised options for \$2,670 and \$4,920, respectively.

For the three and six months ended May 31, 2017, the Company issued 7,500 and 26,781 common shares to option holders who exercised options for \$17,900 and \$51,396, respectively.

Significant option groups outstanding and exercisable at May 31, 2018 and related price and contractual life information are as follows:

| Range of Exercise Prices | Outstanding | Outstanding | Weighted Average Exercise Price | Outstanding | Exercisable |
|-----------------------------|-------------|---|--|-------------|--|
| | | Weighted Average Remaining Contractual Life (Years) | | | Weighted Average Exercise Price |
| \$1.01 to \$2.00 | 422,500 | 3.43 | \$ 1.73 | 422,500 | \$ 1.73 |
| \$2.01 to \$3.00 | 339,000 | 2.33 | \$ 2.70 | 339,000 | \$ 2.70 |
| \$3.01 to \$4.00 | 227,229 | 7.67 | \$ 3.18 | 218,896 | \$ 3.18 |
| \$6.01 to \$7.00 | 25,000 | 8.84 | \$ 6.95 | 18,747 | \$ 7.00 |
| \$7.01 to \$8.00 | 51,636 | 5.58 | \$ 7.85 | 17,215 | \$ 7.85 |

| | | | | |
|-----------|------|---------|-----------|---------|
| 1,065,365 | 4.22 | \$ 2.77 | 1,016,358 | \$ 2.57 |
|-----------|------|---------|-----------|---------|

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A summary of the status of the Company's non-vested options as of May 31, 2018, and changes during the six months ended May 31, 2018, is presented below:

| | Options | Weighted Average Grant-Date Fair Value |
|---------------------------------|----------------|---|
| Non-vested at November 30, 2017 | 39,168 | \$ 2.41 |
| Granted | 51,636 | 3.23 |
| Vested | (41,797) | 2.77 |
| Forfeited | | |
| Non-vested at May 31, 2018 | 49,007 | \$ 2.96 |

As of May 31, 2018, there was approximately \$123,000 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 1.37 years as of May 31, 2018. The total fair value of shares vested during the six months ended May 31, 2018 was approximately \$116,000.

During the second fiscal quarter of 2018, the Company entered into Amended and Restated Employment Agreements (2018 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 stock options of the Company's common stock. As of March 8, 2018, David Portnoy and Mark Portnoy were granted 23,636 and 20,000 stock 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, 2018 and the remaining 1/3 on November 30, 2019. The fair value of the options vested as of May 31, 2018 was approximately \$48,000 and is reflected as selling, general and administrative expenses in the accompanying consolidated statement of comprehensive income. As of May 31, 2018, there was approximately \$91,000 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 2018 Employment Agreements through November 30, 2019.

During the second fiscal quarter of 2018, the Company entered into an Amendment Agreement with the Company's CIO. Per the Amendment Agreement, the CIO is to receive a base grant equity award in the form of qualified stock options of the Company's common stock. As of May 21, 2018, Oleg Mikulinsky was granted 8,000 stock options of the Company's common stock. The options were issued under the Company's 2012 Stock Plan and will vest 1/3 upon grant, 1/3 on December 1, 2018 and the remaining 1/3 on November 30, 2019. The fair value of the options vested as of May 31, 2018 was approximately \$9,000 and is reflected as selling, general and administrative expenses in the accompanying consolidated statement of comprehensive income. As of May 31, 2018, there was approximately \$19,000 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 Amendment Agreement through November 30, 2019.

Performance and market-based vesting condition options

Per the 2018 Employment Agreements, based upon certain performance criteria, the Company shall grant David Portnoy and Mark Portnoy a percentage of up to 47,273 and 40,000, respectively, of qualified stock options of the Company's common stock. The fair value of these options as of May 31, 2018 was approximately \$73,550 and is reflected as selling, general and administrative expenses in the accompanying consolidated statement of comprehensive income (loss). As of May 31, 2018, there was approximately \$73,550 of total unrecognized

compensation cost related to these options of common stock as notated above and per the 2018 Employment Agreements.

Per the Amendment Agreement, based upon certain performance criteria, the Company shall grant Oleg Mikulinsky a percentage of up to 8,000 of qualified stock options of the Company's common stock. The fair value of these options as of May 31, 2018 was approximately \$6,750 and is

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reflected as selling, general and administrative expenses in the accompanying consolidated statement of comprehensive income (loss). As of May 31, 2018, there was approximately \$6,750 of total unrecognized compensation cost related to these options of common stock as notated above and per the 2018 Employment Agreements.

There were no performance-based or market-based vesting condition options granted during the three and six months ended May 31, 2017.

Restricted common shares

As of April 15, 2016, the Company entered into Amended and Restated Employment Agreements (*Employment Agreements*) with each of the Company's Co-CEOs. The Employment Agreements provide for the grant of shares of the Company's common stock based on certain performance measures being attained by each of the Company's Co-CEOs during fiscal year 2016 and fiscal year 2017. The Employment Agreements state if David Portnoy and Mark Portnoy are employed by the Company on November 30, 2016 and November 30, 2017, then no later than February 28, 2017 and February 28, 2018, respectively, the Company will grant up to 186,487 and 162,163 shares of common stock for each fiscal year. Based upon the performance measures attained as of November 30, 2016, the Company granted 183,145 and 159,257 shares of common stock to David Portnoy and Mark Portnoy, respectively. There was \$0 of total unrecognized compensation cost as of May 31, 2018 and May 31, 2017, respectively. Based upon the performance measures being attained as of November 30, 2017, David Portnoy and Mark Portnoy earned a total of 121,801 and 105,915 shares of common stock, respectively. Pursuant to the terms of the Employment Agreements, the Co-CEOs each opted to receive a lump sum cash payment in lieu of 30,000 shares of earned common stock which amounted to approximately \$444,000. The Company then granted the remaining earned shares of 91,801 and 75,915 to David Portnoy and Mark Portnoy, respectively. The fair value of the shares granted was approximately \$756,000. There was \$0 and \$362,000 of total unrecognized compensation cost as of May 31, 2018 and May 31, 2017, respectively.

As of April 18, 2016, the Company entered into a second Amendment Agreement (the *Amendment*), with the Company's CIO Oleg Mikulinsky effective December 1, 2015, amending certain terms of the Amendment Agreement dated May 1, 2013 and Mikulinsky Employment Agreement dated March 5, 2012. The Amendment provides for the grant of shares of the Company's common stock based on certain performance measures being attained by the Company during fiscal year 2016 and fiscal year 2017. The Amendment states if Executive is employed by the Company on November 30, 2016 and November 30, 2017, then no later than February 28, 2017 and February 28, 2018, respectively, the Company will grant Executive up to 20,000 shares of restricted stock based on performance as set forth in the Amendment per each fiscal year. Based upon performance measures being attained as of November 30, 2016, the Company granted 19,620 shares of common stock to Oleg Mikulinsky. There was \$0 of total unrecognized compensation cost as of May 31, 2018 and May 31, 2017, respectively. Based upon performance measures being attained as of November 30, 2017, the Company will grant a total of 14,729 shares of common stock to Oleg Mikulinsky. The fair value of the shares to be granted is approximately \$80,000. There was \$0 and \$80,000 of total unrecognized compensation cost as of May 31, 2018 and May 31, 2017, respectively.

Note 7 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.

Table of Contents**Technology Agreements**

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

Per the License and Royalty Agreement with Lifecell, there is a \$1 Million cap on the amount of 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. Since inception of the License and Royalty Agreement, the Company has recorded approximately \$6,200,000 in royalty income due under the terms of the License and Royalty Agreement, of which, Lifecell has paid the Company approximately \$6,100,000 as of May 31, 2018. The balance of \$92,000 is reflected as Accounts Receivable on the accompanying consolidated balance sheets.

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.

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 six months ended May 31, 2018 and May 31, 2017. The initial license fees and processing and storage royalties are reflected in licensee and royalty income in the accompanying consolidated statements of operations.

| Processing and Storage Royalties | | | |
|----------------------------------|--------------------|------------------|--|
| | Three Months Ended | Six Months Ended | |
| | May 31, 2018 | May 31, 2018 | |
| India | \$ 203,159 | \$ 203,159 | |
| Total | \$ 203,159 | \$ 203,159 | |
| | Three Months Ended | Six Months Ended | |
| | May 31, 2017 | May 31, 2017 | |
| India | \$ 328,669 | \$ 328,669 | |
| Total | \$ 328,669 | \$ 328,669 | |

Note 8 Legal Proceedings

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

outcome, as the ultimate resolution of the complaint is uncertain at this time. No amounts have been accrued as of May 31, 2018.

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

Note 9 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.

As of May 31, 2018, the Company had repurchased an aggregate of 5,801,086 shares of the Company's common stock at an average price of \$3.37 per share through open market and privately negotiated transactions. The Company purchased 0 and 79,942 shares of the Company's common stock during the six months ended May 31, 2018 and May 31, 2017, respectively, at an average price of \$0 per share and \$5.05 per share, respectively.

The repurchased shares will be held as treasury stock at cost and have been removed from common shares outstanding as of May 31, 2018 and November 30, 2017. As of May 31, 2018 and November 30, 2017, 5,801,086 and 5,801,086 shares, respectively, were held as treasury stock.

Subsequent to the balance sheet date, the Company has not repurchased any additional shares of the Company's common stock.

Note 10 Subsequent Events

On May 29, 2018, the Company entered into a definitive Asset Purchase Agreement (the "Purchase Agreement") with Cord:Use Cord Blood Bank, Inc., a Florida corporation ("Cord:Use"), pursuant to which it was agreed, subject to the closing conditions contained therein, to purchase substantially all of Cord:Use's

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assets, including without limitation Cord:Use's inventory of public cord blood units existing as of the closing date (the Public Cord Blood Inventory) and Cord:Use's shares of common stock of Tianhe Stem Cell Biotechnologies, Inc., an Illinois corporation (the Tianhe Capital Stock). Cord:Use is in the business of public and private cord blood and tissue, collection, processing, storage and banking. The aggregate consideration payable on June 11, 2018 (Closing Date) under the Purchase Agreement was \$14,000,000, with \$10,500,000 paid in cash and the balance paid through the delivery to Cord:Use of 465,426 shares of the Company's common stock, par value \$0.01 per share (Common Stock), at \$7.52 per share. In addition, the Company assumed certain limited liabilities incurred by Cord:Use in connection with its business that remain unpaid as of the closing date and that directly relate to the services to be provided after closing by the Company. The Company also assumed certain of Cord:Use's contracts and the obligations arising therefrom after the closing. Additionally, Cord:Use is entitled to an earnout from the Company's sale of the Public Cord Blood Inventory from and after closing in excess of certain thresholds, payable in cash and/or additional shares of Common Stock, on the terms set forth in the Purchase Agreement, and, in certain circumstances further described in the Purchase Agreement, Cord:Use also is entitled to a portion of the gross profits generated, or deemed to have been generated, by the Company from its ownership of the Tianhe Capital Stock.

As a result of the acquisition of Cord:Use, beginning in the third quarter of 2018, our consolidated results of operations will include the results of the Cord:Use. We have not completed a detailed valuation analysis necessary to determine the final fair market values of the acquired net assets of Cord:Use, and any related income tax effects and the initial accounting for the business combination is incomplete at this time. We expect to finalize the acquisition accounting related to the transaction during the third quarter of 2018. We will furnish pro forma financial information pursuant to FASB and SEC guidelines when it becomes available.

As of June 11, 2018, subsequent to the balance sheet date, the Company entered into an Second Amendment to Credit Agreement (the Second Amendment) with Texas Capital Bank, National Association, which amended Cryo-Cell's Credit Agreement dated as of May 20, 2016 (see Note 4) to provide for, among other things, an increase in the current outstanding principal amount of the loan from Texas Capital Bank by \$9,000,000 to finance a portion of the purchase price of the Cord:Use Purchase. In connection therewith, Cryo-Cell executed and delivered to Texas Capital Bank a Second Amended and Restated Promissory Note, in the principal amount of \$15,499,999.81, dated as of June 11, 2018 (the Restated Note) at a rate of 3.35% per annum plus LIBOR, payable monthly with a maturity date of June 2023.

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 anticipate, believe, goal, strategy, plan, intend, estimate and similar expressions and variations thereof 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;

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(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;
- (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;

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- (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 Company's ability to realize a profit on the acquisition of Cord:Use;
- (xxvi) the costs associated with proxy contests and its impact on our business and
- (xxvii) other factors many of which are beyond our control.

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

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

Overview

The Company is engaged in cellular processing and cryogenic storage, with a current focus on the collection and preservation of umbilical cord blood stem cells for family use. The Company's principal sources of revenues are service fees for cord blood processing and preservation for new customers and recurring annual storage fees. Effective April 2016, the Company offers two pricing models, a standard

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plan and premium plan. The Company charges fees of \$1,600 for the standard plan and \$1,950 for the premium plan to new clients for the collection kit, processing, testing and return medical courier service, with discounts in the case of multiple children from the same family and in other circumstances. The Company charges an annual storage fee of \$150 for new clients that enroll in the standard and premium plans; storage fees for existing customers depend on the contracts with such customers. The Company continues to offer a one-time payment plan for 21 years of storage and a life-time payment plan, pursuant to which the client is charged \$4,599 for the standard plan and \$4,949 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.

During the six months ended May 31, 2018, total revenue increased 6% as compared to the same period in 2017. The Company reported a net loss of approximately (\$1,991,000) or (\$0.28) per basic common share for the six months ended May 31, 2018 compared to net income of approximately \$984,000 or \$0.14 per basic common share for the same period in 2017. Net loss for the six months ended May 31, 2018 principally resulted from a 6% increase in revenue offset by a 9% increase in cost of sales, an 9% increase in selling, general and administrative expenses, and approximately \$2,985,000 of income tax expense related to the reduction of the federal tax rate to 21% as of January 1, 2018 as a result of the Tax Cuts and Jobs Act that was signed into law on December 22, 2017. The decrease in the federal tax rate caused a decrease in the Company's deferred tax asset which resulted in an increase in the income tax expense.

At May 31, 2018, the Company had cash and cash equivalents of \$6,540,982. The Company's cash increased approximately \$262,000 during the first six months of fiscal 2018. Cash provided by operations was approximately \$1,724,000 which was offset by approximately \$467,000 used for the purchase of property and equipment and intangibles and approximately \$1,000,000 used to repay the note payable. On May 20, 2016, the Company entered into a Credit Agreement (Agreement) with Texas Capital Bank, National Association (TCB) for a term loan of \$8.0 million in senior credit facilities. The proceeds of the term loan were used by the Company to fund repurchases of the Company's common stock. Subject to the terms of the Agreement, on May 20, 2016, TCB advanced the Company \$100.00. 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 Company on May 20, 2016. The proceeds of the subordinated loan were to be used by the Company to fund continued repurchases of the Company's common stock. On June 5, 2017, the Company paid CrowdOut the principal sum of \$650,000 plus interest of \$867. The subordinated loan is paid in full.

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 the extinguishment of revenue sharing agreements.

As of June 11, 2018, subsequent to the balance sheet date, the Company entered into an Second Amendment to Credit Agreement (the Second Amendment) with Texas Capital Bank, National Association, which amended Cryo-Cell's Credit Agreement dated as of May 20, 2016 (see Note 4) to provide for, among other things, an increase in the current outstanding principal amount of the loan from Texas Capital Bank by \$9,000,000 to finance a portion of the purchase price of the Cord:Use Purchase. In

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connection therewith, Cryo-Cell executed and delivered to Texas Capital Bank a Second Amended and Restated Promissory Note, in the principal amount of \$15,499,999.81, dated as of June 11, 2018 (the Restated Note) at a rate of 3.35% per annum plus LIBOR, payable monthly with a maturity date of June 2023.

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

Results of Operations - Six Month Period Ended May 31, 2018 Compared to the Six-Month Period Ended May 31, 2017

Revenues. Revenues for the six months ended May 31, 2018 were \$12,753,581 as compared to \$12,013,375 for the same period in 2017, a 6% increase. The increase in revenue was primarily attributable to a 9% increase in processing and storage fees.

Processing and Storage Fees. The increase in processing and storage fee revenue is attributable to a 9% increase in recurring annual storage fee revenue and an 8% increase in the number of new domestic cord blood specimens processed in the first six months of fiscal 2018 versus the same period in 2017.

Product Revenue. For the six months ended May 31, 2018, revenue from the Prepacyte CB product sales was \$54,900 compared to \$226,655 for the six months ended May 31, 2017.

Licensee and Royalty Income. Licensee and royalty income for the six months ended May 31, 2018, was \$203,159 as compared to \$328,669 for the 2017 period. Licensee and royalty income for the six months ended May 31, 2018 and May 31, 2017 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 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. Since inception of the License and Royalty Agreement, the Company has recorded approximately \$6,200,000 in royalty income due under the terms of the License and Royalty Agreement, of which, Lifecell has paid the Company approximately \$6,100,000 as of May 31, 2018. The balance of \$92,000 is reflected as Accounts Receivable on the accompanying consolidated balance sheets.

Cost of Sales. Cost of sales for the six months ended May 31, 2018 was \$3,378,646 as compared to \$3,108,063 for the same period in 2017, representing a 9% increase. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company s facility in Oldsmar, Florida and depreciation expense of approximately \$48,000 and \$50,000 for the six months ended May 31, 2018 and 2017, respectively. Also, included in Cost of sales is \$97,065 and \$198,190 related to the costs associated with production of the PrepaCyte®-CB processing and storage system for the six months ended May 31, 2018 and May 31, 2017, respectively. The increase in cost of sales for the six months ended May 31, 2018 versus May 31, 2017 is due to the increased costs associated with the 8% increase in the number of new domestic cord blood specimens processed in the first six month of fiscal 2018 versus the first six month of fiscal 2017.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses for the six months ended May 31, 2018 were \$7,122,576 as compared to \$6,509,914 for the 2017 period representing a 9% increase. These expenses are primarily comprised of expenses for consumer advertising, salaries and wages for personnel and professional fees. The increase in selling, general and administrative expenses is primarily due to an increase of \$555,000 in salaries and stock option expense pursuant to employment contracts and an increase of \$188,000 in selling and marketing expenses.

Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the six months ended May 31, 2018 were \$42,693 as compared to \$23,456 for the 2017 period.

Depreciation and Amortization. Depreciation and amortization (not included in Cost of Sales) for the six months ended May 31, 2018 was \$72,793 compared to \$63,566 for the 2017 period.

Interest Expense. Interest expense during the six months ended May 31, 2018 was \$585,071 compared to \$622,358 for the six months ended May 31, 2017, of which, \$240,185 and \$312,393, respectively, related to the credit and subordination agreements with Texas Capital Bank, National Association and CrowdOut Capital LLC as described in Note 4. The remaining interest expense is mainly comprised of amounts due to the parties to the Company's revenue sharing agreements (RSAs) based on the Company's storage revenue collected.

Income Taxes. U.S. income tax expense for the six months ended May 31, 2018 was \$3,496,616 compared to \$601,908 for the six months ended May 31, 2017. Included in the \$3,496,616 tax expense for the six months ended May 31, 2018 is approximately \$2,985,000 of expense related to the reduction of the federal tax rate to 21% as of January 1, 2018 as a result of the Tax Cuts and Jobs Act that was signed into law on December 22, 2017. The decrease in the federal tax rate caused a decrease in the Company's deferred tax asset which resulted in an increase in the income tax expense.

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 \$21,972 and \$35,546 for the six months ended May 31, 2018 and May 31, 2017, respectively, of foreign income tax expense, which is included in income tax expense in the accompanying consolidated statements of comprehensive income.

Results of Operations - Three Month Period Ended May 31, 2018 Compared to the Three-Month Period Ended May 31, 2017

Revenues. Revenues for the three months ended May 31, 2018 were \$6,525,463 as compared to \$6,236,751 for the same period in 2017. The increase in revenue was primarily attributable to an 8% increase in processing and storage fees.

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Processing and Storage Fees. The increase in processing and storage fee revenue is primarily attributable to an 8% increase in the number of new cord blood specimens processed for three months ended May 31, 2018 versus the same period in 2017.

Product Revenue. For the three months ended May 31, 2018, revenue from the product sales was \$26,849 compared to \$61,855 for the three months ended May 31, 2017.

Licensee and Royalty Income. Licensee and royalty income for the three months ended May 31, 2018, was \$203,159 as compared to \$328,669 for the 2017 period. Licensee and royalty income for the three months ended May 31, 2018 and May 31, 2017 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 agreement.

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. Since inception of the License and Royalty Agreement, the Company has recorded approximately \$6,200,000 in royalty income due under the terms of the License and Royalty Agreement, of which, Lifecell has paid the Company approximately \$6,100,000 as of May 31, 2018. The balance of \$92,000 is reflected as Accounts Receivable on the accompanying consolidated balance sheets.

Cost of Sales. Cost of sales for the three months ended May 31, 2018 was \$1,777,138 as compared to \$1,591,966 for the same period in 2017, representing a 12% increase. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and depreciation expense of approximately \$24,000 and \$24,000 for the three months ended May 31, 2018 and 2017, respectively. Also, included in Cost of Sales is \$50,880 and \$74,888 related to the costs associated with production of the PrepaCyte®-CB processing and storage system for the three months ended May 31, 2018 and May 31, 2017, respectively. The increase in cost of sales for the three months ended May 31, 2018 versus May 31, 2017 is due to the increased costs associated with the 8% increase in the number of new domestic cord blood specimens processed in the second quarter fiscal 2018 versus the second quarter fiscal 2017.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended May 31, 2018 were \$3,533,057 as compared to \$3,411,759 for the 2017 period representing a 4% 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 an increase of \$164,000 in professional fees and an increase of \$98,000 in selling and marketing expenses.

Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the three months ended May 31, 2018 were \$29,284 as compared to \$8,840 for the 2017 period.

Depreciation and Amortization. Depreciation and amortization (not included in Cost of Sales) for the three months ended May 31, 2018 was \$36,248 compared to \$31,936 for the 2017 period.

Interest Expense. Interest expense during the three months ended May 31, 2018, was \$304,094 compared to \$325,314 during the comparable period in 2017. Interest expense for the three months ended May 31, 2017 and May 31, 2016 was \$119,655 and \$156,252, respectively, related to the credit and subordination agreements with Texas Capital Bank, National Association and CrowdOut Capital LLC as described in Note 4. The remaining interest expense is mainly comprised of amounts due to the parties to the Company's revenue sharing agreements (RSAs) based on the Company's

storage revenue collected.

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Income Taxes. U.S. income tax expense for the three months ended May 31, 2018 was \$293,949 compared to \$296,191 for the three months ended May 31, 2017.

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 \$21,972 and \$35,546 for the three months ended May 31, 2018 and 2017, respectively, of foreign income tax expense, which is included in income tax expense in the accompanying consolidated statements of comprehensive 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 Company on May 20, 2016. The proceeds of the subordinated loan were to 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 was payable monthly with a maturity date of July 2021, at which time, the principal amount of \$650,000 was due. In June 2017, the Company repaid the subordinated principal plus interest of \$650,867.

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 the extinguishment of revenue sharing agreements.

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 May 31, 2018, the Company had cash and cash equivalents of \$6,540,982 as compared to \$6,279,154 at November 30, 2017. The increase in cash and cash equivalents during the six months ended May 31, 2018 was primarily attributable to the following:

Net cash provided by operating activities for the six months ended May 31, 2018 was \$1,723,895, which was primarily attributable to the Company s operating results and an increase in the Company s new clients choosing the prepaid storage plans versus the annual storage fee plan which was partially offset by a deposit of \$700,000 that was paid per the Asset Purchase Agreement with CordUse (see Note 10).

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Net cash provided by operating activities for the six months ended May 31, 2017 was \$2,382,567, which was primarily attributable to the Company's operating results and an increase in the Company's new clients choosing the prepaid storage plans versus the annual storage fee plan.

Net cash used in investing activities for the six months ended May 31, 2018 was \$466,987 which was attributable to the purchases of property, equipment and sales and purchases of marketable securities and other investments and intangibles of \$466,987.

Net cash provided by investing activities for the six months ended May 31, 2017 was \$168,018, which was primarily attributable to sales and purchases of marketable securities and other investments in the amount of \$172,523 slightly offset by the purchases of property and equipment in the amount of \$4,505.

Net cash used in financing activities for the six months ended May 31, 2018 was \$995,080, which was primarily attributable to the payments of \$1,000,000 to repay the note payable described above offset by the receipt of \$4,920 from the exercise of stock options.

Net cash used in financing activities for the six months ended May 31, 2017 was \$1,352,529, which was primarily attributable to the stock repurchase plan pursuant to which the Company has repurchased 79,942 shares of the Company's common stock for approximately \$404,000 and \$1,000,000 used to repay the note payable described above.

The Company does not have a line of credit.

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

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

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 2017 Annual Report on Form 10-K filed with the SEC on February 28, 2018. Our most critical accounting policies and estimates include: recognition

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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 2017 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on their most recent review, as of the end of the period covered by this report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective, and that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are ineffective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In March 2018, the Company received notice that shares of the Company's common stock issued to certain executive officers pursuant to the Company's 2012 Stock Incentive Plan had purportedly been issued in excess of the shares reserved for issuance under the Plan. The Company has established an independent committee of the Board of Directors to review this issue. As part of this research, management is reviewing the Company's disclosure controls and 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

Other than as disclosed in *Evaluation of Disclosure Controls and Procedures* above with the respect to the matters reviewed in March 2018, there were no other changes in the Company's internal controls over financial reporting during the six months ended May 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

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

CEO and CFO Certifications

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 3, 2015, a complaint styled *Gary T. Brotherson, M.D., et al. v. Cryo-Cell International, Inc.*, Case No. 15-007461-CI, Circuit Court, Sixth Judicial Circuit, Pinellas County, Florida, was served on the Company, naming it as defendant and alleging, among other things, that the Company breached certain agreements with plaintiffs and seeking damages in excess of \$15,000, the jurisdictional amount of the court in which the action is pending. On January 12, 2016, the Company served its answer, affirmative defenses, and counterclaim against the plaintiffs. The Company believes the plaintiffs' claims are without merit and it intends to contest the action vigorously. At this time, it is not possible for the Company to estimate the loss or the range of possible loss in the event of an unfavorable outcome, as the ultimate resolution of the complaint is uncertain at this time. No amounts have been accrued as of May 31, 2018.

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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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
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 (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------|-------------------------------------|------------------------------------|---|---|
| March 1 31, 2018 | | \$ | | 2,198,914 |
| April 1 30, 2018 | | \$ | | 2,198,914 |
| May 1 31, 2018 | | \$ | | 2,198,914 |

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 | <u>Certification of Co-CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u> |
| 31.2 | <u>Certification of Co-CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u> |
| 31.3 | <u>Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u> |
| 32.1 | <u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 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 TAYMANS
Jill M. Taymans
Vice President, Finance

Date: July 16, 2018