

CRYO CELL INTERNATIONAL INC

Form 10-Q

April 13, 2017

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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 February 28, 2017**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____**

Commission File Number 0-23386

CRYO-CELL INTERNATIONAL, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE
(State or other Jurisdiction of

22-3023093
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

700 Brooker Creek Blvd. Oldsmar, FL 34677

(Address of Principal Executive Offices) (Zip Code)

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

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

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No Not Applicable

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

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

	(Unaudited) February 28, 2017	November 30, 2016
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 3,507,270	\$ 3,499,881
Marketable securities	476,456	624,223
Accounts receivable (net of allowance for doubtful accounts of \$2,305,459 and \$2,278,862, respectively)	4,449,511	4,052,728
Prepaid expenses	459,952	395,501
Inventory, net	285,961	361,142
Other current assets	142,877	78,448
Total current assets	9,322,027	9,011,923
<u>Property and Equipment-net</u>	933,396	979,463
<u>Other Assets</u>		
Intangible assets, net	252,354	261,000
Deferred tax assets	9,216,690	9,260,582
Deposits and other assets, net	28,888	25,500
Total other assets	9,497,932	9,547,082
Total assets	\$ 19,753,355	\$ 19,538,468
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 1,520,151	\$ 1,485,430
Accrued expenses	2,066,510	2,554,330
Current portion of note payable	2,000,000	2,000,000
Deferred revenue	7,003,889	7,071,924
Total current liabilities	12,590,550	13,111,684
<u>Other Liabilities</u>		
Deferred revenue, net of current portion	13,296,136	12,596,292
Note payable, net of current portion and debt issuance costs	7,353,903	7,819,750
Long-term liability revenue sharing agreements	1,425,000	1,425,000
Total other liabilities	22,075,039	21,841,042

Total liabilities	34,665,589	34,952,726
Commitments and contingencies (Note 10)		
<u>Stockholders Deficit</u>		
Preferred stock (\$.01 par value, 500,000 authorized and none issued and outstanding)		
Series A Junior participating preferred stock (\$.01 par value, 20,000 authorized and none issued and outstanding)		
Common stock (\$.01 par value, 20,000,000 authorized; 12,866,147 issued and 7,137,157 outstanding as of February 28, 2017 and 12,504,464 issued and 6,789,596 outstanding as of November 30, 2016)	128,661	125,044
Additional paid-in capital	30,447,809	30,340,573
Treasury stock, at cost	(19,213,183)	(19,124,492)
Accumulated other comprehensive income	27,347	34,408
Accumulated deficit	(26,302,868)	(26,789,791)
Total stockholders deficit	(14,912,234)	(15,414,258)
Total liabilities and stockholders deficit	\$ 19,753,355	\$ 19,538,468

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

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Unrealized loss on marketable securities (net of tax)	\$ (7,061)	\$ (93,727)
Comprehensive Income (Loss)	\$ 479,862	\$ (216,663)

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

Supplemental non-cash investing activities:

Unrealized loss on marketable securities, net of tax	\$ (7,061)	\$ (93,727)
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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

February 28, 2017

(Unaudited)

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

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

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

Revenue Recognition

Revenue Recognition for Arrangements with Multiple Deliverables

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

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

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

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

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

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

Accounts Receivable

Accounts receivable consist of uncollateralized amounts due from clients that have enrolled and processed in the umbilical cord blood stem cell processing and storage programs and amounts due from license affiliates, and 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.

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Income Taxes

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

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

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

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

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

Long-Lived Assets

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

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Goodwill

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

Stock Compensation

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

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

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

The Company issues performance-based equity awards which vest upon the achievement of certain financial performance goals, including revenue and income targets. Determining the appropriate amount to expense based on the anticipated achievement of the stated goals requires judgment, including forecasting future financial results. The estimate of the timing of the expense recognition is revised periodically based on the probability of achieving the

required performance targets and adjustments are made as appropriate. The cumulative impact of any revision is reflected in the period of the change. If the financial performance goals are not met, the award does not vest, so no compensation cost is recognized and any previously stock-recognized stock-based compensation expense is reversed.

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