CRYO CELL INTERNATIONAL INC
Form 10-Q
July 16, 2007
**Table of Contents**

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
**For the quarterly period ended May 31, 2007**

**¨ 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** | **22-3023093** |
|---|---|
| **(State or other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |

**700 Brooker Creek Blvd. Oldsmar, FL 34677**

**(Address of Principal Executive Offices) (Zip Code)**

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

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

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 16, 2007, 11,669,629 shares of $0.01 par value common stock were outstanding.

Table of Contents

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

**TABLE OF CONTENTS**

Table of Contents

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

CONSOLIDATED BALANCE SHEETS

| | May 31, 2007 (unaudited) | November 30, 2006 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 4,607,731 | $ 7,414,140 |
| Restricted cash | 200,000 | 200,000 |
| Marketable securities and other investments | 1,001,993 | 989,581 |
| Accounts receivable and advances (net of allowance for doubtful accounts of $1,042,370 and $905,984, respectively) | 2,006,488 | 1,213,569 |
| Deferred tax assets | 45,000 | 45,000 |
| Prepaid expenses and other current assets | 868,184 | 649,971 |
| Total current assets | 8,729,396 | 10,512,261 |
| **Property and Equipment-net** | 3,311,038 | 3,188,662 |
| **Other Assets** | | |
| Marketable securities and other investments | 57,780 | 50,760 |
| Notes receivable | 80,088 | 93,238 |
| Investment in Saneron CCEL Therapeutics, Inc. | 684,000 | 684,000 |
| Deposits and other assets | 123,501 | 111,462 |
| Total other assets | 945,369 | 939,460 |
| Total assets | $ 12,985,803 | $ 14,640,383 |
| **LIABILITIES AND STOCKHOLDERS DEFICIT** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 1,523,635 | $ 1,207,167 |
| Accrued expenses | 1,015,136 | 1,706,199 |
| Deferred revenue | 3,774,579 | 3,592,485 |
| Total current liabilities | 6,313,350 | 6,505,851 |
| **Other Liabilities** | | |
| Deferred revenue | 6,442,061 | 5,875,107 |
| Deferred tax liabilities | 45,000 | 45,000 |
| Long-term liability-revenue sharing agreements | 3,750,000 | 3,750,000 |
| Deferred consulting obligation | 515,390 | 556,571 |
| Total other liabilities | 10,752,451 | 10,226,678 |
| **Stockholders Deficit** | | |
| Preferred stock ($.01 par value, 500,000 authorized and none issued) | | |
| Common stock ($.01 par value, 20,000,000 authorized; 11,669,629 as of May 31, 2007 and 11,624,629 as of November 30, 2006 issued and outstanding) | 116,696 | 116,247 |
| Additional paid-in capital | 24,124,594 | 23,929,761 |

| | | |
|---|---|---|
| Treasury stock | (839,301) | (839,301) |
| Accumulated other comprehensive loss | (104,856) | (111,876) |
| Accumulated deficit | (27,377,131) | (25,186,977) |
| Total stockholders deficit | (4,079,998) | (2,092,146) |
| Total liabilities and stockholders deficit | $ 12,985,803 | $ 14,640,383 |

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

Table of Contents

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | May 31, 2007 | May 31, 2006 | May 31, 2007 | May 31, 2006 |
| **Revenue** | $ 4,449,335 | $ 4,480,285 | $ 8,623,037 | $ 8,171,537 |
| **Costs and Expenses:** | | | | |
| Cost of sales | 1,604,307 | 1,621,179 | 3,119,407 | 2,828,695 |
| Marketing, general & administrative expenses | 3,982,596 | 3,404,327 | 7,239,602 | 5,878,291 |
| Research, development and related engineering | 183,776 | 129,024 | 317,340 | 140,644 |
| Depreciation and amortization | 132,335 | 105,172 | 266,640 | 215,005 |
| Total costs and expenses | 5,903,014 | 5,259,702 | 10,942,989 | 9,062,634 |
| **Operating Loss** | (1,453,679) | (779,417) | (2,319,952) | (891,097) |
| **Other Income (Expense):** | | | | |
| Interest income | 82,127 | 70,997 | 158,823 | 139,442 |
| Interest expense | (286,916) | (253,979) | (543,383) | (483,652) |
| Other income (expense) | 10,419 | (4,528) | 10,419 | 982 |
| Licensee income | 264,224 | 136,742 | 552,219 | 469,976 |
| Total other income (expense) | 69,854 | (50,768) | 178,078 | 126,748 |
| Loss before income tax expense and equity in losses of affiliate | (1,383,825) | (830,185) | (2,141,874) | (764,349) |
| Equity in losses of affiliate | (19,668) | (29,948) | (48,280) | (40,256) |
| | (19,668) | (29,948) | (48,280) | (40,256) |
| **Net Loss** | $ (1,403,493) | $ (860,133) | $ (2,190,154) | $ (804,605) |
| Net loss per common share - basic | $ (0.12) | $ (0.07) | $ (0.19) | $ (0.07) |
| Weighted average common shares outstanding - basic | 11,663,759 | 11,624,629 | 11,644,409 | 11,624,629 |
| Net loss per common share - diluted | $ (0.12) | $ (0.07) | $ (0.19) | $ (0.07) |
| Weighted average common shares outstanding - diluted | 11,663,759 | 11,624,629 | 11,644,409 | 11,624,629 |
| Comprehensive loss: | | | | |
| Net loss: | $ (1,403,493) | (860,133) | $ (2,190,154) | $ (804,605) |
| Unrealized (loss) gain on marketable securities | (4,861) | 20,410 | 7,020 | 40,791 |
| Recognition of unrealized gain on marketable securities | 10,419 | 5,510 | 10,419 | 5,510 |
| Comprehensive loss | $ (1,397,935) | $ (834,213) | $ (2,172,715) | $ (758,304) |

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

Table of Contents

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| | Six Months Ended | |
|---|---|---|
| | May 31, 2007 | May 31, 2006 |
| **Cash Flows from Operating Activities:** | | |
| Net Loss | $ (2,190,154) | $ (804,605) |
| Adjustments to reconcile net loss to cash (used in) provided by operating activities: | | |
| Depreciation and amortization expense | 372,945 | 308,294 |
| Gain on sale of marketable securities | (10,419) | (5,510) |
| Loss on sale of property and equipment | | 4,528 |
| Compensatory element of stock options | 122,702 | 57,839 |
| Provision for doubtful accounts | 280,729 | 238,703 |
| Equity in losses of affiliate | 48,280 | 40,256 |
| Changes in assets and liabilities: | | |
| Accounts receivable and advances | (1,073,648) | (33,384) |
| Note receivable | 13,150 | 9,125 |
| Prepaid expenses and other current assets | (218,213) | (265,737) |
| Deposits and other assets | (12,039) | (2,500) |
| Accounts payable | 316,468 | 219,467 |
| Accrued expenses | (691,063) | 71,619 |
| Deferred consulting obligation | (41,181) | (52,036) |
| Deferred revenue | 749,048 | 862,986 |
| **Net cash (used in) provided by operating activities** | (2,333,395) | 649,045 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (495,321) | (390,866) |
| Sale of property and equipment | | 5,000 |
| Purchase of marketable securities and other investments | (1,001,993) | (989,581) |
| Proceeds from sale of marketable securities | 1,000,000 | 490,000 |
| **Net cash used in investing activities** | (497,314) | (885,447) |
| **Cash flows from financing activities:** | | |
| Proceeds from the exercise of stock options | 24,300 | |
| **Net cash provided by financing activities** | 24,300 | |
| **Decrease in cash and cash equivalents** | (2,806,409) | (236,402) |
| Cash and cash equivalents - beginning of period | 7,414,140 | 7,979,377 |
| Cash and cash equivalents - end of period | $ 4,607,731 | $ 7,742,975 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest | $ 517,744 | $ 456,421 |
| Income taxes | $ | $ |

| | | |
|---|---|---|
| **Supplemental schedules of non-cash investing and financing activities:** | | |
| Unrealized gain as a component of marketable securities and stockholders deficit | $ 7,020 | $ 40,791 |

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

Table of Contents

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**May 31, 2007**

**(Unaudited)**

**Note 1 Basis of Presentation**

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of May 31, 2007 and November 30, 2006, the related Consolidated Statements of Operations and Comprehensive Loss and Cash Flows for the three and six months ended May 31, 2007 and 2006 have been prepared by Cryo-Cell International, Inc. and its subsidiaries ( the Company or Cryo-Cell ). 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 unaudited consolidated financial statements herein have been prepared 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, 2006 Annual Report on Form 10-KSB.

**Revenue Recognition**

The Company records revenue from processing and storage of specimens. The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 101, (SAB 101) as amended by SAB 104, and Emerging Issues Task Force (EITF) Issue No. 00-21 for all revenue transactions. The Company recognizes revenue from processing fees upon completion of processing and cellular storage fees ratably over the contractual storage period.

**Income Taxes**

Under the asset and liability method of FASB Statement No. 109 Accounting for Income Taxes (SFAS 109), deferred 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 tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the deferred tax assets of the Company as of May 31, 2007 and November 30, 2006, has been provided as the Company does not believe it is more likely than not that the future income tax benefits will be realized. The Company did not record an income tax benefit during the three and six months ended May 31, 2007 and 2006, as the benefit was offset by an increase in the valuation allowance.

**Stock Compensation**

As of May 31, 2007, the Company has two stock-based employee compensation plans, which are described in Note 5. Prior to December 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized in the Statement of Operations for the three and six months ended May 31, 2006 as all options granted had an exercise price equal to the market value of the underlying

Table of Contents

common stock on the date of grant. Effective December 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement 123R, *Share-Based Payment* (SFAS 123R), using the modified prospective transition method. Under that transition method, compensation costs for the portion of awards for which the requisite service had not yet been rendered, and that were outstanding as of the adoption date, will be recognized as the service is rendered based on the grant date fair value of those awards calculated under SFAS 123R. Prior period results are not restated.

Had SFAS 123R been implemented in 2006, the Company s net loss and loss per share would have been adjusted to the amounts indicated:

| | For the three months ended May 31, 2006 | For the six months ended May 31, 2006 |
|---|---|---|
| Net loss, as reported | $ (860,133) | $ (804,605) |
| Add: Consultant option expense included in reported net loss | 29,903 | 57,839 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards | (80,742) | (118,927) |
| Pro forma net loss | $ (910,972) | $ (865,693) |
| Loss per share: | | |
| Basic and Diluted as reported | $ (0.07) | $ (0.07) |
| Basic and Diluted pro forma | $ (0.08) | $ (0.07) |

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123R requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. For the three and six months ended May 31, 2007 and 2006, there were no tax benefits resulting from stock option exercises.

**Recently Issued Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS No. 159). SFAS 159 permits companies to make an election to carry certain eligible financial assets and liabilities at fair value, even if fair value measurement has not historically been required for such assets and liabilities under U.S. GAAP. The provisions of SFAS No. 159 are effective for the Company s fiscal year beginning December 1, 2007. The Company is currently assessing the impact SFAS No. 159 may have on its consolidated financial statements.

The FASB has issued Statement of Financial Accounting Standards (SFAS) No. 157 (SFAS No. 157), *Fair Value Measurements*, to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. Also, SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Entities are encouraged to combine the fair value information disclosed under SFAS No. 157 with the fair value information disclosed under other accounting pronouncements, including SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, where practicable.

Table of Contents

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although early adoption is encouraged. Additionally, prospective application of the provisions of SFAS No. 157 is required as of the beginning of the fiscal year in which it is initially applied, except when certain circumstances require retrospective application. The Company anticipates adopting the provisions of SFAS No. 157 on December 1, 2007 and is currently assessing the impact on its consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS 109, Accounting for Income Taxes (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of December 1, 2007, as required. The Company has not determined the effect, if any, that the adoption of FIN 48 will have on the Company s financial position and results of operations.

**Note 2 Earnings per Common Share**

Earnings per common share data is based on net loss and not comprehensive loss. The following table sets forth the calculation of basic and diluted earnings per share:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | May 31, 2007 | May 31, 2006 | May 31, 2007 | May 31, 2006 |
| Numerator: | | | | |
| Net Loss | $ (1,403,493) | $ (860,133) | $ (2,190,154) | $ (804,605) |
| Denominator: | | | | |
| Weighted-average shares outstanding-basic | 11,663,759 | 11,624,629 | 11,644,409 | 11,624,629 |
| Dilutive common shares issuable upon exercise of stock options | | | | |
| Weighted-average shares-diluted | 11,663,759 | 11,624,629 | 11,644,409 | 11,624,629 |
| Loss per share: | | | | |
| Basic | $ (.12) | $ (.07) | $ (.19) | $ (.07) |
| Diluted | $ (.12) | $ (.07) | $ (.19) | $ (.07) |

For the three and six months ended May 31, 2007 and 2006, basic and diluted loss per share was computed by dividing net loss by the weighted average number of common shares outstanding during the period. The Company excluded the effect of all outstanding options from the computation of earnings per share for the three months and six months ended May 31, 2007 and 2006, as the effect of potentially dilutive shares from the outstanding stock options would be antidilutive.

**Note 3 Legal Proceedings**

The Company is involved in the following legal proceedings:

**Table of Contents**

On February 22, 2002, the Company was named as a defendant in a complaint filed by PharmaStem Therapeutics, Inc. in the United States District Court of Delaware (Wilmington), Case No. 02-148-GMS, alleging patent infringement of U.S Patents Nos. 5,004,681 ( 681 patent ) which relates to the collection, processing, and storage of stem cells derived from umbilical cord blood and 5,192,553 ( 553 patent ) which relates to the therapeutic use of stem cells derived from umbilical cord blood. PharmaStem, a Delaware corporation, originally named as defendants eight companies (three of which are now out of business) involved in cord blood banking. The suit sought an injunction against the companies, an unspecified amount of damages or royalties, treble damages and attorney s fees. The trial was held in October 2003, and pursuant to a jury verdict entered on October 30, 2003, a judgment was entered against the Company in the amount of $957,722 for damages relating to royalties resulting from revenues generated from specimens processed and stored from April 11, 2000 through August 31, 2003.

The defendants, including the Company, filed motions for post-trial relief, and execution of the judgment was stayed pending disposition of those motions. In December 2003, the Company transferred $957,722 into an escrow account to secure the judgment. The plaintiff also filed motions seeking an award of approximately $2,800,000 for enhanced damages, counsel fees and interest, and a permanent injunction against future infringement.

On September 15, 2004, the court ruled on the post trial motions. The court vacated its judgment, overturning the jury s verdict for patent infringement and damages previously entered against the Company, and denied PharmaStem s request for an injunction and enhanced damages against the defendants. The court entered a new judgment in favor of the Company and the other defendant blood banks with regard to PharmaStem s 553 patent, holding that the cord blood banks are not, and cannot be, liable for contributory infringement of the patent because they do not sell, or offer for sale, umbilical cord blood. Rather, the private blood banks provide a service of processing and preserving of cord blood for families. With regard to PharmaStem s 681 patent, the court granted Cryo-Cell and its co-defendants a new trial on the issues of infringement, finding that the jury s earlier verdict of infringement was against the great weight of the evidence.

On October 4, 2004, PharmaStem filed (in the Delaware action) a motion for preliminary injunction against the Company (and its co-defendants) regarding the 681 patent. PharmaStem sought an injunction limiting the ability of the Company to refer to the use of umbilical cord blood in the treatment of adults in the marketing of the Company s services, to advise its customers that cord blood stored hereafter is for pediatric use only, and to enjoin the Company from storing cord blood units that have sufficient stem cells to effect the hematopoietic reconstitution of an adult. The Company and other defendants filed a motion asking the court to reconsider the denial of the judgment as a matter of law on the 681 patent. On December 14, 2004, the court ruled in favor of the Company and other defendants. The effect of this order is that final judgment has now been entered in favor of Cryo-Cell and the other defendants on PharmaStem s charges of infringement of both patents that were asserted in that case, marking a final disposition of the case in Cryo-Cell s favor, and denying PharmaStem s motion for preliminary injunction.

On July 28, 2004, the Company was named as a defendant in a complaint filed by PharmaStem Therapeutics, Inc. in the United States District Court for the Middle District of Florida, Tampa Division, Case No. 8:04-cv-1740-T-30TGW alleging infringement of U.S. Patents Nos. 6,461,645 and 6,569,427. These patents are closely related to the 681 and 553 patents that were the subject of PharmaStem s Delaware litigation. PharmaStem also named as a defendant Dr. Bruce Zafran, a member of the Company s scientific and medical advisory board. The suit seeks an injunction, an unspecified amount of damages or royalties, treble damages and attorney s fees. The Company has filed an answer and counterclaims against PharmaStem and its Chief Executive Officer, Nicholas Didier. PharmaStem and Didier have filed motions to dismiss those counterclaims. The Judicial Panel on Multidistrict Litigation

Table of Contents

transferred this action to the District of Delaware for coordinated pretrial proceedings with other cases brought by PharmaStem alleging infringement of these same two patents by other defendants, In re: PharmaStem Therapeutics, Inc. Patent Litigation, MDL No. 1660. The Delaware court stayed all proceedings in these cases, including discovery, pending the outcome of the Federal Circuit appeal and reexamination proceedings in the U.S. Patent and Trademark Office. During the first half of 2007, the Patent Office issued reexamination certificates confirming the claims of the PharmaStem patents.

PharmaStem filed an appeal to the, the United States Court of Appeals for the Federal Circuit from the final judgment entered by the District Court in the original litigation, and the defendants, including Cryo-Cell, filed a cross-appeal. On July 9, 2007, the Court entered its decision, upholding the lower court s determination to grant judgment as a matter of law in favor of the defendants, including Cryo-Cell, on the ground that the plaintiff failed to prove infringement of either the 681 or 553 patents, and reversing the lower court s ruling with respect to validity of the patents. The Court of Appeals held both patents invalid on the ground of obviousness. Two judges supported this result, with one judge dissenting.

PharmaStem has the right to request rehearing by the full Court of Appeals and/or to request that the case be heard by the United States Supreme Court. Any petition for rehearing to the Court of Appeals must be submitted by July 23, 2007. In either case, any further review is subject to the discretion of the courts, which are not required to entertain any further appeals.

This decision, if not considered further by the appellate courts, will likely have a substantial impact on the second round of litigation involving related PharmaStem patents, which litigation, as noted above, has been stayed in the District Court for the District of Delaware pending a decision on the appeal.

**Note 4 Investments in Subsidiaries and Affiliates**

**Saneron CCEL Therapeutics, Inc. ( Saneron )**

As of May 31, 2007 and November 30, 2006, the Company had an ownership interest of approximately 38% in Saneron, which is accounted for under the equity method of accounting. The Company s ownership percentage in Saneron has decreased due to Saneron issuing common shares to entities and individuals. During 2006, the Company had an independent valuation performed on the Company s interest in Saneron. Management believes that this valuation accurately reflects the fair value of the Company s interest in Saneron as of November 30, 2006. During fiscal 2006, the Company ceased recording equity in losses in Saneron once the investment balance was written down to the total amount of goodwill, as goodwill should not be amortized. As of May 31, 2007 and November 30, 2006, the net Saneron investment, which includes goodwill, is reflected on the consolidated balance sheets at $684,000.

For the three and six months ended May 31, 2007, the Company recorded equity in losses of Saneron only related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees of $19,668 and $48,280, respectively. For the three and six months ended May 31, 2006, the Company recorded equity in losses of Saneron operations of $29,948 and $40,256, respectively. Included in equity in losses of affiliate is approximately $13,200 and $23,100 for the three and six months ended May 31, 2006 related to compensation expense for stock option awards that were granted by Saneron. The Company will continue to record equity in losses of affiliates related to stock compensation expense as this offsets additional paid-in capital and not the investment balance.

As of May 31, 2007 and November 30, 2006, the Company has classified the initial value of Company stock held by Saneron of approximately $839,000 within stockholders equity as treasury stock.

Table of Contents

**Note 5 Stock Options**

In 2000, the Company adopted a Stock Incentive Plan ( the Plan ). The Plan has reserved 2,250,000 shares of the Company s common stock for issuance pursuant to stock options or restricted stock. During 2004, the Plan was amended to allow issuance of options to certain consultants of the Company. Options issued under the Plan have a term ranging from five to seven years from the date of grant and have a vesting period ranging from immediately upon issuance to three years from the date of grant. The options are exercisable for a period of 90 days after termination.

In June 2006, the Company adopted the 2006 Stock Incentive Plan (the 2006 Plan ). The 2006 Plan 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 ), stock awards, or performance awards (i.e. performance shares and performance units). No options have been issued from this plan to date.

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. 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 is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding.

Variables used to determine the fair value of the options granted for the six months ended May 31, 2007 are as follows:

| | |
|---|---|
| Weighted average values: | |
| Expected dividends | 0% |
| Expected volatility | 208% |
| Risk free interest rate | 4.44%-4.86% |
| Expected life | 5 years |

Stock option activity for the six months ended May 31, 2007, was as follows:

| | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding at December 1, 2006 | 1,919,893 | $ 2.32 | |
| Granted | 107,500 | 2.18 | |
| Exercised | (45,000) | 0.54 | |
| Terminated | (107,597) | 3.76 | |
| Outstanding at May 31, 2007 | 1,874,796 | $ 2.27 | $ 1,000,360 |
| Exercisable at May 31, 2007 | 1,603,079 | $ 2.18 | $ 994,451 |

The weighted average grant date fair value of options granted during the six months ended May 31, 2007 was $2.14. The total intrinsic value of options exercised during the six months ended May 31, 2007 was $72,450.

**Table of Contents**

Significant option groups exercisable at May 31, 2007 and related price and contractual life information are as follows:

| Range of Exercise Prices | Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|---|---|---|---|
| $ 0.54 to $ 0.99 | 604,000 | $ 0.55 | 1.2 |
| $ 1.00 to $ 2.00 | 19,500 | $ 1.99 | .6 |
| $ 2.01 to $ 3.00 | 296,063 | $ 2.36 | 3.0 |
| $ 3.01 to $ 4.00 | 418,966 | $ 3.21 | 4.2 |
| $ 4.01 to $ 5.00 | 262,050 | $ 4.09 | 2.1 |
| $ 5.01 to $ 6.00 | 2,500 | $ 5.19 | 2.6 |
| | 1,603,079 | | |

A summary of the status of the Company s non-vested shares as of May 31, 2007, and changes during the six months ended May 31, 2007, is presented below:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Non-vested at December 1, 2006 | 335,216 | $ 3.11 |
| Granted | 107,500 | 2.14 |
| Vested | (100,879) | 3.08 |
| Forfeited | (70,120) | 3.13 |
| Non-vested at May 31, 2007 | 271,717 | $ 2.82 |

As of May 31, 2007, there was approximately $406,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.8 years. The total fair value of shares vested during the six months ended May 31, 2007 was approximately $311,000.

**Note 6 Marketable Securities and Other Investments**

The Company has certain investments in marketable securities, which are categorized as marketable securities and other investments on the accompanying balance sheets and accounted for under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). Marketable securities were $1,059,773 and $1,040,341 at May 31, 2007 and November 30, 2006, respectively. In accordance with SFAS 115, the Company recorded a gain of $5,510 for the three and six months ended May 31, 2006, in conjunction with the sale of certain marketable securities, and recorded a gain of $10,419 for the three and six months ended May 31, 2007. Included within marketable securities on the accompanying consolidated balance sheets as of May 31, 2007 and November 30, 2006 are bond investments of $1,001,993 and $989,581, respectively, which are being held to maturity. The estimated fair market value of this bond was $997,810 and $994,380 as of May 31, 2007 and November 30, 2006, respectively.

Table of Contents

**Other Investments**

The Company uses the guidance in SFAS 115 as described above, to account for the other investments. The fair value of other investments as of May 31, 2007 and November 30, 2006 was approximately $58,000 and $51,000, respectively, and the unrealized holding loss recorded as a component of stockholders deficit on other investments was approximately $11,000 and $18,000 as of May 31, 2007 and November 30, 2006, respectively.

**Note 7 Deferred Consulting Obligation**

During June 2002, the Company entered into a long-term consulting agreement with a former officer to provide future consulting services to the Company. The Company initially recognized the present value of this agreement as a liability. In August 2004, the Company stopped making payments under the consulting agreement. This agreement was terminated and following negotiations, a new agreement was negotiated by the parties and signed on April 15, 2005. The Company commenced payments under the terms of the new agreement during the second quarter of 2005. The terms of the settlement are confidential. The present value of the agreement has been reflected as a liability on the consolidated balance sheet as of May 31, 2007 and November 30, 2006.

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

**Overview**

The Company is engaged in cellular processing and cryogenic storage, with a current focus on the collection and preservation of umbilical cord (U-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. The Company currently charges fees of $1,595 to new clients for the collection kit, processing and testing and return medical courier service, with discounts available in the case of multiple children from the same family and in other circumstances. The Company currently charges an annual storage fee of $125 for new clients; storage fees for existing customers depend on the contracts with such customers. The Company also receives other income from licensing fees and royalties from global affiliates.

The Company reported a net loss for the six months ended May 31, 2007 of approximately ($2,190,000) or ($.19) per basic common share, compared to net loss of approximately ($805,000), or ($.07) per basic common share for the six months ended May 31, 2006. The increased net loss in the 2007 period compared to 2006 is in part the result of a 10% increase in cost of sales and a 23% increase in marketing, general and administrative expenses, partially offset by the 6% increase in revenue. In addition, the net loss was increased by certain expenses in the 2007 period, including approximately $317,000 in research and development expenses relating to planned new products and services and approximately $123,000 in stock option compensation resulting from adoption of FASB Statement No. 123(R). The impact of the higher costs and expenses was partially offset by an increase in revenue in the 2007 period.

In May 2007, the Company announced the isolation of a new type of adult stem cell, a maternal placental stem cell (MPSC), which has potential for treating a broad range of diseases in the future. The MPSC, is taken from the discarded placental tissue immediately after childbirth. Like stem cells recovered from umbilical cord blood, these cells may be collected without any risk to the mother or child. The new cell is maternal in origin, meaning it is genetically matched with the mother. The Company is preparing to

Table of Contents

commercialize an exclusive new service offering involving collection and preservation of MPSCs from placental tissue at the time of birth. The proposed new service will be based on the Company s intellectual property (IP) associated with methods, processes and systems for the procurement, isolation, processing and cryopreservation of MPSCs. The Company plans to offer the MPSC service, when it is commercially available, bundled with its U-Cord® umbilical stem cell collection and storage services. The Company believes that the MPSC service will provide families with the unique opportunity to safeguard both the mother and her newborn with stem cells preserved for their future potential therapeutic utilization.

A portion of the Company s research and development expenses in the first six months of 2007 related to development expenses of proprietary technology developed by the Company for the collection, processing and cryogenic preservation of Plureon® fetal placental stem cells. In April 2007, the Company announced that it has decided to indefinitely postpone plans to launch the fetal placental stem cell service, primarily due to technological commercialization considerations. The Company s research and development relating to the procurement, processing and cryopreservation of stem cells from placental tissue has contributed to its independent creation of valuable proprietary technology that the Company will protect and commercialize.

At May 31, 2007, the Company had cash and cash equivalents of $4,607,731 and marketable securities and other investments of $1,059,773. The Company s cash decreased by approximately $2,806,000 during the first half of fiscal 2007, as a result of the decline in cash flow from operations and the purchase of property and equipment. The decline in operating cash flow was partially the result of the implementation of in-house financing plans during the year and increased research and development expenses relating to the MPSC. The in-house financing plan allows the Company s clients to pay the first year s fee over twelve or fifteen months. As of July 16, 2007, the Company maintains no indebtedness.

**Results of Operations Six-month period ended May 31, 2007**

***Revenues.*** Revenues for the six months ended May 31, 2007 were $8,623,037 as compared to $8,171,537 for the same period in 2006, representing a 6% increase. The increase is primarily attributable to the effects of a successfully implemented price increase during 2006 for newly enrolling clients, as well as the overall increase in customer base over the prior year, which led to a 17% increase in storage revenues. This increase was partially offset by a 7% decrease in specimens processed and an increase in sales discounts of 11% for the six months ended May 31, 2007 compared to the 2006 period. Sales discounts represent discounts to returning clients and promotions offered to newly enrolled clients.

***Cost of Sales.*** Cost of sales for the six months ended May 31, 2007 was $3,119,407 as compared to $2,828,695 for the same period in 2006, representing a 10% increase. Cost of sales was 36% of revenues for the six months ended May 31, 2007 and 35% for the six months ended May 31, 2006. 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

Table of Contents

and the costs associated with storage of specimens at the Safti-Cell facility in Arizona. Cost of sales increased due to an increase in return medical courier service charges of approximately $144,000 and an increase in cord blood collection reimbursements of approximately $54,000. The increase in return medical courier service charges is a direct result of the price increase implemented during the first quarter of fiscal 2006. As part of the service enhancements associated with this price increase, the Company now incurs the cost of the return shipping of its cord blood collection kits.

***Marketing, General and Administrative Expenses.*** Marketing, general and administrative expenses during the six months ended May 31, 2007 were $7,239,602 as compared to $5,878,291 for the six months ended May 31, 2006, representing a 23% increase. The increase was principally attributable to the implementation of the Company s previously announced strategic initiatives to increase market share and achieve unit growth by strengthening the resources allocated to sales and marketing. This resulted in an increase of approximately $1,361,000 in expense, principally related to expenses for consumer advertising and salaries and wages. Also contributing to the expense increase in the 2007 period were $160,000 in professional fees associated with a proxy contest initiated by a dissident shareholder group. Also, during the first six months of 2007, the Company adopted SFAS 123R, resulting in stock option compensation expense of $122,702 in the first six months of 2007, versus $57,839 in the 2006 period. As a result of these increases, marketing, general and administrative expenses as a percentage of revenues increased from 84% for the six months ended May 31, 2007 compared to 72% for the 2006 period.

***Research, Development and Related Engineering Expenses.*** Research, development and related engineering expenses for the six months ended May 31, 2007 were $317,340 as compared to $140,644 for the six months ended May 31, 2006. The increase was due to expenses related to the Company s development expenses for the isolation of the MPSC and commercialization of the Company s planned MPSC service and the development expenses of the planned fetal placental stem cell service prior the decision to postpone indefinitely the commercial launch of that service.

***Interest Expense.*** Interest expense for the six months ended May 31, 2007 was $543,383 as compared to $483,652 for the same period in 2006. Interest expense is mainly comprised of payments made to the other parties to the Company s RSAs based on the Company s storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company s RSAs provide that in exchange for an up-front payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs covering the following states: New York, Texas, Florida and Illinois (including contiguous states). As the Company receives annual storage fees relating to specimens from these states, the portion of the fees shared with the parties to the RSAs are recognized as interest expense. If the Company s revenues continue to increase in areas covered by RSAs, the Company s interest expense related to the RSA payments will also increase. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of $18,740 and $20,970 for the six months ended May 31, 2007 and May 31, 2006, respectively.

***Licensee Income.*** Licensee income for the six months ended May 31, 2007, was $552,219 as compared to $469,976 for the same period in 2006. Licensee income for the six months ended May 31, 2007 consisted of $254,880 received as installment payments from the non-recurring sale of the India license agreement and $297,339 of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees. Licensee income for the six months ended May 31, 2006 consisted of $148,723 received as an installment payment from the non-recurring sale of the India license agreement and $321,253 of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements

Table of Contents

by licensees. Licensee income declined due to the effect of amendments executed during the first quarter of fiscal 2007 in which the Company and its international licensees agreed to changes in the royalty fees for processing and storage in those geographical areas.

***Equity in Losses of Affiliate.*** Equity in losses of affiliate was $48,280 for the six months ended May 31, 2007, compared to $40,256 for the same 2006 period. During the fiscal year ended November 30, 2006, the Company ceased recording equity in losses from operations once the investment balance was written down to the total amount of goodwill, as goodwill is not amortized. Equity in losses of affiliate for the six months ended May 31, 2007, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees. During the six months ended May 31, 2006, the Company recorded approximately $27,000 in equity in losses of affiliates related to such Saneron compensation expense.

***Income Taxes***. There was no income tax expense for the six months ended May 31, 2007 and for the same period in 2006. The Company did not record income tax expense due to the tax benefits of the Company s net loss not being recognized due to a full valuation for deferred tax assets being recorded. It is management s belief it is more likely than not that future tax benefits will not be realized as a result of future income

**Results of Operations Three-month period ended May 31, 2007**

***Revenues.*** Revenues for the three months ended May 31, 2007 were $4,449,335 as compared to $4,480,285 for the same period in 2006, remaining relatively flat, representing a less than 1% decrease. The decrease is primarily attributable to a decrease in specimens processed of approximately 10%, offset by a 17% increase in recurring annual storage fee revenue.

***Cost of Sales.*** Cost of sales for the three months ended May 31, 2007 was $1,604,307 as compared to $1,621,179 for the same period in 2006, representing a 1% decrease. Cost of sales was 36% of revenues for the three months ended May 31, 2007 and 36% for the three months ended May 31, 2006. 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 the costs associated with storage of specimens at the Safti-Cell facility in Arizona.

***Marketing, General and Administrative Expenses.*** Marketing, general and administrative expenses during the three months ended May 31, 2007 were $3,982,596 as compared to $3,404,327 for the three months ended May 31, 2006 representing a 17% increase. The increase was principally attributable to the implementation of the Company s previously announced strategic initiatives to increase market share and achieve unit growth by strengthening the resources allocated to sales and marketing. This resulted in an increase of approximately $377,000 in sales and marketing expense, principally related to expenses for salaries and wages and higher expenditures for professional marketing. Also contributing to the expense increase were $126,000 in professional fees associated with a proxy contest initiated by a dissident shareholder group. In addition, during the first quarter of 2007, the Company adopted SFAS 123R which resulted in stock compensation expense of $67,383 for the three month period ended May 31, 2007. As a result of these increases, marketing, general and administrative expenses as a percentage of revenues increased to 90% of revenues for the three months ended May 31, 2007 compared to 76% for the 2006 period.

***Research, Development and Related Engineering Expenses.*** Research, development and related engineering expenses for the three months ended May 31, 2007 were $183,776 as compared to $129,024 for the three months ended May 31, 2006. The increase was due to expenses related to the Company s development expenses for the commercialization of its proposed maternal placental stem cell isolation of the MPSC and commercialization of the Company s planned MPSC service.

Table of Contents

***Interest Expense.*** Interest expense for the three months ended May 31, 2007 was $286,916 as compared to $253,979 for the same period in 2006. Interest expense is mainly comprised of payments made to the other parties to the Company s RSAs based on the Company s storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company s RSAs provide that in exchange for an up-front payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs covering the following states: New York, Texas, Florida and Illinois (including contiguous states). As the Company receives annual storage fees relating to specimens from these states, the portion of the fees shared with the parties to the RSAs are recognized as interest expense. If the Company s revenues continue to increase in areas covered by RSAs, the Company s interest expense related to the RSA payments will also increase. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of $9,292 and $9,149 for the three months ended May 31, 2007 and May 31, 2006, respectively.

***Licensee Income.*** Licensee income for the three months ended May 31, 2007, was $264,224 as compared to $136,742 for the same period in 2006. Licensee income for the three months ended May 31, 2007 consisted of $127,440 received as the final installment payment from the non-recurring sale of the India license agreement and $136,784 of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees. Licensee income for the three months ended May 31, 2006 consisted of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees. Licensee income remained flat for the 2007 period over the 2006 period due to the effect of amendments executed during the first quarter of fiscal 2007 in which the Company and its international licensees agreed to changes in the royalty fees for processing and storage in those geographical areas.

***Equity in Losses of Affiliate.*** Equity in losses of affiliate was $19,668 for the three months ended May 31, 2007, compared to $29,948 for the 2006 period. During the fiscal year ended November 30, 2006, the Company ceased recording equity in losses from operations once the investment balance was written down to the total amount of goodwill, as goodwill should not be amortized. Equity in losses of affiliate for the three months ended May 31, 2007, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees. During the three months ended May 31, 2006, the Company recorded approximately $20,000 in equity in losses of affiliates related to such Saneron compensation expense.

***Income Taxes***. There was no income tax expense for the three months ended May 31, 2007 and for the same period in 2006. The Company did not record income tax expense during the second quarter of 2007 due to the tax benefits of the Company s net loss not being recognized due to a full valuation for deferred tax assets being recorded. It is management s belief it is more likely than not that future tax benefits will not be realized as a result of future income.

**Liquidity and Capital Resources**

Through May 31, 2007, the Company s sources of cash have been from sales of its U-Cord® program to customers, the sale of license agreements and proceeds from RSAs. Currently, the Company s cash flow is derived primarily from sales relating to its storage services, including the initial fees and ongoing storage fees.

At May 31, 2007, the Company had cash and cash equivalents of $4,607,731 as compared to $7,414,140 at November 30, 2006. The decrease in cash and cash equivalents during the six months ended May 31, 2007 was primarily attributable to the following:

Table of Contents

Cash used in operating activities for the six months ended May 31, 2007 amounted to $2,333,395, which was primarily attributable to the implementation of interest-free financing plans and the payments of certain prior year accounts payable relating to purchases of laboratory equipment and outstanding invoices related to the return medical courier service. In addition, the net loss in the first six months of 2007 contributed to the use of cash.

Cash used in investing activities for the six months ended May 31, 2007 amounted to $497,314 which was primarily attributable to the purchase of property and equipment.

Cash provided by financing activities for the six months ended May 31, 2007 amounted to $24,300, which was the result of exercised stock options.

The Company also has certain investments in marketable securities totaling $1,059,773 at May 31, 2007.

The Company does not have a line of credit or other type of financing instrument. Capital expenditures for the Company s new facility were funded from cash flows from operations. The Company anticipates making capital expenditures of approximately $750,000 for the fiscal year 2007.

The Company anticipates that its cash and cash equivalents, marketable securities and cash flows from operations will be sufficient to fund its 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 cellular storage services, new service offerings such as the proposed MPSC service, and controlling expenses.

**Critical Accounting Policies**

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company s critical accounting policies as the ones that are most important to the portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The Company believes that its estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

**Revenue Recognition**

The Company records revenue from processing and storage of specimens. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, (SAB 101) as amended by SAB 104, and Emerging Issues Task Force (EITF) Issue No. 00-21 for all revenue transactions. The Company recognizes revenue from processing fees upon completion of processing and cellular storage fees ratably over the contractual storage period. The Company also records revenue from shipping and handling when earned. Shipping and handling costs are expensed and included in cost of sales.

Table of Contents

**Accounts Receivable**

Accounts receivable consist of the amounts due from clients that have enrolled in the U-Cord® processing and storage program and amounts due from license affiliates. Accounts receivable due from clients are due within 30 days and are stated at amounts due from clients 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 customer s current ability to pay its obligations. 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.

**Income Taxes**

Under the asset and liability method of FASB Statement No. 109 Accounting for Income Taxes (SFAS 109), deferred 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 tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the deferred tax assets of the Company as of May 31, 2007 and November 30, 2006, has been provided as the Company does not believe it is more likely than not that the future income tax benefits will be realized. The Company did not record an income tax benefit during the first quarter of 2007, as the benefit was offset by an increase in the valuation allowance.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of December 1, 2007, as required. The Company has not determined the effect, if any, that the adoption of FIN 48 will have on the Company s financial position and results of operations.

**Investment in Saneron**

The Company made a significant investment in an entity that is involved in the area of stem cell research. The Company accounts for this investment under the equity method, and at least annually, reviews its investment for possible impairment and, if necessary, adjusts the carrying value of such investment. The Company records equity in losses of affiliates until the investment balance is zero and only goodwill is remaining. The investment is reviewed annually to determine if an other than temporary impairment exists. The Company does not believe that an impairment exists as of May 31, 2007 and November 30, 2006.

**Revenue Sharing Agreements**

The Company has entered into Revenue Sharing Agreements ( RSAs ) with various parties whereby these parties contracted with the Company for a percentage of future storage revenues the Company generates from clients in specific geographical areas. The RSAs have no definitive term or termination provisions. The sharing applies to the storage fees for all specified specimens in the area up to the number covered in the contract. When the number of specimens is filled, any additional specimens stored in that area are not subject to revenue sharing. As there are empty spaces resulting from attrition, the Company agrees to fill them as soon as possible. The parties typically pay the Company a non-refundable up-front fee for the rights to these future payments. The Company had recognized these non-refundable fees as a long-term liability. Given the criteria under which these RSAs are established, cash receipts

Table of Contents

from these contracts can fluctuate from period to period. All payments made to the other parties to the RSAs are recognized as interest expense. At such time as the total payments can be determined, the Company will commence amortizing these liabilities under the effective interest method. The Company does not intend to enter into additional RSAs.

**License and Royalty Agreements**

The Company has entered into licensing agreements with certain investors in various international markets in an attempt to capitalize on the Company s technology. The investors typically pay a licensing fee to receive Company marketing programs, technology and know-how in a selected area. The investor may be given a right to sell sub-license agreements as well. As part of the accounting for the up-front license revenue, revenue from the up-front license fee is recognized based on such factors as when the payment is due, collectibility and when all material services or conditions relating to the sale have been substantially performed based on the terms of the agreement. The Company has two active licensing agreements, one covering Mexico, Central America, and Ecuador, and another one covering India, with an option to expand into Singapore and Malaysia.

In addition to the license fee, the Company earns royalties on subsequent processing and storage revenues by the investor in the selected area and a fee on any sub-license agreements that are sold by the investor where applicable. The Company also processes and stores specimens sent directly from customers of sub-licensees in Mexico, Central America, and Ecuador. These fees are included in revenue on the consolidated statements of operations and comprehensive (loss) income. As part of the accounting for royalty revenue, the Company uses estimates and judgments in determining the timing and amount of royalty revenue to recognize. The Company periodically, and at least annually, reviews license and royalty receivables for collectibility and, if necessary, will record an expense for an allowance for uncollectible accounts.

**Marketable Securities and Other Investments**

The Company has certain investments in certificates of deposit, bonds and equity securities, which are categorized as marketable securities and other investments. The Company believes these are conservative investments with a low risk for any loss of principal. The Company regularly assesses its marketable security investments for impairments and adjusts its investment strategy, as it deems appropriate. The Company classifies certain marketable securities and other investments as current in the accompanying consolidated balance sheets based on original maturity dates of less than one year. The cost basis of the other investments has been written down to fair value.

**Deferred Consulting Fees**

The Company entered into a long-term consulting agreement with the founder and prior Chairman and Chief Executive Officer to provide future consulting services to the Company. The Company initially recognized the present value of this agreement as a liability. In August 2004, the Company stopped making payments under the consulting agreement. This agreement was terminated and following negotiations, a new agreement was negotiated by the parties and signed on April 15, 2005. The Company commenced payments under the terms of the new agreement during the second quarter of 2005. The terms of the settlement are confidential. The present value of the 2005 agreement has been reflected as a liability on the consolidated balance sheet as of May 31, 2007 and November 30, 2006.

Table of Contents

**Litigation**

The Company is periodically involved in litigation and regulatory proceedings incidental to the conduct of our business and the Company expects that it will be involved in such litigation and regulatory proceedings from time to time. The Company regularly reviews any such litigation and regulatory proceedings for possible adverse outcomes, and provides estimates for the possible liability to the Company from such adverse outcomes, as it considers appropriate.

**Product Guarantee and Cryo-Cell Cares™ Program**

In December 2005, the Company began providing its customers enrolled under the new pricing structure with a payment guarantee under which the Company agrees to pay $50,000 to its client if the U-Cord® 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. Additionally, under the Cryo-Cell CaresTM program the Company will pay $10,000 to the client to offset personal expenses if the U-Cord® product is used for bone marrow reconstitution in a myeloblative transplant procedure. The Company has not experienced any claims under the guarantee program nor has it incurred costs related to these guarantees. The Company does not maintain insurance for this guarantee program and therefore maintains reserves to cover our estimated potential liabilities. The Company accounts for the guarantee as an obligation and recognizes the obligation in accordance with SFAS No. 5, Accounting for Contingencies. The Company s reserve balance is based on the $50,000 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 our reserve. In addition, the reserve will increase as additional U-Cord® specimens are stored which are subject to the guarantee.

**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 within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934. The terms Cryo-Cell International, Inc., Cryo-Cell Company, we, our and us ref Cryo-Cell International, Inc. The words expect, believe, goal, plan, intend, estimate and similar expressions and variations thereof, if used intended to specifically identify forward-looking statements. Those statements appear in a number of places in this Form 10-Q and in other places, particularly, Management s Discussion and Analysis of Financial Condition and Results of Operations, and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things:

(i) our future performance and operating results;

(ii) our future operating plans;

(iii) our liquidity and capital resources; and

(iv) our legal proceedings;

**Table of Contents**

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, among others, the following:

(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;

(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) the indefinite postponement in the commercial launch of the processing and storage of Plureon® (placental) stem cells due to technological commercialization considerations;

(v) uncertainty of timing of the commercial launch of our MPSC services, commercialization of which is subject to completion of clinical validation and testing and other requirements.

(vi) the failure of the offering of stem cell processing and storage services relating to MPSC and any other new types of stem cells, services that have not previously been offered commercially, to gain market acceptance;

(vii) 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 new facility and costs relating to the commercial launch of the placental stem cell service offering or any other new types of stem cells;

(viii) 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;

(ix) any technological or medical breakthroughs that would render the Company s business of stem cell preservation obsolete;

(x) any material failure or malfunction in our storage facilities; or any natural disaster or act of terrorism that adversely affects stored specimens;

(xi) any adverse results to our prospects, financial condition or reputation arising from any material failure or compromise of our information systems;

(xii) the costs associated with defending or prosecuting litigation matters, particularly including litigation related to intellectual property, and any material adverse result from such matters;

(xiii) any negative consequences resulting from deriving, shipping and storing specimens at a second location; and

(xiv) any negative effect from the filed class action shareholder lawsuits.

Table of Contents

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-KSB filed by the Company and any Current Reports on Form 8-K filed by the Company.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Foreign Exchange Risk

The Company is not exposed to material fluctuations in currency exchange rates because the payments from the Company s international affiliates are received in U.S. dollars.

Interest Rate Risk

The Company invests its cash in a variety of financial instruments, principally securities issued by the U.S government and its agencies, investment grade corporate and money market instruments. These investments are denominated in U.S. dollars. These bonds are subject to interest rate risk, and could decline in value if interest rates fluctuate. Due to the conservative nature of these instruments, the Company does not believe that there is a material exposure to interest rate risk.

Table of Contents

**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 to ensure 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 effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. There were no significant changes in the Company s internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

**Limitations on the Effectiveness of Controls**

Our management, including our CEO 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.

Table of Contents

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Incorporated by reference to Part I. Financial Statements-Notes to Condensed Consolidated Financial Statements Note 3.

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed under the caption Risk Factors That May Affect Our Business in Item 6 of our Annual Report on Form 10-KSB for the year ended November 30, 2006, which could materially affect our business, financial condition or future results. In addition, you should consider the following risk factor, which replaces the risk factor in Form 10-KSB captioned Our placental stem cell storage services have not yet been offered, and there is no assurance that these services will be launched or will gain market acceptance :

**The commercial launch of our fetal placental stem cell storage services has been postponed indefinitely, and there is no assurance that these services will be launched commercially.**

In April 2007, we announced that the commercial launch of the fetal placental stem cell service in association with Plureon Corporation would be postponed indefinitely due to technological commercialization considerations. There is no assurance that this service will be launched commercially in the future.

**Our maternal placental stem cell (MPSC) services have not yet been offered commercially, and there is no assurance that the MPSC services or other stem cell services will be launched or will gain market acceptance.**

We have not yet launched our MPSC services commercially. The commercial launch of this offering is subject to certain developments, including completion of clinical validation and testing. **[Are there other hurdles that should be mentioned, such as commercialization of the processing methods on an economical basis so as to permit adequate margins?]** There can be no assurance that completion of these developments will be successful or that the MPSC services will ever be commercially launched. In addition to the MPSC services, the Company continues to work on other intellectual property, to explore new technologies related to other types of stem cells that could potentially lead to new products or services. However, further development is necessary before we can announce commercialization plans. There can be no assurance that such development will be successful or that such commercial services will ever be launched. The MSPC services and other service offerings will be new and untested, and there is no assurance that, if launched, they would gain market acceptance. Unlike umbilical cord blood stem cells, MSPCs and any other new stem cells that may be offered have not yet been used in human therapies. Market acceptance of such new services will depend upon the willingness of prospective parents to pay for the processing and storage of such cells based upon the possibility that such treatments will be discovered in the future. Further, if there are setbacks in medical and scientific research relating to treatment applications for MPSCs and other new types of cells, this may adversely affect our future sales, if any, of these services.

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

None.

Table of Contents

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

Table of Contents

**ITEM 6. EXHIBITS**

(a) Exhibits

10 Employment Agreement dated April 1, 2007 with Julie Allickson.

10.1 Employment Agreement dated April 1, 2007 with W. Robert Doll.

31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

**SIGNATURES**

Pursuant to the requirements 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/ MERCEDES WALTON
Mercedes Walton
Chief Executive Officer

Cryo-Cell International, Inc.

/s/ JILL TAYMANS
Jill M. Taymans
Vice President, Finance

Date: July 16, 2007