

CRYO CELL INTERNATIONAL INC

Form 10-Q

October 15, 2010

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## U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

### FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2010

- 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)

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**DELAWARE**  
(State or other Jurisdiction of

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

**Incorporation or Organization)**

**Identification No.)**

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

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

State the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date. As of October 14, 2010, 11,752,574 shares of \$0.01 par value common stock were outstanding net of treasury.

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

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## CONSOLIDATED BALANCE SHEETS

	August 31, 2010 (unaudited)	November 30, 2009
<b><u>ASSETS</u></b>		
<b><u>Current Assets</u></b>		
Cash and cash equivalents	\$ 7,880,649	\$ 6,850,765
Restricted cash	200,000	200,000
Marketable securities and other investments	1,132,000	960,000
Accounts receivable and advances (net of allowance for doubtful accounts of \$805,703 and \$510,440, respectively)	2,223,193	2,246,181
Deferred tax assets	1,803,241	15,000
Prepaid expenses and other current assets	721,026	682,215
<b>Total current assets</b>	<b>13,960,109</b>	<b>10,954,161</b>
<b><u>Property and Equipment-net</u></b>	<b>2,267,651</b>	<b>2,369,888</b>
<b><u>Other Assets</u></b>		
Marketable securities and other investments	6,404	6,404
Note receivable	91,758	91,758
Investment in Saneron CCEL Therapeutics, Inc.	684,000	684,000
Deposits and other assets	722,648	501,917
<b>Total other assets</b>	<b>1,504,810</b>	<b>1,284,079</b>
<b>Total assets</b>	<b>\$ 17,732,570</b>	<b>\$ 14,608,128</b>

**LIABILITIES AND STOCKHOLDERS DEFICIT**

<b><u>Current Liabilities</u></b>		
Accounts payable	\$ 1,002,597	\$ 750,127
Accrued expenses	1,716,828	2,130,760
Deferred revenue, current portion	5,569,313	5,449,483
<b>Total current liabilities</b>	<b>8,288,738</b>	<b>8,330,370</b>
<b><u>Other Liabilities</u></b>		
Deferred revenue, net of current portion	7,471,023	7,407,287
Deferred tax liabilities	15,000	15,000
Long-term liability-revenue sharing agreements	3,750,000	3,750,000
Deferred consulting obligation	211,605	286,441
<b>Total other liabilities</b>	<b>11,447,628</b>	<b>11,458,728</b>

Commitments and Contingencies

**Stockholders Deficit**

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Preferred stock (\$.01 par value, 500,000 authorized and none issued)		
Common stock (\$.01 par value, 20,000,000 authorized; 11,752,574 issued and outstanding)	117,526	117,526
Additional paid-in capital	24,749,421	24,588,850
Treasury stock, at cost	(484,535)	(484,535)
Accumulated other comprehensive loss	(94,055)	(94,055)
Accumulated deficit	(26,292,153)	(29,308,756)
Total stockholders' deficit	(2,003,796)	(5,180,970)
Total liabilities and stockholders' deficit	\$ 17,732,570	\$ 14,608,128

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

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## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 31, 2010	August 31, 2009	August 31, 2010	August 31, 2009
<b>Revenue:</b>				
Processing and storage fees	\$ 4,204,485	\$ 4,208,335	\$ 11,970,773	\$ 12,315,196
Licensee income (1)	334,374	351,142	1,108,274	1,214,770
<b>Total revenue</b>	<b>4,538,859</b>	<b>4,559,477</b>	<b>13,079,047</b>	<b>13,529,966</b>
<b>Costs and Expenses:</b>				
Cost of sales	1,079,448	1,229,920	3,320,028	3,514,952
Marketing, general and administrative expenses	2,362,308	2,336,882	6,966,269	6,649,926
Research, development and related engineering	18,896	27,794	81,459	86,114
Depreciation and amortization	73,909	99,426	220,707	293,884
<b>Total costs and expenses</b>	<b>3,534,561</b>	<b>3,694,022</b>	<b>10,588,463</b>	<b>10,544,876</b>
<b>Operating Income</b>	<b>1,004,298</b>	<b>865,455</b>	<b>2,490,584</b>	<b>2,985,090</b>
<b>Other Income (Expense):</b>				
Interest income	5,982	19,332	17,803	57,076
Interest expense	(387,783)	(376,677)	(1,107,608)	(1,064,500)
<b>Total other expense</b>	<b>(381,801)</b>	<b>(357,345)</b>	<b>(1,089,805)</b>	<b>(1,007,424)</b>
Income before equity in losses of affiliate and income tax expense	622,497	508,110	1,400,779	1,977,666
Equity in losses of affiliate	(28,338)	(32,146)	(62,111)	(95,793)
Income before income tax expense	594,159	475,964	1,338,668	1,881,873
Income tax benefit (provision)	1,749,480	(43,866)	1,677,935	(126,718)
<b>Net Income</b>	<b>\$ 2,343,639</b>	<b>\$ 432,098</b>	<b>\$ 3,016,603</b>	<b>\$ 1,755,155</b>
<b>Net income per common share - basic</b>	<b>\$ 0.20</b>	<b>\$ 0.04</b>	<b>\$ 0.26</b>	<b>\$ 0.15</b>
Weighted average common shares outstanding - basic	11,752,574	11,751,029	11,752,574	11,750,706
<b>Net income per common share - diluted</b>	<b>\$ 0.20</b>	<b>\$ 0.04</b>	<b>\$ 0.26</b>	<b>\$ 0.15</b>
Weighted average common shares outstanding - diluted	11,782,101	11,825,726	11,799,276	11,779,768

(1) See Note 5, Licensee Income - Prior Periods

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

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended	
	August 31, 2010	August 31, 2009
<b>Cash Flows from Operating Activities:</b>		
Net income (1)	\$ 3,016,603	\$ 1,755,155
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	437,126	506,824
Compensatory element of stock options	98,460	89,892
Provision for doubtful accounts	270,460	387,047
Equity in losses of affiliate	62,111	95,793
Deferred income tax benefit	(1,788,241)	
Changes in assets and liabilities:		
Accounts receivable and advances (1)	(247,472)	(969,826)
Note receivable		(2,347)
Prepaid expenses and other current assets	(38,811)	(222,095)
Deposits and other assets	(54,219)	13,486
Accounts payable (1)	252,470	110,804
Accrued expenses	(413,932)	412,971
Deferred consulting obligation	(74,836)	(69,786)
Deferred revenue (1)	183,566	1,109,082
<b>Net cash provided by operating activities</b>	<b>1,703,285</b>	<b>3,217,000</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(313,666)	(270,474)
Purchases of marketable securities and other investments	(1,035,000)	(1,010,000)
Proceeds from sale of marketable securities and other investments	863,000	1,175,000
Investments in patents	(187,735)	(92,182)
<b>Net cash used in investing activities</b>	<b>(673,401)</b>	<b>(197,656)</b>
<b>Increase in cash and cash equivalents</b>	<b>1,029,884</b>	<b>3,019,344</b>
Cash and cash equivalents - beginning of year	6,850,765	3,566,366
Cash and cash equivalents - end of period	\$ 7,880,649	\$ 6,585,710

(1) See Note 5, Licensee Income - Prior Periods

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**August 31, 2010**

**(Unaudited)**

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

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of August 31, 2010 and November 30, 2009, the related Consolidated Statements of Income for the three and nine months ended August 31, 2010 and August 31, 2009 and Cash Flows for the nine months ended August 31, 2010 and 2009 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 cash flows for all periods presented have been made. The results of operations for the three and nine months ended August 31, 2010 are not necessarily indicative of the results expected for any interim period in the future or the entire year ending November 30, 2010.

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, 2009 Annual Report on Form 10-K.

**Revenue Recognition**

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 can range from one to twenty-one years. Deferred revenue on the accompanying consolidated balance sheets includes the portion of the annual storage fee and the twenty-one year 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 has not had a third party conduct a physical inventory count of all specimens stored; however, the Company from time to time will perform a physical inventory count of specimens stored to ensure that all records are accurate.

**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

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of \$7,795,523 and \$9,583,764 as of August 31, 2010 and November 30, 2009, respectively, as the Company does not believe it is more likely than not that the future income tax benefits will be realized. When the Company changes its determination as to the amount of deferred 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 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. We examine the evidence related to the recent history of losses, the economic conditions which we operate and our forecasts and projections to make that determination.

For the three and nine months ended August 31, 2010, the Company recorded an income tax benefit, net of foreign taxes of \$1,749,480 and \$1,677,935, respectively, of which approximately \$1,789,000 relates to a reversal of a portion of the Company's valuation allowance for U.S. income taxes. The reversal of a portion of the deferred tax valuation allowance is based upon the Company's historical operating performance which includes profitability in seven of the eight last quarters, steadily improving operations and positive expectations for future taxable income.

There was no U.S. income tax expense for the three and nine months ended August 31, 2009. The Company did not record U.S. income tax expense during the three and nine months ended August 31, 2009 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 \$39,000 and \$44,000 for the three months ended August 31, 2010 and 2009, respectively, of foreign income tax expense. The Company recognized approximately \$110,000 and \$127,000 for the nine months ended August 31, 2010 and 2009, respectively, of foreign income tax expense. Foreign income tax expense is included in income tax benefit (provision) in the accompanying consolidated statements of income.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate

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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. As of August 31, 2010 and November 30, 2009, the Company had no provisions for interest or penalties related to uncertain tax positions.

## **Stock Compensation**

As of August 31, 2010, the Company has two stock-based employee compensation plans, which are described in Note 4. The Company recognized approximately \$34,000 and \$21,000 for the three months ended August 31, 2010 and 2009, respectively of stock compensation expense. The Company recognized approximately \$98,000 and \$90,000 for the nine months ended August 31, 2010 and 2009, respectively of stock compensation expense.

The Company recognizes stock based compensation based on the fair value of the related awards. The Company estimates the fair value of all stock option awards as of the grant date by applying the Black-Scholes option pricing model. The use of this valuation model 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.

## **Fair Value of Financial Instruments**

Management uses a fair value hierarchy, which gives the highest priority to quoted prices in active markets. The fair value of financial instruments is estimated based on market trading information, where available. Absent published market values for an instrument or other assets, management uses observable market data to arrive at its estimates of fair value. Management believes that the carrying amount of cash and cash equivalents, accounts receivable and advances, notes receivable, accounts payable, accrued expenses, deferred consulting obligation and its liability associated with long-term revenue sharing arrangements approximates fair value.

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

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

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The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of August 31, 2010 and November 30, 2009, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value at August 31, 2010	Fair Value Measurements at August 31, 2010 Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale securities	\$ 1,138,404	\$ 6,404	\$ 1,132,000	

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of November 30, 2009, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value at November 30, 2009	Fair Value Measurements at November 30, 2009 Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale securities	\$ 966,404	\$ 6,404	\$ 960,000	

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

*Available-for-sale securities* the Company invested \$1,132,000 and \$960,000 in variable rate demand notes at August 31, 2010 and November 30, 2009, respectively. The interest rate on these variable rate demand notes resets every seven days to adjust to current market conditions. The Company can redeem these investments at cost at any time with seven days notice. Therefore, the investments are held at cost, which approximates fair value, and are classified as short-term investments on the accompanying consolidated balance sheets and within Level 2 of the fair value hierarchy.

The Company further invests in exchange-traded equity securities of \$6,404 at August 31, 2010 and November 30, 2009. Fair values for these investments are based on quoted prices in active markets and are therefore classified within Level 1 of the fair value hierarchy. There was no unrealized holding loss recorded as a component of stockholders' deficit on other investments as of August 31, 2010 and November 30, 2009.

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

In December 2005, the Company began providing its customers with a payment warranty 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 Cares™ 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 myeloblastic transplant procedure. The product warranty and the Cryo-Cell Cares program is available to the clients who enroll under this structure for as long as the specimen is stored with the Company. The Company has not experienced any claims under the warranty program nor has it incurred costs related to

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these warranties. The Company does not maintain insurance for this warranty program and therefore maintains reserves to cover our estimated potential liabilities. 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 experienced by others 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. We have never been required to make any payments pursuant to the warranty. In addition, the reserve will increase as additional U-Cord® specimens are stored which are subject to the warranty. As of August 31, 2010 and November 30, 2009, the Company recorded a liability under these programs in the amounts of \$11,281 and \$9,979, respectively, which is included in accrued expenses in the accompanying consolidated balance sheets.

**Recently Issued Accounting Pronouncements***Revenue Arrangements with Multiple Deliverables*

In October 2009, the Financial Accounting Standards Board ( FASB ) issued an Accounting Standard Update ( ASU ) No. 2009-13, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit and modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. The ASU significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. The ASU will be effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. Early adoption is permitted, provided that the guidance is retroactively applied to the beginning of the year of adoption. The Company is currently evaluating whether it will apply this update retrospectively or prospectively, and the impact, if any, this update may have on its consolidated financial statements upon its required adoption on December 1, 2010.

**Note 2 Net Income per Common Share**

The following table sets forth the calculation of basic and diluted earnings per share:

	Three Months Ended		Nine Months Ended	
	August 31, 2010	August 31, 2009	August 31, 2010	August 31, 2009
<b>Numerator:</b>				
Net Income	\$ 2,343,639	\$ 432,098	\$ 3,016,603	\$ 1,755,155
<b>Denominator:</b>				
Weighted-average shares outstanding-basic	11,752,574	11,751,029	11,752,574	11,750,706
Dilutive common shares issuable upon exercise of stock options	29,527	74,697	46,702	29,062
Weighted-average shares-diluted	11,782,101	11,825,726	11,799,276	11,779,768
<b>Earnings per share:</b>				
Basic	\$ .20	\$ .04	\$ .26	\$ .15
Diluted	\$ .20	\$ .04	\$ .26	\$ .15

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The Company excluded the effect of 673,589 and 1,027,414 outstanding stock options for the three months ended August 31, 2010 and August 31, 2009, respectively, from the computation of diluted earnings per share, as the effect of potentially dilutive shares would be anti-dilutive. The Company excluded the effect of 650,255 and 1,079,914 outstanding stock options for the nine months ended August 31, 2010 and August 31, 2009, respectively, from the computation of diluted earnings per share, as the effect of potentially dilutive shares would be anti-dilutive.

### **Note 3 Investment in Saneron CCEL Therapeutics, Inc. ( Saneron )**

As of August 31, 2010 and November 30, 2009, the Company had an ownership interest of approximately 35% in Saneron, which is accounted for under the equity method of accounting. During 2006, the Company ceased recording equity in losses against the investment balance once the investment balance was written down to the total amount of goodwill, as goodwill should not be amortized. As of August 31, 2010 and November 30, 2009, the net Saneron investment, which represents goodwill, is reflected on the consolidated balance sheets at \$684,000. During 2009, the Company had an independent valuation performed on the Company's interest in Saneron as of November 30, 2009. Management believes that this valuation accurately reflects the fair value of the Company's interest in Saneron as of November 30, 2009 and that the goodwill is not impaired. Since November 30, 2009, there have not been any events that have occurred that would indicate a decline in the value of the investment.

For the three and nine months ended August 31, 2010, the Company recorded equity in losses of Saneron operations of approximately \$28,000 and \$62,000, respectively, related to certain stock and warrant awards in Saneron's common stock that were granted by Saneron at below fair value to certain employees, consultants and members of Saneron management who represent owners of Saneron and serve on its board of directors. For the three and nine months ended August 31, 2009, the Company recorded equity in losses of Saneron operations of approximately \$32,000 and \$96,000, respectively, related to certain stock and warrant awards in Saneron's common stock that were granted by Saneron at below fair value to certain employees, consultants and members of Saneron management who represent owners of Saneron and serve on its board of directors. 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 August 31, 2010 and November 30, 2009, the Company has classified the Company's portion of the initial value of Company stock held by Saneron of approximately \$485,000 within stockholders' deficit as treasury stock.

In January 2008, the Company formalized a research and development agreement with Saneron to develop regenerative therapies utilizing Cryo-Cell's Célif<sup>®</sup> menstrual stem cell technology. Cryo-Cell and Saneron collaborate on research in pre-clinical models for certain neurological diseases and disorders. Under terms of the agreement, the Company provides Saneron with menstrual stem cells along with proprietary methodology associated with the technology. Saneron provides study materials and develops research methodology for potential therapeutic applications associated with designated pre-clinical applications at Saneron's expense. Intellectual property resulting from this research collaboration will be jointly owned by the parties.

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The Company maintains the 2000 Stock Incentive Plan (the Plan) that 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. Vested options are exercisable for a period of 90 days after the employee's termination. As of August 31, 2010 and November 30, 2009, there were 363,554 and 958,752 shares outstanding under the 2000 plan, respectively. No further options will be issued under the plan.

The Company also maintains 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 (i.e. performance shares and performance units). As of August 31, 2010 and November 30, 2009, there were 459,202 and 237,728 shares outstanding under the 2006 plan, respectively. As of August 31, 2010, there were 540,798 shares available for future issuance under the 2006 plan.

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. Expected dividends is based on the historical trend of the Company not issuing dividends.

Variables used to determine the fair value of the options granted for the three and nine months ended August 31, 2010 and August 31, 2009 are as follows:

	Three Months Ended		Nine Months Ended	
	August 31, 2010	August 31, 2009	August 31, 2010	August 31, 2009
Weighted average values:				
Expected dividends	0%	0%	0%	0%
Expected volatility	103.14%	101.4%	100.51%	101.3%
Risk free interest rate	1.70%	2.67%	2.22%	2.59%
Expected life	5 years	5 years	5 years	5 years

Stock option activity for the nine months ended August 31, 2010, was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at November 30, 2009	1,196,480	\$ 2.66	2.97	\$ 143,205
Granted	295,101	1.35		
Exercised				
Terminated	(668,825)	3.04		3,242
Outstanding at August 31, 2010	822,756	\$ 1.89	4.73	\$ 12,358
Exercisable at August 31, 2010	438,705	\$ 2.29	3.37	\$ 8,843

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The weighted average grant date fair value of options granted during the nine months ended August 31, 2010 and August 31, 2009 was \$1.02 and \$1.22, respectively.

The aggregate intrinsic value represents the total value of the difference between the Company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on August 31, 2010. The intrinsic value of the Company's stock options changes based on the closing price of the Company's stock. The aggregate intrinsic value of options exercised during the nine months ended August 31, 2009 was \$4,550.

There were no options exercised during the nine months ended August 31, 2010 and 5,000 options exercised during the nine months ended August 31, 2009.

Significant option groups outstanding and exercisable at August 31, 2010 and related price and contractual life information are as follows:

Range of Exercise Prices	Outstanding	Outstanding	Weighted	Weighted	Exercisable
		Remaining			Average
		Contractual	Average	Exercise Price	Exercise Price
		Life	Exercise Price		
\$0.42 to \$1.00	141,667	5.33	\$ 0.83	71,249	\$ 0.78
\$1.01 to \$ 2.00	426,702	5.90	\$ 1.56	118,069	\$ 1.61
\$2.01 to \$ 3.00	78,000	2.40	\$ 2.28	73,000	\$ 2.29
\$3.01 to \$ 4.00	176,387	2.44	\$ 3.35	176,387	\$ 3.35
	822,756	4.73	\$ 1.89	438,705	\$ 2.29

A summary of the status of the Company's non-vested shares as of August 31, 2010, and changes during the nine months ended August 31, 2010, is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at November 30, 2009	283,140	\$ 1.17
Granted	295,101	1.02
Vested	(102,855)	1.15
Forfeited	(91,335)	1.09
Non-vested at August 31, 2010	384,051	\$ 1.07

As of August 31, 2010 there was approximately \$206,000 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 2.04 years as of August 31, 2010. The total fair value of shares vested during the nine months ended August 31, 2010 was approximately \$118,300.

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### **Note 5 License Agreements**

#### **Cryo-Cell De Mexico**

In June 2001, the Company entered into an agreement with Cryo-Cell de Mexico, as amended in October 2001, February 2007 and October 2009, for the exclusive license to market the Company's U-Cord® program. The license allows Cryo-Cell de Mexico to directly market and sub-license the U-Cord® program throughout Mexico, Central America and Ecuador. The Company receives royalty fees ranging from \$35 to \$75 per specimen, depending on the then current pricing structure in effect for U-Cord® collection, processing and testing fees in Mexico. The Company also receives royalties on storage revenues based on a percentage of the amount received by Cryo-Cell de Mexico. The total royalty payments per the revised 2007 agreement are capped at \$1 million annually and \$10 million cumulatively dating back to October 15, 2001. The Company does not anticipate reaching the cumulative maximum royalty payments for a number of years.

The Company recorded royalties and sub-license fees from Cryo-Cell de Mexico in the amount of approximately \$213,000 and \$184,000 for the three months ended August 31, 2010 and 2009, respectively, and this is reflected in licensee income in the accompanying consolidated statements of income. The Company recorded royalties and sub-license fees from Cryo-Cell de Mexico in the amount of approximately \$639,000 and \$652,000 for the nine months ended August 31, 2010 and 2009, respectively, and this is reflected in licensee income in the accompanying consolidated statements of income. In addition, the Company processes and stores specimens sent from sub-licensees in Central America, Ecuador, and to a lesser extent Mexico ( sublicensees ). Under the revised agreement effective October 2009, the sublicensees terminated the rights and obligations of their agreements with Cryo-Cell de Mexico and entered into separate storage services and license agreements with the Company for the exclusive license to market the Company's U-Cord program. Processing and storage revenues from specimens originating in these territories and stored at the Company's facility in Oldsmar, Florida totaled \$121,000 and \$226,000 for the three months ended August 31, 2010 and 2009 and are reflected in processing and storage fees in the accompanying consolidated statements of income. Processing and storage revenues from specimens originating in these territories and stored at the Company's facility in Oldsmar, Florida totaled \$487,000 and \$604,000 for the nine months ended August 31, 2010 and 2009 and are reflected in processing and storage fees in the accompanying consolidated statements of income.

#### **Asia Cryo-Cell Private Limited**

On July 14, 2004, the Company entered into a definitive License and Royalty Agreement with Asia Cryo-Cell Private Limited ( ACCPL ), as amended on January 22, 2007, to establish and market its U-Cord® program in India. The up-front license fee of \$750,000 was payable by ACCPL in installments through 2007. In consideration for the up-front license fee, the Company licensed its technology, know-how and quality systems to ACCPL in 2004. The Company also receives royalty fees ranging from \$35 to \$75 per specimen, depending on the then current pricing structure in effect for cord blood collection, processing and testing fees in India. The Company also receives royalties on storage revenues of 10%. The total royalty payments per the agreement are capped at \$1 million annually and \$10 million cumulatively dating back to July 14, 2004. The Company does not anticipate reaching the cumulative maximum royalty payments for a number of years.

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On March 17, 2008, the Company entered into a definitive License and Royalty Agreement with LifeCell International Private Ltd. to establish and market its Célle<sup>SM</sup> preservation program in India and optionally, into the countries of Bangladesh, Nepal, Pakistan and Sri Lanka. The non-refundable up-front license fee of \$250,000, before taxes, is payable by ACCPL in installments. These installment payments, which totaled \$216,000, net of foreign income taxes were received during the second quarter of fiscal 2008 and the second and third quarter of fiscal 2009. In consideration for the up-front license fee, the Company licensed its technology, know-how and quality systems to ACCPL. In addition, the Company receives royalty fees of 8% of the Célle<sup>SM</sup> collection and processing revenues generated by ACCPL up to 10,000 specimens. The Company also receives royalty fees of 8% on storage revenues up to 10,000 specimens. Once ACCPL has processed 10,000 specimens, the parties have agreed to renegotiate the royalty fee on collection, processing and storage revenues.

On June 27, 2009, the Company amended the original definitive License and Royalty agreement with ACCPL dated July 14, 2004 and further amended the agreement on January 7, 2010. The amendments expand the licensed territory to include Bangladesh, Nepal, Sri Lanka, Bhutan, Maldives, Oman, Saudi Arabia and the United Arab Emirates. There are no incremental up-front license fees associated with the expanded licensed territory.

The Company recorded royalties and sub-license fees from ACCPL in the amount of approximately \$116,000 and \$170,000 for the three months ended August 31, 2010 and 2009, respectively, and this is reflected in licensee income in the accompanying consolidated statements of income. The Company recorded royalties and sub-license fees from ACCPL in the amount of approximately \$310,000 and \$410,000 for the nine months ended August 31, 2010 and 2009, respectively, and this is reflected in licensee income in the accompanying consolidated statements of income.

**Venezuela**

On February 20, 2008, the Company entered into an agreement with Cryo-Cell de Venezuela for storage services and the exclusive license to market the Company's U-Cord program. The agreement was amended on August 29, 2008. The license allows Cryo-Cell de Venezuela to directly market the U-Cord program throughout Venezuela and to collect and ship the specimens to the Company's facility in Oldsmar, Florida for which the Company receives a fee for processing and storage of the specimens. The initial up-front non-refundable storage services and license fee is \$200,000. The Company received the first installment payment of \$100,000 during the first quarter of fiscal 2008. The Company received the second installment payment of \$100,000 during the first quarter of fiscal 2009 which is reflected in licensee income in the accompanying consolidated statements of income. Processing and storage revenue totaled approximately \$81,000 and \$56,000 for the three months ended August 31, 2010 and 2009, respectively, and is reflected in processing and storage fees in the Company's consolidated statements of income. Processing and storage revenue totaled approximately \$258,000 and \$159,000 for the nine months ended August 31, 2010 and 2009, respectively, and is reflected in processing and storage fees in the Company's consolidated statements of income.

On February 22, 2010 (the Effective Date), the agreement was amended extending the territory to include Peru, Chile and Colombia to directly market the U-Cord program throughout Peru, Chile and Colombia and to collect and ship the specimens to the Company's facility in Oldsmar, Florida for which the Company will receive a fee for processing and storage of the specimens. The initial up-front non-refundable storage and license fee is \$450,000. The Company received the first installment of \$125,000 during the first quarter of 2010 which is reflected in licensee income in the accompanying consolidated statements of income. The second installment of \$150,000 is due 18 months from the Effective Date of the amendment and the final installment of \$175,000 is due 30 months from the Effective Date.

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### **China**

On July 8, 2009, the Company entered into a license agreement with S-Evans Biosciences, Inc. ( SEB ) to establish and market its C<sup>TM</sup>le preservation program in mainland China. The agreement also allows SEB to conduct research studies using Cryo-Cell's proprietary C<sup>TM</sup>le menstrual stem technology to identify future potential therapeutic applications. SEB opened its state-of-the-art laboratory operation and research and development facility in August 2010. The Company will receive royalty fees of 15% of the C<sup>TM</sup>le collection and processing revenues generated by SEB. The Company will also receive royalty fees of 15% on storage revenues. In consideration for the royalties, the Company licensed its technology, know-how and quality systems to SEB. SEB commenced operations during August 2010. The Company did not earn any royalties in the first nine months of fiscal 2010 or fiscal 2009.

### **Germany**

On October 1, 2009, the Company entered into a License Agreement with Innovative Medical Solutions SRL ( IMS ) to establish and market the Company's U-Cord business in Germany with the option to expand the licensed territory to include Italy, Spain and France. IMS is required to pay the Company an annual fee of \$20,000 per year on the anniversary of the effective date. The initial term of the agreement is ten years and may be extended in five year increments by mutual agreement of the parties. The Company will receive royalties of 12% of the U-Cord collection and processing revenues generated by IMS. The Company will also receive royalty fees of 14% - 18% on storage revenues. In consideration for the annual fee, the Company licensed its technology, know-how and quality systems to IMS. As of October 15, 2010, IMS has not begun to market the Company's U-Cord business. Consequently, the Company has not received or recorded an annual fee, license fees or royalties in the first nine months of fiscal 2010 or fiscal 2009, and the Company does not know when it will begin to receive such license fees and royalty payments.

On October 1, 2009, the Company entered into a license agreement with IMS to establish and market the Company's Célif<sup>SM</sup> preservation program in Germany with an option to expand the licensed territory to include Italy, Spain and France. IMS is required to pay the Company an annual fee of \$30,000 per year on the anniversary of the effective date. The initial term of the agreement is ten years and may be extended in five year increments by mutual agreement of the parties. The Company will receive royalties of 18% - 22% of the Célif<sup>SM</sup> collection and processing revenues generated by IMS. The Company will also receive royalty fees of 20% - 24% on storage revenues. In consideration for the annual fee, the Company licensed its technology, know-how and quality systems to IMS. As of October 15, 2010, IMS has not begun to market the Company's Célif<sup>SM</sup> preservation program. Consequently, the Company has not received or recorded an annual fee, license fees or royalties in the first nine months of fiscal 2010 or fiscal 2009, and the Company does not know when it will begin to receive such license fees and royalty payments.

### **Nicaragua**

On January 11, 2010, the Company entered into a storage services and license agreement with Innovagen, S.A. ( Innovagen ) for storage services and the exclusive license to market the Company's U-Cord program. The license allows Innovagen to directly market the U-Cord program throughout Nicaragua and to collect and ship the specimens to the Company's facility in Oldsmar, Florida for which the Company receives a fee for processing and storage of the specimens. The initial up-front storage services and non-refundable license fee is \$60,000 which is to be paid in three installments over the next two years. During the first quarter of fiscal 2010, the Company received the first installment payment of \$10,000. A second installment payment of \$5,000 was received during the third quarter of fiscal 2010. These payments are reflected in licensee income in the accompanying consolidated statement of income for the period ended August 31, 2010. The license fee is non-refundable.

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On January 27, 2010, the Company entered into a storage services and license agreement with Cryo-Cell Pakistan (Pvt.) Limited ( Pakistan ), for storage services and the exclusive license to market the Company's U-Cord program. The license allows Pakistan to directly market the U-Cord program throughout Pakistan and to collect and ship the specimens to the Company's facility in Oldsmar, Florida for which the Company receives a fee for processing and storage of the specimens. Pakistan commenced shipping specimens during the third quarter of fiscal 2010. The initial up-front storage services and license fee is \$100,000 and is non-refundable. The Company received the first installment payment of \$20,000 during the first quarter of fiscal 2010 and this is reflected in licensee income in the accompanying consolidated statement of income. The second and third installments are payable during Q1 of fiscal 2011 and 2012, respectively.

**Licensee Income Prior Periods**

*Sublicensee Income.* The Company records processing and storage revenues for specimens received from sublicensees, which are processed, tested and stored in the Company's facility in Oldsmar, Florida. Previously, the Company reflected payments for multi-year storage plans from the sublicensees as credits to accounts receivable. The Company revised the consolidated statement of cash flows for the nine months ended August 31, 2009, to reflect credits to accounts receivable of approximately \$27,000 as accounts payable and credits to accounts receivable of approximately \$577,000 as deferred revenue. This adjustment did not have an impact on net cash provided by operating activities, stockholders deficit, net income or net income per common share.

*Licensee Income.* During the fourth quarter of fiscal 2009, the Company identified errors in licensee income related to fiscal years 2008 and 2007 and the first three quarters of fiscal 2009. Management evaluated these errors and determined that the errors were not material to the consolidated financial statements for the fiscal years ended 2008 and 2007 and the first three quarters of fiscal 2009. The Company has revised the previously reported licensee income for the three and nine months ended August 31, 2009 by approximately \$3,000 and \$53,000, respectively.

During 2010, the Company reclassified licensee income from other income (expenses) to revenue in the consolidated statement of income for the three and nine months ended August 31, 2009. Due to the recent increase in license agreement activity, the Company has determined that licensee income has become a significant source of its revenue and that it should be included within revenue on the consolidated statements of income. This reclassification did not have an impact on stockholders' deficit, net income or net income per common share.

The following are the effects on the consolidated statements of income and the consolidated statements of cash flows for the three and nine months ended August 31, 2009.

	As Previously Reported	As Revised
<b>Consolidated Statement of Income for the Three Months Ended August 31, 2009</b>		
Licensee Income	\$ 353,768	\$ 351,142
Net income	\$ 434,724	\$ 432,098
<b>Consolidated Statement of Income for the Nine Months Ended August 31, 2009</b>		
Licensee Income	\$ 1,161,973	\$ 1,214,770
Net income	\$ 1,702,358	\$ 1,755,155
<b>Consolidated Statement of Cash Flows for the Nine Months Ended August 31, 2009</b>		
Accounts receivable and advances	\$ (365,826)	\$ (969,826)
Accounts payable	\$ 83,804	\$ 110,804
Deferred revenue	\$ 584,879	\$ 1,109,082
Net income	\$ 1,702,358	\$ 1,755,155

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### **Note 6 Agreements**

On December 15, 2009, the Company made a payment of \$100,000 to the Museum of Science and Industry ( MOSI ) for the sponsorship of a stem cell exhibit in The Amazing You exhibition in Tampa, Florida. The payment was made for the exhibit to be displayed over the next five years as well as various other benefits to be received from MOSI. The exhibit opened during the second quarter of 2010. The payment of \$100,000 is being expensed over the life of the exhibit, which is five years. As of August 31, 2010, approximately \$8,000 has been expensed and is reflected in the consolidated statements of income. The remaining balance of approximately \$92,000 is recorded as a deposit on the accompanying consolidated balance sheets.

### **Note 7 Income Taxes**

The effective tax rate of -125.34% and 6.73% for the nine months ended August 31, 2010 and 2009, respectively, and -294.45% and 9.22% for the three months ended August 31, 2010 and 2009, respectively, differs from the statutory rate, due primarily to the reversal of a portion of the deferred tax asset valuation allowance and the effect of foreign income taxes related to licensee income.

## **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 revenue 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 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 offers a one-time payment plan, where the client is charged \$3,495 with discounts in the case of multiple children from the same family and in other circumstances. The one-time plan includes the collection kit, processing and testing, return medical courier service and 21 years of pre-paid storage fees. The Company also receives revenue for processing and storage fees from certain licensees that ship specimens directly to the Company's facility in Oldsmar, Florida for processing and storage. These processing and storage fees are at negotiated rates, as specified in the licensee agreements. The Company also receives revenue from licensing fees and royalties from global affiliates.

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In recent years, utilizing its infrastructure, experience and resources derived from its U-Cord business, the Company has expanded its research and development activities to develop technologies related to stem cells harvested from sources beyond umbilical cord blood stem cells. During 2007, much of the Company's research and development activities focused on the development of proprietary technology related to maternal placental stem cells (MPSCs). Also in 2006, the Company discovered novel technology related to menstrual stem cells. In November 2007, the Company announced the commercial launch of Célle<sup>SM</sup> service related to this patent-pending technology. The Company continues to focus independently-funded research and development activities through a vast network of research collaboration partners. The Company expects to place greater promotional emphasis on its Célle<sup>SM</sup> service in the future and increase its marketing expenditures related to Célle<sup>SM</sup>.

During the nine months ended August 31, 2010, the Company's revenues decreased 3% as compared to the same period in 2009. The Company reported net income of approximately \$3,017,000, or \$.26 per basic common share for the nine months ended August 31, 2010 compared to net income of approximately \$1,755,000 or \$.15 per basic common share for the same period in 2009. The increase in net income for the nine months ended August 31, 2010 principally resulted from a 6% decrease in cost of sales primarily due to a decline in the number of specimens processed and operational efficiencies in the processing and storage of specimens, which is partially offset by a 5% increase in marketing, general and administrative expenses, due mainly to the increase in sales and marketing initiatives. Due to the cancellation of the contract with Safti-Cell during the 4<sup>th</sup> quarter of 2009, and moving all of the specimens previously stored by Safti-Cell to the Company's storage facility in Oldsmar, Florida, the Company decreased cost of sales by approximately \$208,000 for the nine months ended August 31, 2010. In addition, research and development expenses were approximately \$81,000 for the nine months ended August 31, 2010, a decrease of approximately 5% in comparison to the same period in 2009. Research and development expenses in 2009 were primarily comprised of expenses related to the continued commercialization of the Company's new stem cell technology, Célle, which was launched in November 2007. Also during the third quarter of 2010, the Company reversed approximately \$1.8 million of its valuation allowance for income taxes. The decision to reverse a portion of the allowance is based on the Company's historical operating performance, which includes profitability in seven of the last eight quarters, steadily improving operations and positive expectations for future taxable income.

As of August 31, 2010, the Company had cash and cash equivalents of \$7,880,649. The Company's cash increased by approximately \$1,030,000 during the first nine months of fiscal 2010, primarily as a result of positive cash flow from operations. The increase in operating cash flow was primarily attributable to the Company's net income during the first nine months of fiscal 2010. As of October 1, 2010, the Company maintains no long-term indebtedness.

The Company retained investment banking firm Morgan Joseph LLC in August 2010 to assist it in exploring potential strategic acquisitions that would fit within the Company's strategic growth plans. In the event the Company completes any acquisitions in the future it could impact its balance sheet and future earnings.

### **Results of Operations    Nine Month Period Ended August 31, 2010**

**Revenue.** Revenue for the nine months ended August 31, 2010 was \$13,079,047 as compared to \$13,529,966 for the same period in 2009. The decrease in revenue was primarily attributable to a 3% decrease in processing and storage fees and a 9% decrease in licensee income which was largely due to timing of the execution of licensee agreements and payment terms of up-front fees.

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**Processing and Storage Fees.** The decrease in processing and storage fee revenue is primarily attributable to a decrease in specimens processed of 11%, offset by a decrease in sales discounts of 6% and a 7% increase in recurring annual storage fee revenue for the nine months ended August 31, 2010 compared to the 2009 period. Sales discounts represent discounts to returning clients and promotions offered to newly enrolled clients.

**Licensee Income.** Licensee income for the nine months ended August 31, 2010, was \$1,108,274 as compared to \$1,214,770 for the 2009 period. Licensee income for the nine months ended August 31, 2010 primarily consisted of \$948,274 in royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The remaining licensee income of \$160,000 related to installment payments of non-refundable up-front license fees from the licensees of the Company's U-Cord program in Chile, Colombia, Peru, Nicaragua and Pakistan. Licensee income for the nine months ended August 31, 2009 consisted of \$964,841 in royalty income earned on the processing and storage of specimens in geographical areas where the Company has license agreements. The remaining licensee income of \$250,000 related to an installment payment of a non-refundable up-front license fee of \$150,000 from the licensee of the Company's Celle preservation program in India and an installment payment of a non-refundable up-front license fee of \$100,000 from the licensee of the Company's U-Cord program in Venezuela.

**Cost of Sales.** Cost of sales for the nine months ended August 31, 2010 was \$3,320,028 as compared to \$3,514,952 for the same period in 2009, representing a 6% decrease. Cost of sales was 25% of revenues for the nine months ended August 31, 2010 and 26% for the nine months ended August 31, 2009. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and depreciation expense of approximately \$216,000 and \$213,000 for the nine months ended August 31, 2010 and 2009, respectively. The decrease in cost of sales is primarily attributable to the decrease in operational expenses and the decrease in specimens processed during the nine months ended August 31, 2010 compared to the 2009 period. Due to the cancellation of the contract with Safti-Cell during the 4<sup>th</sup> quarter of 2009, and moving all of the specimens previously stored by Safti-Cell to the Company's storage facility in Oldsmar, Florida, the Company decreased cost of sales by approximately \$208,000 for the nine months ended August 31, 2010.

**Marketing, General and Administrative Expenses.** Marketing, general and administrative expenses for the nine months ended August 31, 2010 were \$6,966,269 as compared to \$6,649,926 for the 2009 period representing a 5% increase. These expenses are primarily comprised of expenses for consumer advertising, salaries and wages for personnel and professional fees.

**Research, Development and Related Engineering Expenses.** Research, development and related engineering expenses for the nine months ended August 31, 2010 were \$81,459 as compared to \$86,114 for the 2009 period. The expenses for the nine months ended August 31, 2010 and 2009 are primarily comprised of expenses related to the continued commercialization of the Company's new stem cell technology, Célle<sup>SM</sup>, which was launched in November 2007.

**Depreciation and Amortization.** Depreciation and amortization (not included in Cost of Sales) for the nine months ended August 31, 2010 was \$220,707 compared to \$293,884 for the 2009 period. The decrease was caused by a portion of the Company's property and equipment becoming fully depreciated during fiscal 2009.

**Interest Expense.** Interest expense during the nine months ended August 31, 2010, was \$1,107,608 compared to \$1,064,500 during the comparable period in 2009. Interest expense is mainly comprised of payments made to the other parties to the Company's revenue sharing agreements (RSAs) based on the Company's storage revenue. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of \$12,855 and \$17,908 for the nine months ended August 31, 2010 and 2009, respectively, as well as interest paid of \$6,621 related to the installment payments made to Safti-Cell, Inc. for the Asset Purchase Agreement for the nine months ended August 31, 2010.

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**Equity in Losses of Affiliate.** Equity in losses of affiliate was \$62,111 for the nine months ended August 31, 2010, compared to \$95,793 for the 2009 period. Equity in losses of affiliate for the nine months ended August 31, 2010 and 2009, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

**Income Taxes.** The Company recorded an income tax benefit of \$1,677,935, net of foreign income taxes for the nine months ended August 31, 2010. During the third quarter August 31, 2010, the Company reversed a portion of its valuation allowance for U.S. income taxes of approximately \$1,789,000. The reversal of a portion of the deferred tax valuation allowance is based upon the Company's historical operating performance which includes profitability in seven of the eight last quarters, steadily improving operations and positive expectations for future taxable income. There was no US income tax expense for the nine months ended August 31, 2009 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 recorded \$110,306 and \$126,718 for the nine months ended August 31, 2010 and 2009, respectively, of foreign income tax expense, which is included in income tax benefit (provision) in the accompanying consolidated statements of income.

The effective tax rate of -125.34% and 6.73% for the nine months ended August 31, 2010 and 2009, respectively differs from the statutory rate, due primarily to the reversal of a portion of the deferred tax asset valuation allowance and the effect of foreign income taxes related to licensee income.

### **Results of Operations Three Month Period Ended August 31, 2010**

**Revenue.** Revenue for the three months ended August 31, 2010 was \$4,538,859 as compared to \$4,559,477 for the same period in 2009. The decrease in revenue was primarily attributable to a less than 1% decrease in processing and storage fees and a 5% decrease in licensee income which was largely due to timing of the execution of licensee agreements and payment terms of up-front fees.

**Processing and Storage Fees.** The decrease in processing and storage fee revenue is primarily attributable to a decrease in specimens processed of 16%, partially offset by a 24% decrease in sales discounts as well as an 6% increase in recurring annual storage fee revenue for the three months ended August 31, 2010 compared to the 2009 period. Sales discounts represent discounts to returning clients and promotions offered to newly enrolled clients.

**Licensee Income.** Licensee income for the three months ended August 31, 2010, was \$334,374 as compared to \$351,142 for the 2009 period. Licensee income for the three months ended August 31, 2010 consisted of \$329,374 in royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. Licensee income for the three months ended August 31, 2009 principally consisted of \$276,142 in royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The remaining licensee income of \$5,000 and \$75,000 for the three months ended August 31, 2010 and 2009, respectively related to installment payments of a non-refundable up-front license fees from the licensee of the Company's Célle preservation program in Nicaragua and India, respectively.

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**Cost of Sales.** Cost of sales for the three months ended August 31, 2010 was \$1,079,448 as compared to \$1,229,920 for the same period in 2009, representing a 12% decrease. Cost of sales was 24% of revenues for the three months ended August 31, 2010 and 27% for the three months ended August 31, 2009. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and depreciation expense of approximately \$73,000 and \$72,000 for the three months ended August 31, 2010 and 2009, respectively. The decrease in cost of sales is primarily attributable to the decrease in operational expenses and the decrease in specimens processed during the three months ended August 31, 2010 compared to the 2009 period. Due to the cancellation of the contract with Safti-Cell in the 4<sup>th</sup> quarter of 2009, and moving all of the specimens previously stored by Safti-Cell to the Company's storage facility in Oldsmar, Florida, the Company decreased cost of sales by approximately \$65,000 for the three months ended August 31, 2010.

**Marketing, General and Administrative Expenses.** Marketing, general and administrative expenses for the three months ended August 31, 2010 were \$2,362,308 as compared to \$2,336,882 for the 2009 period representing a 1% increase. These expenses are primarily comprised of expenses for consumer advertising, salaries and wages for personnel and professional fees.

**Research, Development and Related Engineering Expenses.** Research, development and related engineering expenses for the three months ended August 31, 2010 were \$18,896 as compared to \$27,794 for the 2009 period. The expenses for the three months ended August 31, 2010 and 2009 are primarily comprised of expenses related to the continued commercialization of the Company's new stem cell technology, Célif<sup>®</sup>, which was launched in November 2007.

**Depreciation and Amortization.** Depreciation and amortization (not included in Cost of Sales) for the three months ended August 31, 2010 was \$73,909 compared to \$99,426 for the 2009 period. The decrease was caused by a portion of the Company's property and equipment becoming fully depreciated during fiscal 2009.

**Interest Expense.** Interest expense during the three months ended August 31, 2010, was \$387,783 compared to \$376,677 during the comparable period in 2009. Interest expense is mainly comprised of payments made to the other parties to the Company's RSAs based on the Company's storage revenue. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of \$3,645 and \$5,269 for the three months ended August 31, 2010 and 2009, respectively, as well as interest paid of \$1,707 related to the installment payments made to Safti-Cell, Inc. for the Asset Purchase Agreement for the three months ended August 31, 2010.

**Equity in Losses of Affiliate.** Equity in losses of affiliate was \$28,338 for the three months ended August 31, 2010, compared to \$32,146 for the 2009 period. Equity in losses of affiliate for the three months ended August 31, 2010 and 2009, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

**Income Taxes.** The Company recorded an income tax benefit of \$1,749,480, net of foreign income taxes for the three months ended August 31, 2010, as a result of the Company reversing a portion of its valuation allowance for U.S. income taxes of approximately \$1,789,000. The reversal of a portion of the deferred tax valuation allowance is based upon the Company's historical operating performance which includes profitability in seven of the eight last quarters, steadily improving operations and positive expectations for future taxable income. There was no US income tax expense for the three months ended August 31, 2009 due to the utilization of net operating losses and foreign tax credit carryforwards, which were not previously benefited in the Company's financial statements.

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The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recorded approximately \$39,000 and \$44,000 for the three months ended August 31, 2010 and 2009, respectively, of foreign income tax expense, which is included in income tax benefit (provision) in the accompanying consolidated statements of income.

The effective tax rate of -294.45% and 9.22% for the three months ended August 31, 2010 and 2009, respectively differs from the statutory rate, due primarily to the reversal of a portion of the deferred tax asset valuation allowance and the effect of foreign income taxes related to licensee income.

## **Liquidity and Capital Resources**

Through August 31, 2010, the Company's principal source of cash has been from sales of its U-Cor® program to customers, the sale of license agreements and proceeds from licensees. Currently, the Company's cash flow is derived primarily from sales relating to its storage services, including the initial fee and ongoing storage fees. The Company does not expect a change in its principal source of cash flow.

At August 31, 2010, the Company had cash and cash equivalents of \$7,880,649 as compared to \$6,850,765 at November 30, 2009. The increase in cash and cash equivalents during the nine months ended August 31, 2010 was primarily attributable to the following:

Net cash provided by operating activities for the nine months ended August 31, 2010 was \$1,703,285, which was primarily attributable to the Company's net operating income and the receipt of \$160,000 in up-front license fees from the licensees of the Company's U-Cord program in Chile, Colombia, Peru, Nicaragua and Pakistan.

Net cash provided by operating activities for the nine months ended August 31, 2009 was \$3,217,000, which was primarily attributable to the Company's operating activities, including the receipt of the second \$100,000 installment payment from the sale of the Cryo-Cell de Venezuela licensee agreement and the receipt of the second and third installment payments from ACCPL totaling \$150,000, net of taxes.

Net cash used in investing activities for the nine months ended August 31, 2010 was \$673,401, which was primarily attributable to the costs associated with the application and development of patents, the purchase of property and equipment and investments in marketable securities.

Net cash used in investing activities for the nine months ended August 31, 2009 was \$197,656, which was primarily attributable to the costs associated with the application and development of patents and the purchase of property and equipment.

There was no cash provided by or used in financing activities during the first nine months of fiscal 2010 and 2009.

The Company does not have a line of credit or other type of financing instrument. The Company paid the final balance of \$95,457 to Red Rock for the acquisition of Safti-Cell during the third quarter of fiscal 2010.

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

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The Company anticipates that its cash and cash equivalents, marketable securities and cash flows from future operations will be sufficient to fund its current operations cash needs for at least the next 12 months. Cash flows from operations in the near future will depend primarily upon the Company's sales of its umbilical cord blood cellular storage services and the Célif<sup>SM</sup> service, collecting up-front fees from licensees, as well as its management of ongoing expenses. If expected revenues are not realized, or if expenses are higher than anticipated, the Company may be required to reduce or defer cash expenditures or otherwise manage its cash resources during the next 12 months so that they are sufficient to meet the Company's cash needs in the future. Additionally the Company recently retained an investment banking firm to assist it in exploring potential strategic acquisition candidates that would fit strategically into the Company's business. In the event the Company's current cash on hand is insufficient for its operations or to finance a desired acquisition, the Company may consider seeking equity or debt financing if deemed appropriate for its plan of operations or for strategic acquisitions, and if such financing can be obtained on acceptable terms. There is no assurance that any equity financing would not be dilutive to stockholders and that any reductions in expenditures, if necessary, will not have an adverse effect on the Company's business operations, including sales activities and the development of new services and technology.

### **Critical Accounting Policies**

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 and pursuant to agreements with licensees. The Company recognizes revenue from processing fees upon completion of processing and 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 can range from one to twenty-one years. Deferred revenue on the accompanying consolidated balance sheets includes the portion of the annual storage fee and the twenty-one year 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.

### **License and Royalty Agreements**

The Company has entered into licensing agreements with various licensees in certain international markets in an attempt to capitalize on the Company's technology. The licensees typically pay a licensing fee to receive Company marketing programs, technology and know-how in a selected geographical area. The licensee 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

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such factors as when the payment is due, collectability 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 seventeen active licensing agreements. The following areas each have one license agreement: Mexico, El Salvador, Guatemala, Nicaragua, Ecuador, Panama, Honduras, Venezuela, China, Pakistan, Chile, Colombia and Peru. The following areas each have two license agreements: India and Germany.

In addition to the license fee, the Company earns royalties on subsequent processing and storage revenues received by the licensee in the selected geographic area and a fee on any sub-license agreements that are sold by the licensee where applicable. The Company also processes and stores specimens sent directly from customers of sub-licensees in Mexico, Central America, Ecuador, Pakistan and Venezuela. These fees are included in processing and storage fees on the consolidated statements of income. As part of the accounting for licensee income, the Company uses estimates and judgments based on historical processing and storage volume in determining the timing and amount of licensee income to recognize. The Company periodically reviews license and royalty receivables for collectability and, if necessary, will record an expense for an allowance for uncollectible accounts. If the financial condition of the Company's licensees and sub-licensees 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. If the licensee's customer base were to decrease, it would negatively impact the Company's ongoing license income.

## **Accounts Receivable**

Accounts receivable consist of the amounts due from clients that have enrolled and processed in the U-Cord® processing and storage program and amounts due from licensee affiliates and do not require collateral. 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. 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.

## **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 \$7,795,523 and \$9,583,764 as of August 31, 2010 and November 30, 2009, respectively, as the Company does not believe it is more likely than not that the future income tax benefits will be realized. When the Company changes its determination as to the amount of deferred 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 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. We examine the evidence related to the recent history of losses, the economic conditions which we operate and our forecasts and projections to make that determination.

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For the three and nine months ended August 31, 2010, the Company recorded an income tax benefit, net of foreign taxes of \$1,749,480 and \$1,677,935, respectively, of which approximately \$1,789,000 relates to a reversal of a portion of the Company's valuation allowance for U.S. income taxes. The reversal of a portion of the deferred tax valuation allowance is based upon the Company's historical operating performance which includes profitability in seven of the eight last quarters, steadily improving operations and positive expectations for future taxable income.

There was no U.S. income tax expense for the three and nine months ended August 31, 2009. The Company did not record U.S. income tax expense during the three and nine months ended August 31, 2009 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 \$39,000 and \$44,000 for the three months ended August 31, 2010 and 2009, respectively, of foreign income tax expense. The Company recognized approximately \$110,000 and \$127,000 for the nine months ended August 31, 2010 and 2009, respectively, of foreign income tax expense. Foreign tax expense is included in income tax benefit (provision) in the accompanying statements of income.

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

## **Investment in Saneron**

The Company owns 35% of an entity that is involved in the area of stem cell research. The Company accounts for this investment under the equity method, and reviews the investment annually to determine if an other than temporary impairment exists. The Company previously recorded equity in losses of affiliate until the investment balance was zero and only goodwill remained. The Company does not believe that an impairment exists as of August 31, 2010 and November 30, 2009. If actual future results are not consistent with the Company's assumptions and estimates, the Company may be required to record impairment charges in the future which could have a negative impact on earnings.

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### **Patents**

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

Patent costs are capitalized on the date that the utility patent was filed and are amortized over a period of 20 years. Capitalized patent costs, net of accumulated amortization, as of August 31, 2010 and November 30, 2009 are \$567,718 and \$401,206, respectively, and are included in deposits and other assets in the accompanying consolidated balance sheets. Amortization expense was approximately \$9,000 and \$6,000 for the three months ended August 31, 2010 and August 31, 2009, respectively, and is included in depreciation and amortization in the accompanying consolidated statements of income. Amortization expense was approximately \$21,000 and \$16,000 for the nine months ended August 31, 2010 and August 31, 2009, respectively, and is included in depreciation and amortization in the accompanying consolidated statements of income.

### **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 payments on 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.

### **Recently Issued Accounting Pronouncements**

#### *Revenue Arrangements with Multiple Deliverables*

In October 2009, the Financial Accounting Standards Board ( FASB ) issued an Accounting Standard Update ( ASU ) No. 2009-13, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit and modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. The ASU significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. The ASU will be effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. Early adoption is permitted, provided that the guidance is retroactively applied to the beginning of the year of adoption. The Company is currently evaluating whether it will apply this update retrospectively or prospectively, and the impact, if any, this update may have on its consolidated financial statements upon its required adoption on December 1, 2010.

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### **Off-Balance Sheet Arrangements**

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

### **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, as amended. The terms Cryo-Cell International, Inc., Cryo-Cell, Company, we, our us refer to Cryo-Cell International, Inc. The words expect, anticipate, believe, goal, strategy, plan, intend, estimate and similar variations thereof, if used, are intended to specifically identify forward-looking statements. Those statements appear in a number of places in this Form 10-Q and in other places, and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things:

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

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, the risk factors set forth in Part I, Item 1A. Risk Factors of our most recent Annual Report on Form 10-K and 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 including increasing competition from public cord blood banks particularly in overseas markets but also in the U.S.;
- (iii) any decrease or slowdown in the number of people seeking to store umbilical cord blood stem cells or decrease in the number of people paying annual storage fees;
- (iv) market acceptance of the Company's Célle<sup>SM</sup> service will require publication of scientific studies, consumer awareness, and the development of new therapies from the Célle<sup>SM</sup> technology, none of which are certain;

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- (v) any new services relating to other types of stem cells that have not yet been offered commercially, and there is no assurance that other stem cell services will be launched or will gain market acceptance;
- (vi) any adverse impacts on revenue or operating margins due to the costs associated with increased growth in our business, including the possibility of unanticipated costs relating to the operation of our facility and costs relating to the commercial launch of the placental stem cell service offering or any other new types of stem cells;
- (vii) 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;
- (viii) any technological or medical breakthroughs that would render the Company's business of stem cell preservation obsolete;
- (ix) any material failure or malfunction in our storage facilities; or any natural disaster or act of terrorism that adversely affects stored specimens;
- (x) any adverse results to our prospects, financial condition or reputation arising from any material failure or compromise of our information systems;
- (xi) the costs associated with defending or prosecuting litigation matters, particularly including litigation related to intellectual property, and any material adverse result from such matters;
- (xii) any negative consequences resulting from deriving, shipping and storing specimens at a second location;
- (xiii) current market, business and economic conditions in general and in our industry in particular;
- (xiv) any adverse performance by or relations with any of our licensees;
- (xv) any inability to enter into new licensing arrangements including arrangements with non-refundable upfront fees;
- (xvi) any inability to realize cost savings as a result of recent acquisitions;
- (xvii) any inability to realize a return on an investment ;
- (xviii) any increased U.S. income tax expense as a result of inability to utilize or exhaustion of net operating losses;
- (xix) any adverse impact on our revenues as a result of greater emphasis in the future on the promotion of our Célle<sup>SM</sup> service and any shifting of our marketing dollars towards our Célle<sup>SM</sup> service;

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- (xx) any adverse impact on our revenues and operating margins as a result of discounting of our services in order to generate new business in tough economic times where consumers are selective with discretionary spending;

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(xxi) any inability to successfully identify and consummate strategic acquisitions;

(xxii) any inability to realize benefits from any strategic acquisitions; and

(xxiii) other factors many of which are beyond our control.

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

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

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

Not applicable.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

As previously disclosed in our Form 10-K filed on March 1, 2010 and the Company's Form 10-Q filed on April 15, 2010 and July 15, 2010, during the November 30, 2009, year end closing process, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures and internal controls over financial reporting were not effective, due to a material weakness surrounding the estimated accrual of processing and storage royalties earned from licensees and the deferral of the long-term storage royalties.

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Prior to the identification of such material weakness, management had already undertaken, or was in the process of undertaking, a number of steps to design and implement more effective internal controls, including:

Restructuring the Company's licensee agreements to work directly with each licensee;

Adding staffing resources with the primary responsibility being the licensee affiliates;

Refining the estimate of licensee income going forward.

The changes in the Company's internal control over financial reporting described in the previous paragraph were implemented prior to the Company reporting its results for the quarter ended February 28, 2010 and as a result of such changes we believe we have remediated the material weakness described above, however the new controls have not been operating for a long enough period of time to conclude that the Company's disclosure controls are effective. There were no other changes in the Company's internal controls over financial reporting during the quarter ended August 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Limitations on the Effectiveness of Controls**

Our management, including our 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.

### **CEO and CFO Certifications**

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

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Not applicable.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended November 30, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. We are also subject to the following new risk factor as a result of our plan to explore strategic acquisition opportunities that we announced on August 16, 2010:

We may be unable to identify or realize the intended benefits of potential strategic acquisition opportunities.

As part of our growth strategy, we plan to evaluate potential strategic acquisition opportunities, some of which could be material, and engage in discussions with acquisition candidates. We cannot assure you that suitable acquisition candidates will be identified and acquired in the future, that the financing of any such acquisition will be available on satisfactory terms, that we will be able to complete any such acquisition or that we will be able to accomplish our strategic objectives as a result of any such acquisition. Nor can we assure you that any acquisitions will be successful or achieve their intended benefits. We will encounter various risks in connection with acquisitions, including the possible inability to integrate an acquired business into our operations, diversion of management's attention and unanticipated problems or liabilities, some or all of which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. RESERVED**

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The Company held the Annual Meeting of Stockholders on July 27, 2010. The stockholders voted on the following:

*Election of seven directors.*

The following results were certified by the Inspector of Elections on July 27, 2010:

*Election of Directors.* The following persons were elected as directors at the Annual Meeting:

<b>Nominees Elected</b>	<b>For</b>	<b>Withheld</b>
Mercedes Walton	1,054,378	1,139,867
Michael Cho, PhD	1,967,132	227,113
Ki Yong Choi	1,934,516	259,729
Scott Christian	1,074,146	1,120,099
Andrew J. Filipowski	984,806	1,209,439
Anthony P. Finch	1,103,194	1,091,051
Sung Won Sohn, PhD	1,480,154	714,091

*Ratification of Auditor Appointment.* The proposal to ratify the appointment of Grant Thornton LLP as the Company's independent registered public accountants for fiscal 2010 was approved by the following vote:

<b>For</b>	<b>Against</b>	<b>Abstain</b>
8,382,286	1,204,116	39,497

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**ITEM 6. EXHIBITS**

(a) Exhibits

- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *(filed herewith)*.
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *(filed herewith)*.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *(filed herewith)*.

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**SIGNATURES**

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

Cryo-Cell International, Inc.

/s/ MERCEDES WALTON  
Mercedes Walton  
Chief Executive Officer

Cryo-Cell International, Inc.

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

Date: October 15, 2010