

CRYO CELL INTERNATIONAL INC
Form 10QSB
October 16, 2006
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-QSB

(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, 2006

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 Small Business Issuer as Specified in its Charter)

DELAWARE
(State or other Jurisdiction
of Incorporation or
Organization)

22-3023093
(I.R.S. Employer
Identification No.)

700 Brooker Creek Blvd. Oldsmar, FL 34677

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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 13, 2006, 11,624,629 shares of \$0.01 par value common stock were outstanding.

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Transitional Small Business Disclosure Format (check one). Yes No

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS

| ASSETS | | |
|--|--|------------------------------|
| | August 31, 2006 (unaudited) | November 30, 2005 |
| Current Assets | | |
| Cash and cash equivalents | \$ 7,630,673 | \$ 7,979,377 |
| Restricted cash | 200,000 | 200,000 |
| Marketable securities and other investments | | 484,491 |
| Accounts receivable and advances (net of allowance for doubtful accounts of \$960,525 and \$633,557, respectively) | 1,225,251 | 1,043,748 |
| Deferred tax assets | 45,000 | 45,000 |
| Prepaid expenses and other current assets | 719,268 | 693,852 |
| Total current assets | 9,820,192 | 10,446,468 |
| Property and Equipment-net | 2,921,301 | 2,923,959 |
| Other Assets | | |
| Marketable securities and other investments | 1,058,161 | 35,222 |
| Notes receivable | 92,450 | 100,000 |
| Investment in Saneron CCEL Therapeutics, Inc. | 690,219 | 684,939 |
| Deposits and other assets | 108,645 | 42,922 |
| Total other assets | 1,949,475 | 863,083 |
| Total assets | \$ 14,690,968 | \$ 14,233,510 |
| LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 522,705 | \$ 478,575 |
| Accrued expenses | 1,756,715 | 1,171,845 |
| Deferred revenue | 3,358,599 | 3,277,622 |
| Total current liabilities | 5,638,019 | 4,928,042 |
| Other Liabilities | | |
| Deferred revenue | 5,867,556 | 4,457,245 |
| Deferred tax liabilities | 45,000 | 45,000 |
| Long-term liability-revenue sharing agreements | 3,750,000 | 3,750,000 |
| Deferred consulting obligation | 578,876 | 658,666 |
| Total other liabilities | 10,241,432 | 8,910,911 |
| Stockholders (Deficit) Equity | | |
| Preferred stock (\$.01 par value, 500,000 authorized and none issued) | | |
| Common stock (\$.01 par value, 20,000,000 authorized; 11,624,629 as of August 31, 2006 and November 30, 2005 issued and outstanding) | 116,247 | 116,247 |
| Additional paid-in capital | 23,888,389 | 23,768,054 |
| Treasury stock | (839,301) | (839,301) |

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| | | |
|---|---------------|---------------|
| Accumulated other comprehensive loss | (94,056) | (274,834) |
| Accumulated deficit | (24,259,762) | (22,375,609) |
| Total stockholders (deficit) equity | (1,188,483) | 394,557 |
| Total liabilities and stockholders (deficit) equity | \$ 14,690,968 | \$ 14,233,510 |

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | August 31, 2006 | August 31, 2005 | August 31, 2006 | August 31, 2005 |
| Revenue | \$ 4,589,222 | \$ 3,772,135 | \$ 12,760,760 | \$ 10,614,862 |
| Costs and Expenses: | | | | |
| Cost of sales | 1,666,204 | 1,100,580 | 4,494,898 | 3,058,609 |
| Marketing, general & administrative expenses | 3,599,516 | 1,879,451 | 9,477,807 | 6,531,772 |
| Research, development and related engineering | 114,756 | 3,740 | 255,400 | 19,808 |
| Renegotiation of deferred consulting agreement | | | | (498,161) |
| Impairment of assets | 147,420 | | 147,420 | |
| Depreciation and amortization | 104,044 | 114,880 | 319,049 | 332,672 |
| Total cost and expenses | 5,631,940 | 3,098,651 | 14,694,574 | 9,444,700 |
| Operating (Loss) Income | (1,042,718) | 673,484 | (1,933,814) | 1,170,162 |
| Other Income (Expense): | | | | |
| Interest income | 77,411 | 39,990 | 216,853 | 92,550 |
| Interest expense | (271,917) | (246,330) | (755,568) | (637,093) |
| Other (expense) income | (428) | | 554 | (8,386) |
| Licensee income | 164,828 | 160,766 | 634,804 | 358,719 |
| Total other (expense) income | (30,106) | (45,574) | 96,643 | (194,210) |
| (Loss) Income before income tax expense and equity in losses of affiliate | (1,072,824) | 627,910 | (1,837,171) | 975,952 |
| Income tax benefit | | 41,001 | | 41,001 |
| Equity in losses of affiliate | (6,726) | (71,512) | (46,982) | (125,358) |
| | (6,726) | (30,511) | (46,982) | (84,357) |
| Net (Loss) Income | \$ (1,079,550) | \$ 597,399 | \$ (1,884,153) | \$ 891,595 |
| Net (loss) income per common share - basic | (\$0.09) | \$ 0.05 | (\$0.16) | \$ 0.08 |
| Weighted average common shares outstanding - basic | 11,624,629 | 11,613,528 | 11,624,629 | 11,568,518 |
| Net (loss) income per common share - diluted | (\$0.09) | \$ 0.05 | (\$0.16) | \$ 0.07 |
| Weighted average common shares outstanding - diluted | 11,624,629 | 12,233,516 | 11,624,629 | 12,234,172 |
| Comprehensive (loss) income: | | | | |
| Net (loss) income: | \$ (1,079,550) | 597,399 | \$ (1,884,153) | \$ 891,595 |
| Unrealized gain (loss) on marketable securities | (12,943) | (38,474) | 33,358 | (113,574) |
| Write-off of unrealized loss on marketable securities | 147,420 | | 147,420 | |

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| | | | | |
|-----------------------------|--------------|------------|----------------|------------|
| Comprehensive (loss) income | \$ (945,073) | \$ 558,925 | \$ (1,703,375) | \$ 778,021 |
|-----------------------------|--------------|------------|----------------|------------|

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| | Nine Months Ended | |
|--|--------------------------|-------------------|
| | August 31, | August 31, |
| | 2006 | 2005 |
| Cash Flows from Operating Activities: | | |
| Net (Loss) Income | \$ (1,884,153) | \$ 891,595 |
| Adjustments to reconcile net (loss) income to cash provided by operating activities: | | |
| Depreciation and amortization expense | 492,406 | 439,102 |
| (Gain) loss on sale of marketable securities | (5,510) | 3,207 |
| Loss on sale of property and equipment | 4,956 | 5,179 |
| Gain on renegotiation of deferred consulting agreement | | (498,161) |
| Compensatory element of stock options | 68,074 | 12,628 |
| Provision for doubtful accounts | 338,272 | 298,746 |
| Impairment of assets | 147,420 | |
| Equity in losses of affiliate | 46,982 | 125,358 |
| Changes in assets and liabilities: | | |
| Accounts receivable and advances | (524,775) | (379,359) |
| Receivable - Affiliates | | 231,880 |
| Note receivable | 7,550 | |
| Prepaid expenses and other current assets | (25,415) | (241,977) |
| Deposits and other assets | (65,723) | 6,921 |
| Accounts payable | 44,130 | 55,895 |
| Accrued expenses | 584,870 | (624,986) |
| Deferred revenue | 1,491,288 | 1,542,982 |
| Net cash provided by operating activities | 720,372 | 1,869,010 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (494,705) | (621,353) |
| Sale of property and equipment | 5,000 | 21,201 |
| Purchase of marketable securities and other investments | (989,581) | |
| Proceeds from sale of marketable securities | 490,000 | 565,000 |
| Net cash used in investing activities | (989,286) | (35,152) |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options | | 190,021 |
| Repayments of deferred consulting obligation | (79,790) | (71,065) |
| Net cash (used in) provided by financing activities | (79,790) | 118,956 |
| (Decrease) Increase in cash and cash equivalents | (348,704) | 1,952,814 |
| Cash and cash equivalents - beginning of period | 7,979,377 | 4,737,368 |
| Cash and cash equivalents - end of period | \$ 7,630,673 | \$ 6,690,182 |
| Supplemental disclosure of cash flow information: | | |
| Interest | \$ 712,800 | \$ 595,037 |

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| | | |
|--------------|----|-----------|
| Income taxes | \$ | \$ 45,000 |
|--------------|----|-----------|

Supplemental schedules of non-cash investing and financing activities:

| | | | |
|--|----|--------|--------------|
| Unrealized gain (loss) as a component of marketable securities and shareholders equity | \$ | 33,358 | \$ (113,574) |
|--|----|--------|--------------|

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, 2006

(Unaudited)

Note 1 - Basis of Presentation

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of August 31, 2006 and November 30, 2005, the related Consolidated Statements of Operations and Comprehensive (Loss) Income for the three and nine months ended August 31, 2006 and August 31, 2005, and the related Consolidated Statements of Cash Flows for the nine months ended August 31, 2006 and August 31, 2005 have been prepared by Cryo-Cell International, Inc. and its subsidiaries (the Company or Cryo-Cell). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for all periods presented have been made.

The unaudited consolidated financial statements herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Certain financial information and note disclosures which are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's November 30, 2005 Annual Report on Form 10-KSB.

Revenue Recognition

The Company records revenue from processing and storage of specimens. The Company recognizes revenue from processing fees upon completion of processing, and cellular storage fees ratably over the contractual storage period. The Company also records revenue from shipping and handling when earned. Shipping and handling costs are expensed and included in cost of sales.

Income Taxes

Under the asset and liability method of SFAS No. 109 *Accounting for Income Taxes*, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the net deferred tax assets of the Company as of August 31, 2006 and November 30, 2005, has been provided as the Company does not believe it is more likely than not that the future income tax benefits will be realized. The Company did not record income tax expense during the nine months ended August 31, 2006 and August 31, 2005 as it was able to utilize its deferred tax assets to offset its taxable income.

Recently Issued Accounting Pronouncements

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123(R)). SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25 (APB No. 25) and amends FASB Statement No. 95, *Statement of Cash Flows*. SFAS 123(R) *requires* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

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SFAS 123(R) must be adopted by small business issuers in the annual period beginning after December 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS 123(R) on December 1, 2006.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.
2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company plans to adopt SFAS 123(R) using the modified prospective method.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 5 to the consolidated financial statements. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$0 for the three and nine months ended August 31, 2006 and August 31, 2005.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FAS109, Accounting for Income Taxes* (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of December 1, 2007, as required. The Company has not determined the effect, if any, that the adoption of FIN 48 will have on the Company's financial position and results of operations.

Table of Contents**Note 2 Loss (Earnings) per Common Share**

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | August 31, 2006 | August 31, 2005 | August 31, 2006 | August 31, 2005 |
| Numerator: | | | | |
| Net (Loss) Income | \$ (1,079,550) | \$ 597,399 | \$ (1,884,153) | \$ 891,595 |
| Denominator: | | | | |
| Weighted-average shares outstanding-basic | 11,624,629 | 11,613,528 | 11,624,629 | 11,568,518 |
| Dilutive common shares issuable upon exercise of stock options | | 619,988 | | 665,654 |
| Weighted-average shares-diluted | 11,624,629 | 12,233,516 | 11,624,629 | 12,234,172 |
| (Loss)Earnings per share: | | | | |
| Basic | \$ (.09) | \$.05 | \$ (.16) | \$.08 |
| Diluted | \$ (.09) | \$.05 | \$ (.16) | \$.07 |

For the three and nine months ended August 31, 2006, the Company excluded the effect of all outstanding options from the computation of earnings per share, as the effect of potentially dilutive shares from the outstanding stock options would be antidilutive.

For the three and nine months ended August 31, 2005, options to purchase 712,556 and 306,900 shares of common stock, respectively, were outstanding during the period but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares, and therefore, the effect would be anti-dilutive.

Note 3 Legal Proceedings

The Company is involved in the following legal proceedings:

On February 22, 2002 the Company was named as a defendant in a complaint filed by PharmaStem Therapeutics, Inc. (PharmaStem) in the United States District Court of Delaware (Wilmington) (the Court), Case No. 02-148-GMS, alleging patent infringement of two U.S Patents No. 5,004,681 (681 patent) which relates to the collection, processing, and storage of stem cells derived from umbilical cord blood and No. 5,192,553 (553 patent) which relates to the therapeutic use of stem cells derived from umbilical cord blood. PharmaStem, a Delaware corporation, named eight companies (three of which are now out of business) involved in cord blood banking. The suit sought an injunction against the companies, an unspecified amount of damages or royalties, treble damages and attorney's fees. The trial was held in October 2003 and pursuant to a jury verdict entered on October 29, 2003, a judgment was entered against the Company in the amount of \$957,722 for damages relating to royalties resulting from revenues generated from specimens processed and stored from April 11, 2000 through August 31, 2003. The Company recognized a liability for the year ended November 30, 2003 in the amount of the judgment and an additional expense in the amount of \$145,000 for estimated damages relating to royalties resulting from revenues generated from specimens processed and stored.

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During fiscal 2004 the Company accrued an additional \$523,000 for estimated damages relating to royalties resulting from revenues generated from specimens processed and stored during the first, second and third quarters of fiscal 2004 recognizing that it was probable that the damages would continue to accrue at a rate of 6.125% should the judgment remain in effect related to the 681 patent. In December 2003, the Company transferred \$957,722 into an escrow account. The defendants, including the Company, filed motions for post-trial relief, and execution of the judgment was stayed pending disposition of those motions. The plaintiff also filed motions seeking an award of approximately \$2,800,000 for enhanced damages, counsel fees and interest, as well as for a permanent injunction against future infringement. The Company did not accrue the \$2,800,000, as the Company felt the likelihood of such an award was remote.

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

As a result of the September 15, 2004 ruling the Company reversed all prior accruals related to the 681 patent totaling \$1,102,968, during the third quarter of fiscal 2004. The Company was no longer obligated to hold the \$957,722 in an escrow account and the funds were returned to the Company in October 2004.

On October 4, 2004, PharmaStem filed in the Delaware action a motion for preliminary injunction against the Company (and its co-defendants) regarding the 681 patent. PharmaStem sought an injunction limiting the ability of the Company to refer to the use of umbilical cord blood in the treatment of adults in the marketing of the Company's services, to advise customers for its services that cord blood stored hereafter is for pediatric use only, and to enjoin the Company from storing cord blood units that have sufficient stem cells to effect the hematopoietic reconstitution of an adult. The Company and other defendants filed a motion asking the court to reconsider the denial of the judgment as a matter of law on the 681 patent. On December 14, 2004, the Court ruled in favor of the Company and other defendants. The effect of this order is that final judgment has now been entered in favor of Cryo-Cell and the other defendants on PharmaStem's charges of infringement of both patents that were asserted in that case, marking a final disposition of the case in Cryo-Cell's favor, and denying PharmaStem's motion for preliminary injunction. PharmaStem has filed an appeal of the decision to the United States Court of Appeals for the Federal Circuit. Cryo-Cell and the other defendants have filed a cross-appeal on the issues of the validity and enforceability of the 681 and 553 patents. The Court heard oral argument on the appeals on April 4, 2006, and a decision is expected later in the year.

On July 28, 2004, the Company was named as a defendant in a complaint filed by PharmaStem in the United States District Court for the Middle District of Florida, Tampa Division, Case No. 8:04-cv-1740-T-30TGW alleging infringement of U.S. Patents Nos. 6,461,645 and 6,569,427. These patents are closely related to the 681 and 553 patents that were the subject of PharmaStem's Delaware litigation. PharmaStem also named as a defendant Dr. Bruce Zafran, a member of the Company's scientific and medical advisory board. The suit seeks an injunction, an unspecified amount of damages or royalties, treble damages and attorney's fees. The Company has filed an answer and counterclaims against PharmaStem and its Chief Executive Officer, Nicholas Didier. PharmaStem and Didier have filed motions to dismiss those counterclaims. The Judicial Panel on Multidistrict Litigation transferred this

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action to the District of Delaware for coordinated pretrial proceedings with other cases brought by PharmaStem alleging infringement of these same two patents by other defendants, *In re: PharmaStem Therapeutics, Inc. Patent Litigation*, MDL No. 1660. The Company intends to vigorously defend the suit. The Delaware court has stayed all proceedings in these cases, including discovery, pending the outcome of the Federal Circuit appeal and reexamination proceedings in the U.S. Patent and Trademark Office. Patent Office examiners have entered office actions rejecting all claims of all four patents. These actions are not final, and PharmaStem has the opportunity to present further arguments to the examiner and to appeal an adverse final determination.

Note 4 Investments in Subsidiaries and Affiliates

Saneron CCEL Therapeutics, Inc. (Saneron)

The Company has an ownership interest of approximately 38% in Saneron, which is accounted for under the equity method of accounting, as of August 31, 2006 and November 30, 2005. During 2005, the Company had an independent valuation performed on the Company's interest in Saneron. Management believes that this valuation accurately reflects the fair value of the Company's interest in Saneron as of November 30, 2005. As of August 31, 2006 and November 30, 2005, the net Saneron investment, including goodwill of approximately \$684,000, is reflected on the accompanying consolidated balance sheets at approximately \$690,000 and \$685,000, respectively.

For the three and nine months ended August 31, 2006, the Company recorded equity in losses of affiliate in losses of Saneron operations of \$6,726 and \$46,982. Included in equity in losses of affiliate is approximately \$24,900 and \$52,300 for the three and nine months ended August 31, 2006, related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees below fair market value. For the three and nine months ended August 31, 2005, the Company recorded equity in losses of Saneron operations of \$71,512 and \$125,358. Included in equity in losses of affiliate is approximately \$54,000 and \$77,000 for the three and nine months ended August 31, 2005 related to compensation expense for stock option awards that were granted by Saneron.

As of August 31, 2006 and November 30, 2005, the Company has classified the initial value of Company stock held by Saneron of approximately \$839,000 within stockholders' equity as treasury stock.

Note 5 Stock Options

The Company accounts for stock options under APB No. 25, under which no compensation expense has been recognized for stock options issued to employees as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). The Company has adopted the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* (SFAS No. 148). Certain stock options have been issued to consultants of the Company and accounted for under SFAS No. 123. The expense recognized for the three and nine months ended August 31, 2006 and is \$10,235 and \$68,074, respectively. The expense recognized for the three and nine months ended August 31, 2005 is \$0 and \$12,628, respectively.

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Had SFAS No. 123 been implemented, the Company's net (loss) income per share would have been adjusted to the amounts indicated below for the three and nine months ended August 31, 2006 and August 31, 2005:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------------|--------------------------|-------------------|
| | August 31, | August 31, | August 31, | August 31, |
| | 2006 | 2005 | 2006 | 2005 |
| Net (Loss) Income, as reported | \$ (1,079,550) | \$ 597,399 | \$ (1,884,153) | \$ 891,595 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards | (116,891) | (552,126) | (235,819) | (716,733) |
| Pro forma net (loss) income | \$ (1,196,441) | \$ 45,273 | \$ (2,119,972) | \$ 174,862 |
| (Loss) Earnings per share: | | | | |
| Basic-as reported | \$ (.09) | \$.05 | \$ (.16) | \$.08 |
| Diluted-as reported | \$ (.09) | \$.05 | \$ (.16) | \$.07 |
| Basic-pro forma | \$ (.10) | \$.05 | \$ (.18) | \$.02 |
| Diluted-pro forma | \$ (.10) | \$.05 | \$ (.18) | \$.01 |

Note 6 Marketable Securities and Other Investments

The Company has certain investments in marketable securities, which are categorized as marketable securities and other investments on the accompanying balance sheets and accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). Marketable securities were \$1,058,162 and \$519,713 and at August 31, 2006 and November 30, 2005. In accordance with SFAS No. 115, the Company recorded a gain of \$5,510 for the three and nine months ended August 31, 2006, and recorded a loss of \$0 and \$3,207 for the three and nine months ended August 31, 2005, in conjunction with the sale of certain marketable securities. Marketable securities and other investments on the accompanying consolidated balance sheet as of August 31, 2006, includes a bond investment of approximately \$990,000. Also included within marketable securities and other investments on the accompanying consolidated balance sheets as of August 31, 2006 and November 30, 2005 are certificates of deposits of approximately \$0 and \$484,000 recorded at cost.

Other Investments

The Company uses the guidance in SFAS No. 115 as described above, to account for marketable securities which are classified as available for sale. The fair value of other investments as of August 31, 2006 and November 30, 2005 was approximately \$69,000 and \$35,000, respectively, and the unrealized holding loss recorded as a component of stockholders equity on other investments was approximately \$0 and \$181,000 as of August 31, 2006 and November 30, 2005, respectively. The cost basis of the other investments was written down to fair value and charged to impairment during the third quarter of fiscal 2006 as it was determined that the decline in fair market value was other-than-temporary.

Note 7 Deferred Consulting Obligation

During June 2002, the Company entered into a long-term consulting agreement with a former officer to provide future consulting services to the Company. The Company initially recognized the present value of this agreement as a liability. In August 2004, the Company stopped making payments

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under the consulting agreement. This agreement was terminated and following negotiations, a new agreement was negotiated by the parties and signed on April 15, 2005. The Company commenced payments under the terms of the new agreement during the second quarter of 2005. The terms of the settlement are confidential. The present value of the new agreement has been reflected as a liability on the consolidated balance sheet as of August 31, 2006 and November 30, 2005.

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

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

During the nine months ended August 31, 2006, the Company increased its revenues by 20% over the level in the 2005 period and incurred a net loss of approximately \$1,884,000, compared to net income of approximately \$892,000 in the 2005 period. Net storage revenues increased because of an increase in the customer base and the effects of a price increase implemented during fiscal 2006. The Company experienced a net loss in the 2006 period due to increases in cost of sales and marketing, general, and administrative expenses, partially offset by the increase in revenue and a significant increase in licensee income in 2006. In addition, net income in the 2005 period was increased by the effect of a non-cash income liability reversal of \$498,000 in connection with the renegotiation of a consulting agreement with a former officer.

In October 2005, the Company announced an agreement with Plureon under which the Company will have the exclusive rights to market the service of collecting, processing and preserving placental stem cells as a supplement to its existing services involving U-Cord® stem cells. The Company expects to launch this service commercially by the first quarter of fiscal 2007. The Company expects to charge an initial fee for collection and processing the placental stem cells, in addition to its existing fees for collection and processing of U-Cord® stem cells. Also, the Company will charge an annual storage fee for storage of the placental stem cells, in addition to the storage fee for the U-Cord® stem cells. The Company will pay royalties to Plureon for sub-licensing the underlying technology. In preparation for the Company's commercial launch of this service, the Company and Plureon are negotiating the final license fees and renegotiating certain other terms of its agreement with Plureon.

At August 31, 2006, the Company had cash and cash equivalents of approximately \$7,631,000 and marketable securities and other investments of approximately \$1,058,000. The Company's cash decreased by approximately \$349,000 during the first three quarters, as a result of the purchase of a bond investment and the purchase of property and equipment, which was offset by cash flow from operations and the proceeds from the redemption of marketable securities. As of October 13, 2006, the Company maintains no indebtedness.

Results of Operations - Three-month period ended August 31, 2006

Revenues. Revenues for the three months ended August 31, 2006 were \$4,589,222 as compared to

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\$3,772,135 for the same period in 2005, representing a 22% increase. The increase is primarily attributable to the effects of a successfully implemented price increase during 2006 for newly enrolling clients, as well as the overall increase in customer base over the prior year, which led to a significant increase in storage revenues.

Cost of Sales. Cost of sales for the three months ended August 31, 2006 was \$1,666,204 as compared to \$1,100,580 for the same period in 2005, representing a 51% increase. Cost of sales was 36% of revenues for the three months ended August 31, 2006 compared with 29% for the three months ended August 31, 2005. The increase in cost of sales as a percentage of revenue was due to increased expenses for enrollment incentives and cord blood collection reimbursements, as well as the expenses associated with the Company's introduction of service enhancements in connection with the price increase implemented during the first quarter of fiscal 2006. As part of the service enhancements associated with this price increase, the Company now incurs the cost of the return shipping of its cord blood collection kits. Cost of sales includes wages and supplies associated with new process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and the costs associated with storage of specimens at the Safti-Cell facility in Arizona. During the second quarter of fiscal 2005, the Company implemented a new processing methodology in accordance with emerging requirements of the American Association of Blood Banks (AABB). The new process utilizes closed-system bags rather than vial storage. Due to this transition to a new processing methodology, as well as the enhanced level of security designed in the Company's new facility, the Company discontinued offering the dual storage service to new customers during the second quarter of fiscal 2005.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses during the three months ended August 31, 2006 were \$3,599,516 as compared to \$1,879,451 for the three months ended August 31, 2005, an 92% increase. The increase was principally attributable to the implementation of the Company's strategic initiatives to increase market share and achieve unit growth by strengthening the resources allocated to sales and marketing. This resulted in an increase in consumer advertising and increased expenditures related to corporate re-branding. An increase in salaries and wages also contributed to the increase. Marketing, general and administrative expenses were 78% of revenues for the three months ended August 31, 2006 compared to 50% for the three months ended August 31, 2005. The Company expects to continue expansion of its sales and marketing initiatives in the next several quarters, which can be expected to continue to cause increases in marketing, general and administrative expenses on a year-over-year basis.

Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the three months ended August 31, 2006 were \$114,756 as compared to \$3,740 for the three months ended August 31, 2005. The increase related to the Company's development expenses for proprietary technology to collect, process and cryogenically preserve Plureon Stem Cells (PSCs) collected from placental stem cells under the agreement with Plureon.

Impairment of Assets. During the three months ended August 31, 2006, the Company recognized \$147,420 in charges related to impairment of assets. During the period ended August 31, 2006, management reviewed the cost basis of certain investments in marketable securities and determined that the decline in market value was other-than temporary, resulting in these investments being written down to fair value.

Interest Expense. Interest expense for the three months ended August 31, 2006 was \$271,917 as compared to \$246,330 for the same period in 2005. Interest expense is mainly comprised of payments made to the other parties to the Company's revenue sharing agreements (RSAs) with third parties based on the Company's storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company's RSAs provide that in exchange for an up-front

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payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs covering the following states: New York, Texas, Florida and Illinois (including contiguous states). As the Company receives annual storage fees relating to specimens from these states, the portion of the fees shared with the parties to the RSAs are recognized as interest expense. If the Company's revenues continue to increase in areas covered by RSAs, the Company's interest expense related to the RSA payments will also increase. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of \$10,493 and \$13,874 for the three months ended August 31, 2006 and August 31, 2005, respectively.

Licensee Income. Licensee income for the three months ended August 31, 2006, was \$164,828 as compared to \$160,766 for the same period in 2005. Licensee income for these periods consisted of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees.

Equity in Losses of Affiliate. Equity in losses of affiliate was \$6,726 for the three months ended August 31, 2006, compared to \$71,512 for the 2005 period. During the three months ended August 31, 2006 and August 31, 2005, the Company recorded approximately \$25,000 and \$54,000 respectively, in equity in losses of affiliates related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees below fair market value.

Income Taxes. The Company did not record income tax expense during the three months ended August 31, 2006 and August 31, 2005, as it was able to utilize its deferred tax assets to offset its taxable income.

Results of Operations - Nine-month period ended August 31, 2006

Revenues. Revenues for the nine months ended August 31, 2006 were \$12,760,760 as compared to \$10,614,862 for the same period in 2005, representing a 20% increase. The increase is primarily attributable to the effects of a successfully implemented price increase during 2006 for newly enrolling clients, as well as the overall increase in customer base over the prior year, which led to a significant increase in storage revenues.

Cost of Sales. Cost of sales for the nine months ended August 31, 2006 was \$4,494,898 as compared to \$3,058,609 for the same period in 2005, representing a 47% increase. Cost of sales was 35% of revenues for the nine months ended August 31, 2006 compared with 29% for the nine months ended August 31, 2005. The increase in cost of sales as a percentage of revenue was due to increased expenses for enrollment incentives, an increase in laboratory supplies, and cord blood collection reimbursements, as well as the expenses associated with the Company's introduction of service enhancements in connection with the price increase implemented during the first quarter of fiscal 2006. As part of the service enhancements associated with this price increase, the Company now incurs the cost of the return shipping of its cord blood collection kits. Cost of sales includes wages and supplies associated with new process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and the costs associated with storage of specimens at the Safti-Cell facility in Arizona. During the second quarter of fiscal 2005, the Company implemented a new processing methodology in accordance with emerging requirements of the American Association of Blood Banks (AABB). The new process utilizes closed-system bags rather than vial storage. Due to this transition to a new processing methodology, as well as, the enhanced level of security designed in the Company's new facility, the Company discontinued offering the dual storage service to new customers during the second quarter of fiscal 2005. The increase in the cost of laboratory supplies is a direct result of the transition to the new processing methodology.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses

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during the nine months ended August 31, 2006 were \$9,477,807 as compared to \$6,531,772 for the nine months ended August 31, 2005 representing a 45% increase. The increase was principally attributable to the implementation of the Company's plans to expand its sales and marketing initiatives, which resulted in an increase in advertising and consulting fees associated with its corporate re-branding. An increase in salaries and wages also contributed to the increase. Marketing, general and administrative expenses were 74% of revenues for the nine months ended August 31, 2006 compared to 62% for the nine months ended August 31, 2005. Marketing, general and administrative expenses increased as a percentage of revenues due to the aforementioned increases, which were partially offset by the increase in revenues. The Company expects to continue the expansion of its sales and marketing initiatives in the next several quarters, which can be expected to cause continued increases in marketing, general and administrative expenses on a year-over-year basis.

Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the nine months ended August 31, 2006 were \$255,400 as compared to \$19,808 for the nine months ended August 31, 2005. The increase was due to expenses related to the Company's development expenses for the proprietary technology to collect, process and cryogenically preserve Plureon Stem Cells (PSCs) collected from placental stem cells under the agreement with Plureon.

Renegotiation of Deferred Consulting Agreement. For the nine months ended August 31, 2005, the Company recorded other income of \$498,161 due to the cancellation of a deferred consulting obligation agreement. A new deferred consulting agreement was negotiated and signed during the second quarter 2005. The terms of the settlement agreement are confidential.

Impairment of Assets. For the nine months ended August 31, 2006, the Company recorded an impairment of assets of \$147,420. During the period ended August 31, 2006, management reviewed the cost basis of certain investments in marketable securities and determined that the decline in market value was other-than temporary, resulting in these investments being written down to fair value.

Interest Expense. Interest expense for the nine months ended August 31, 2006 was \$755,568 as compared to \$637,093 for the same period in 2005. Interest expense is mainly comprised of payments made to the other parties to the Company's RSAs based on the Company's storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company's RSAs provide that in exchange for an up-front payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs covering the following states: New York, Texas, Florida and Illinois (including contiguous states). As the Company receives annual storage fees relating to specimens from these states, the portion of the fees shared with the parties to the RSAs are recognized as interest expense. If the Company's revenues continue to increase in areas covered by RSAs, the Company's interest expense related to the RSA payments will also increase. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of \$31,463 and \$19,080 for the nine months ended August 31, 2006 and August 31, 2005, respectively.

Licensee Income. Licensee income for the nine months ended August 31, 2006, was \$634,804 as compared to \$358,719 for the same period in 2005. Licensee income for the nine months ended August 31, 2006, consisted of \$148,723 received as an installment payment from the non-recurring sale of the India license agreement and \$486,081 of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees. Licensee income for the nine months ended August 31, 2005 consisted of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees.

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Equity in Losses of Affiliate. Equity in losses of affiliate was \$46,982 for the nine months ended August 31, 2006, compared to \$125,358 for the 2005 period. During the nine months ended August 31, 2006 and August 31, 2005, the Company recorded approximately \$52,000 and \$77,000, respectively, in equity in losses of affiliates related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees below fair market value.

Income Taxes. The Company did not record income tax expense during the nine months ended August 31, 2006 and August 31, 2005, as it was able to utilize its deferred tax assets to offset its taxable income.

Liquidity and Capital Resources

Through August 31, 2006, the Company's sources of cash have been from sales of its U-Cor® program to customers, the sale of license agreements and proceeds from RSAs. Currently, the Company's cash flow is derived primarily from sales relating to its storage services, including the Initial Fees and ongoing storage fees.

At August 31, 2006, the Company had cash and cash equivalents of \$7,630,673 as compared to \$7,979,377 at November 30, 2005. The decrease in cash and cash equivalents during the nine months ended August 31, 2006 was primarily attributable to the following:

Cash provided by operating activities for the nine months ended August 31, 2006 amounted to \$720,372 which was primarily attributable to the Company's operating activities including licensing fees, a price increase, and an increase in recurring revenue from the current client base. During the prior year, the Company began requiring credit cards to be used by all new clients. This has resulted in an increase in operating cash flow.

Cash used in investing activities for the nine months ended August 31, 2006 amounted to \$989,286 which was primarily attributable to the purchase of a bond investment and property and equipment, partially offset by proceeds for the redemption of marketable securities.

Cash used in financing activities for the nine months ended August 31, 2006 amounted to \$79,790, which consisted of repayments of a deferred consulting obligation to a former officer.

The Company also has certain investments in marketable securities totaling \$1,058,161 at August 31, 2006.

The Company does not have a line of credit or other type of financing instrument. Capital expenditures for the Company's new facility were funded from cash flows from operations. The Company anticipates making capital expenditures of approximately \$1,000,000 over the next twelve months including \$500,000 in the anticipated expenditures related to the lease amendment described below.

On June 7, 2006, the Company entered into a lease amendment, which amends the Company's lease for its principal offices in Oldsmar, Florida. The original lease covered approximately 17,600 square feet of space. Under the amendment, the Company leased an additional 9,600 square feet of space at same location, beginning on August 1, 2006 and ending with the termination of the lease in 2015. The Company's rent for the additional space is \$10,400 per month through July 31, 2007, with annual increases thereafter through the entire lease term to a maximum of \$13,176 per month for the additional space.

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The Company anticipates that its cash and cash equivalents, marketable securities and cash flows from operations will be sufficient to fund its cash needs for at least the next 12 to 18 months. Cash flows from operations will depend primarily upon increasing revenues from sales of its umbilical cord blood cellular storage services and controlling expenses. In the past several years, the Company has attempted to focus its capital resources on its core business of cellular processing and cryogenic storage services by de-emphasizing certain non-core business activities and through settlement of some of its legal disputes. In the future, the Company will evaluate and consider pursuing certain opportunities outside of a core business, on a selective basis, in which operational synergies and economic potential align with the Company's strategic direction.

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. The Company recognizes revenue from processing fees upon completion of processing and cellular storage fees ratably over the contractual storage period. The Company also records revenue from shipping and handling when earned. Shipping and handling costs are expensed and included in cost of sales.

Accounts Receivable

Accounts receivable consist of the amounts due from clients that have enrolled in the U-Cord processing and storage program and amounts due from license affiliates. Accounts receivable due from clients are due within 30 days and are stated at amounts due from clients net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering the length of time accounts receivable are past due, the Company's previous loss history, and the customer's current ability to pay its obligations. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. During the second quarter of fiscal 2006, the Company increased the percentage it applies to its accounts receivable to determine its allowance for doubtful accounts. As a result, the Company's allowance for doubtful accounts increased during the second quarter of fiscal 2006.

Income Taxes

Under the asset and liability method of SFAS No. 109 *Accounting for Income Taxes*, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the net deferred tax assets of the Company as of

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August 31, 2006 and November 30, 2005, has been provided as the Company does not believe it is more likely than not that the future income tax benefits will be realized.

Investment in Saneron

The Company made a significant investment in Saneron, an entity involved in stem cell research. The Company accounts for this investment under the equity method, and at least annually, reviews its investment for possible impairment and, if necessary, adjusts the carrying value of such investment.

Revenue Sharing Agreements

The Company has entered into 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 parties typically pay the Company a non-refundable up-front fee for the rights to these future payments. The Company had recognized these non-refundable fees as a long-term liability. Given the criteria under which these RSAs are established, cash receipts from these contracts can fluctuate from period to period. The Company periodically, and at least annually, reviews its RSAs receivables for collectibility. 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.

License and Royalty Agreements

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

In addition to the license fee, the Company earns royalties on subsequent processing and storage revenues by the investor in the selected area and a fee on any sub-license agreements that are sold by the investor where applicable. As part of the accounting for royalty revenue, the Company uses estimates and judgments in determining the timing and amount of royalty revenue to recognize. The Company periodically reviews license and royalty receivables for collectibility and, if necessary, will record an expense for an allowance for an uncollectible account.

Marketable Securities and Other Investments

The Company has certain investments in certificates of deposit, debt and equity securities, which are categorized as marketable securities and other investments. The Company believes these are conservative investments with a low risk for any loss of principal. The Company regularly assesses its marketable security investments for impairments and adjusts its investment strategy, as it deems appropriate. The Company classifies marketable securities and other investments as current in the accompanying consolidated balance sheets based on original maturity dates of less than one year. The cost basis of the other investments has been written down to fair value. The Company recorded an impairment charge of approximately \$147,000 on one of its available for sale securities during the third quarter of fiscal 2006 as its decline in fair market value was determined to be other-than-temporary.

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Litigation

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

Deferred Consulting Fees

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

Product Guarantee and Cryo-Cell Cares™ Program

In December 2005, the Company began providing its customers enrolled under the new pricing structure with a payment guarantee under which the Company agrees to pay \$50,000 to its client if the U-Cord® product retrieved is used for a stem cell transplant for the donor or an immediate family member and fails to engraft, subject to various restrictions. Additionally, under the Cryo-Cell 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 Company has not experienced any claims under the guarantee program nor has it incurred costs related to these guarantees. The Company does not maintain insurance for this guarantee program and therefore maintains reserves to cover our estimated potential liabilities. The Company accounts for the guarantee as an obligation and recognize the obligation in accordance with SFAS No. 5, Accounting for Contingencies. The Company's reserve balance is based on the \$50,000 maximum payment, multiplied by the number of units covered by the guarantee, multiplied by the expected transplant rate, multiplied by the expected engraftment failure rate, multiplied by a time factor plus the \$10,000 maximum expense reimbursement, multiplied by the number of units covered by the guarantee, multiplied by the expected transplant rate, multiplied by a time factor. The Company determines the expected usage and engraftment failure rate by analyzing data from the existing bank of U-Cord® specimens, cord blood stored in published private and public banks and the related historical usage and failure rates in the Company's bank and other private cord blood banks. The Company determined the estimated expected usage and engraftment failure rates based on an analysis of the historical usage and failure rates and the historical usage and failure rates in other private and public cord blood banks based on published data. The Company's estimates of expected usage and engraftment failure could change as a result of changes in actual usage rates or failure rates and such changes would require an adjustment to the established reserves. The historical usage and failure rates have been very low and a small increase in the number of transplants or engraftment failures could cause a significant increase in the estimated rates used in determining our reserve. In addition, the reserve will increase as additional U-Cord® specimens are stored which are subject to the guarantee. As of August 31, 2006 and November 30, 2005 the Company recorded reserves under these programs in the amounts of \$25,214 and \$0, respectively, which are included in accrued expenses in the accompanying consolidated balance sheets.

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Forward Looking Statements

This Form 10-QSB, press releases and certain information provided periodically in writing or orally by the Company's officers or its agents may contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934. The terms Cryo-Cell International, Inc., Cryo-Cell Company, we, our and us refer to Cryo-Cell International, Inc. The words expect, believe, goal, plan, intend, estimate and similar expressions and variations thereof, if used, are intended to specifically identify forward-looking statements. Those statements appear in a number of places in this Form 10-QSB and in other places, particularly, Management's Discussion and Analysis of Financial Condition and Results of Operations, and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things:

- (i) our future performance and operating results;
- (ii) our future operating plans;
- (iii) our liquidity and capital resources; and
- (iv) our legal proceedings;

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, the following:

- (i) any adverse effect or limitations caused by recent increases in government regulation of stem cell storage facilities;
- (ii) any increased competition in our business;
- (iii) any decrease or slowdown in the number of people seeking to store umbilical cord blood stem cells or decrease in the number of people paying annual storage fees;
- (iv) any failure to timely launch the processing and storage of Plureon® (placental) stem cells, which remains subject to certain clinical validation and the negotiation of final financial terms of royalties and other arrangements with Plureon Corporation;
- (v) the failure of the offering of placental stem cell processing and storage services, services that have not previously been offered commercially, to 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 new facility and costs relating to the commercial launch of the placental stem cell service offering;
- (vii) any unique risks posed by our international activities, including but not limited to local business laws or practices that diminish our ability to effectively compete with local businesses;

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

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 of this Form 10-QSB or to reflect the occurrence of unanticipated events. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-KSB filed by the Company and any Current Reports on Form 8-K filed by the Company.

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Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on their most recent review, as of the end of the period covered by this report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

Limitations on the Effectiveness of Controls

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

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

- 10.1 2006 Stock Incentive Plan (incorporated by reference Exhibit 10.1 to the Company's Form 8-K filed on July 5, 2006).
- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cryo-Cell INTERNATIONAL, INC.

/s/ MERCEDES WALTON
Mercedes Walton

Chief Executive Officer

Cryo-Cell International, Inc.

/s/ JILL TAYMANS
Jill M. Taymans

Vice President, Finance

Date: October 13, 2006