

CRYO CELL INTERNATIONAL INC

Form 10-Q

April 16, 2007

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

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## FORM 10-Q

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(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**  
For the quarterly period ended February 28, 2007

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

Commission File Number 0-23386

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## CRYO-CELL INTERNATIONAL, INC.

(Exact name of Registrant as Specified in its Charter)

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**DELAWARE**  
(State or other Jurisdiction of

Incorporation or Organization)

**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).

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

Identification No.)

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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 large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

State the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date. As of April 16, 2007, 11,669,629 shares of \$0.01 par value common stock were outstanding.

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## CONSOLIDATED BALANCE SHEETS

	February 28, 2007	November 30, 2006 (unaudited)
<b><u>ASSETS</u></b>		
<b><u>Current Assets</u></b>		
Cash and cash equivalents	\$ 5,740,957	\$ 7,414,140
Restricted cash	200,000	200,000
Marketable securities and other investments	989,581	989,581
Accounts receivable and advances (net of allowance for doubtful accounts of \$983,503 and \$905,984, respectively)	1,546,581	1,213,569
Deferred tax assets	45,000	45,000
Prepaid expenses and other current assets	679,925	649,971
Total current assets	9,202,044	10,512,261
<b><u>Property and Equipment-net</u></b>	3,405,205	3,188,662
<b><u>Other Assets</u></b>		
Marketable securities and other investments	62,640	50,760
Notes receivable	80,088	93,238
Investment in Saneron CCEL Therapeutics, Inc.	684,000	684,000
Deposits and other assets	123,501	111,462
Total other assets	950,229	939,460
Total assets	\$ 13,557,478	\$ 14,640,383
<b><u>LIABILITIES AND STOCKHOLDERS DEFICIT</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts payable	\$ 681,642	\$ 1,207,167
Accrued expenses	1,565,291	1,706,199
Deferred revenue	3,551,302	3,592,485
Total current liabilities	5,798,235	6,505,851
<b><u>Other Liabilities</u></b>		
Deferred revenue	6,212,666	5,875,107
Deferred tax liabilities	45,000	45,000
Long-term liability-revenue sharing agreements	3,750,000	3,750,000
Deferred consulting obligation	534,575	556,571
Total other liabilities	10,542,241	10,226,678
<b><u>Stockholders Deficit</u></b>		
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 February 28, 2007 and November 30, 2006 issued and outstanding)	116,247	116,247
Additional paid-in capital	24,013,693	23,929,761

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Treasury stock	(839,301)	(839,301)
Accumulated other comprehensive loss	(99,996)	(111,876)
Accumulated deficit	(25,973,640)	(25,186,977)
Total stockholders' deficit	(2,782,998)	(2,092,146)
Total liabilities and stockholders' deficit	\$ 13,557,478	\$ 14,640,383

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

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## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(unaudited)

	Three Months Ended	
	February 28,	February 28,
	2007	2006
<b>Revenue</b>	\$ 4,173,702	\$ 3,691,253
<b>Costs and Expenses:</b>		
Cost of sales	1,515,101	1,207,516
Marketing, general & administrative expenses	3,257,006	2,473,964
Research, development and related engineering	133,564	11,620
Depreciation and amortization	134,305	109,833
<b>Total cost and expenses</b>	<b>5,039,976</b>	<b>3,802,933</b>
<b>Operating Loss</b>	<b>(866,274)</b>	<b>(111,680)</b>
<b>Other Income (Expense):</b>		
Interest income	76,697	68,445
Interest expense	(256,466)	(229,673)
Other income		5,510
Licensee income	287,995	333,234
<b>Total other income</b>	<b>108,225</b>	<b>177,516</b>
<b>(Loss) Income before income tax benefit and equity in losses of affiliate</b>	<b>(758,049)</b>	<b>65,836</b>
Income tax benefit		
Equity in losses of affiliate	(28,613)	(10,308)
	(28,613)	(10,308)
<b>Net (Loss) Income</b>	<b>\$ (786,662)</b>	<b>\$ 55,528</b>
Net (loss) earnings per common share - basic	(\$ 0.07)	\$ 0.00
Weighted average common shares outstanding - basic	11,624,629	11,624,629
Net (loss) earnings per common share - diluted	(\$ 0.07)	\$ 0.00
Weighted average common shares outstanding - diluted	11,624,629	12,309,569
<b>Comprehensive (loss) income:</b>		
Net (loss) income:	\$ (786,662)	\$ 55,528
Unrealized gain on marketable securities	11,880	20,381
Recognition of unrealized loss on marketable securities		

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Comprehensive (loss) income	\$ (774,782)	\$ 75,909
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The accompanying notes are an integral part of these consolidated financial statements .

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	<b>Three Months Ended</b>	
	<b>February 28, 2007</b>	<b>February 28, 2006</b>
<b>Cash Flows from Operating Activities:</b>		
Net (Loss) Income	\$ (786,662)	\$ 55,528
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:		
Depreciation and amortization expense	184,816	154,736
Gain on sale of marketable securities		(5,510)
Compensatory element of stock options	55,319	27,936
Provision for doubtful accounts	152,204	56,622
Equity in losses of affiliate	28,613	10,308
Changes in assets and liabilities:		
Accounts receivable and advances	(485,216)	97,349
Note receivable	13,150	(875)
Prepaid expenses and other current assets	(29,954)	(110,378)
Deposits and other assets	(12,039)	(2,500)
Accounts payable	(525,525)	223,252
Accrued expenses	(140,908)	(51,048)
Deferred consulting obligation	(21,996)	(26,860)
Deferred revenue	296,376	254,863
<b>Net cash (used in) provided by operating activities</b>	<b>(1,271,822)</b>	<b>683,423</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(401,361)	(95,837)
Sale of property and equipment		5,000
Proceeds from sale of marketable securities		395,000
<b>Net cash (used in) provided by investing activities</b>	<b>(401,361)</b>	<b>304,163</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options		
<b>Net cash (used in) provided by financing activities</b>		
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(1,673,183)</b>	<b>987,586</b>
Cash and cash equivalents - beginning of period	7,414,140	7,979,377
Cash and cash equivalents - end of period	\$ 5,740,957	\$ 8,966,963
<b>Supplemental disclosure of cash flow information:</b>		
Interest	\$ 259,344	\$ 228,549
Income taxes	\$	\$
<b>Supplemental schedules of non-cash investing and financing activities:</b>		
Unrealized gain as a component of marketable securities and stockholders' deficit	\$ 11,880	\$ 20,381



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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**February 28, 2007**

**(Unaudited)**

**Note 1 - Basis of Presentation**

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of February 28, 2007 and November 30, 2006, the related Consolidated Statements of Operations and Comprehensive (Loss) Income and Cash Flows for the three months ended February 28, 2007 and February 28, 2006 have been prepared by Cryo-Cell International, Inc. and its subsidiaries ( the Company or Cryo-Cell ). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for all periods presented have been made.

The unaudited consolidated financial statements herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Certain financial information and note disclosures which are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's November 30, 2006 Annual Report on Form 10-KSB.

**Revenue Recognition**

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

**Income Taxes**

Under the asset and liability method of FASB Statement No. 109 Accounting for Income Taxes (SFAS 109), deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the deferred tax assets of the Company as of February 28, 2007 and November 30, 2006, has been provided as the Company does not believe it is more likely than not that the future income tax benefits will be realized. The Company did not record an income tax benefit during the first quarter of 2006 and 2007, as the benefit was offset by an increase in the valuation allowance.

**Stock Compensation**

As of February 28, 2007, the Company has two stock-based employee compensation plans, which are described in Note 5. Prior to December 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized in the Statement of Operations for the three months ended February 28, 2006 as all options granted had an exercise price

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

The impact on the first quarter 2007 of implementing SFAS 123R was as follows:

	<b>For the three months ended February 28, 2007</b>
Net loss, before SFASR adoption	\$ (731,342)
Add: Total stock-based employee compensation expense determined under SFAS 123R, net of related tax effects	55,320
Net loss as reported	\$ (786,662)
Loss per share:	
Basic and Diluted prior to SFAS 123R adjustment	\$ (0.06)
Basic and Diluted as reported	\$ (0.07)

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

	<b>For the three months ended February 28, 2006</b>
Net income, as reported	\$ 55,528
Add: Consultant option expense included in reported net income	27,936
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(66,122)
Pro forma net income	\$ 17,342
Income per share:	
Basic and Diluted as reported	\$ 0.00
Basic and Diluted pro forma	\$ 0.00

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123R requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. For the three months ended February 28, 2006, there was no tax benefits resulting from tax deductions in excess of the compensation cost recognized.

**Recently Issued Accounting Pronouncements**

The Financial Accounting Standards Board has issued FASB Statement of Financial Accounting Standards (SFAS) No. 157 (SFAS No. 157), Fair Value Measurements, to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair



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value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. Also, SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Entities are encouraged to combine the fair value information disclosed under SFAS No. 157 with the fair value information disclosed under other accounting pronouncements, including SFAS No. 107, Disclosures about Fair Value of Financial Instruments, where practicable.

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

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

**Note 2 Earnings per Common Share**

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

	<b>For the three months ended February 28, 2007</b>	<b>For the three months ended February 28, 2006</b>
<b>Numerator:</b>		
Net (Loss) Income	\$ (786,662)	\$ 55,528
<b>Denominator:</b>		
Weighted-average shares outstanding-basic	11,624,629	11,624,629
Dilutive common shares issuable upon exercise of stock options		684,940
Weighted-average shares-diluted	11,624,629	12,309,569
<b>Earnings per share:</b>		
Basic	\$ (.07)	\$ .00
Diluted	\$ (.07)	\$ .00

For the three months ended February 28, 2007, 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 months ended February 28, 2006, options to purchase 365,363 shares of common stock, 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.



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

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

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

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

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.

On July 28, 2004, the Company was named as a defendant in a complaint filed by PharmaStem Therapeutics, Inc. in the United States District Court for the Middle District of Florida, Tampa Division, Case No. 8:04-cv-1740-T-30TGW alleging infringement of U.S. Patents Nos. 6,461,645 and 6,569,427.

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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 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. The reexamination proceedings involve all four of the patents on which PharmaStem has sued. In January 2005, a Patent Office examiner entered an office action rejecting all claims of the 553 patent.

## **Note 4 Investments in Subsidiaries and Affiliates**

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

For the three months ended February 28, 2007 and November 30, 2006, the Company had an ownership interest of approximately 38% in Saneron, which is accounted for under the equity method of accounting. The Company's ownership percentage in SCTI has decreased due to SCTI issuing common shares to entities and individuals. During 2006, the Company had an independent valuation performed on the Company's interest in Saneron. Management believes that this valuation accurately reflect the fair value of the Company's interest in Saneron as of November 30, 2006. During fiscal 2006, the Company ceased recording equity in losses in Saneron once the investment balance was written down to the total amount of goodwill, as goodwill should not be amortized. As of February 28, 2007 and November 30, 2006, the net Saneron investment, which includes goodwill, is reflected on the consolidated balance sheets at \$684,000.

For the three months ended February 28, 2007, the Company recorded equity in losses of Saneron related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees of \$28,613. For the three months ended February 28, 2006, the Company recorded equity in losses of Saneron operations of \$10,308. Included in equity in losses of affiliate is approximately \$7,200 for the three months ended February 28, 2006 related to compensation expense for stock option awards that were granted by Saneron. The Company will continue to record equity in losses of affiliates related to stock compensation expense as this offsets additional paid-in capital and not the investment balance.

As of February 28, 2007 and November 30, 2006, the Company has classified the initial value of Company stock held by Saneron of approximately \$839,000 within stockholders' equity as treasury stock.

## **Note 5 Stock Options**

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



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In June 2006 the Company adopted the 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan has reserved 1,000,000 shares of the Company's common stock for issuance pursuant to stock options, restricted stock, stock-appreciation rights (commonly referred to as "SARs"), stock awards, or performance awards (i.e. performance shares and performance units). No options have been issued from this plan to date.

The fair value of each option award is estimated on the date of the grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding.

Variables used to determine the fair value of the options for the three months ended February 28, 2007 are as follows:

Weighted average values:	
Expected dividends	0%
Expected volatility	209%
Risk free interest rate	4.44%-4.82%
Expected life	5 years

Stock option activity for the three months ended February 28, 2007, was as follows:

	Shares	Weighted Average		Aggregate
		Exercise Price	Intrinsic Value	Intrinsic Value
Outstanding at December 1, 2006	1,919,893	\$ 2.32		
Granted	37,500	2.36		
Exercised				
Terminated	(51,800)	4.46		
Outstanding at February 28, 2007	1,905,593	\$ 2.26		\$ 1,087,505
Exercisable at February 28, 2007	1,570,283	\$ 2.08		\$ 1,087,505

The weighted average grant date fair value of options granted during the three months ended February 28, 2007 was \$2.32. There were no options exercised during the three months ended February 28, 2007 and therefore, the total intrinsic value of options exercised \$0.

Significant option groups outstanding at February 28, 2007 and related price and contractual life information are as follows:

Range of Exercise Prices	Outstanding	Weighted Average		Remaining
		Exercise Price	Contractual Life	Contractual Life
\$0.54 to \$0.99	651,500	\$ 0.55		1.5
\$1.00 to \$2.00	19,500	\$ 1.99		.8
\$2.01 to \$3.00	361,900	\$ 2.42		2.9
\$3.01 to \$4.00	605,643	\$ 3.22		4.5
\$4.01 to \$5.00	264,550	\$ 4.09		2.7

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\$5.01 to \$6.00

2,500

\$

5.20

2.9

1,905,593

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A summary of the status of the Company's nonvested shares as of February 28, 2007, and changes during the quarter ended February 28, 2007, is presented below:

		<b>Weighted Average</b>	
		<b>Grant-Date</b>	
	<b>Shares</b>	<b>Fair Value</b>	
Nonvested at December 1, 2006	335,216	\$	3.18
Granted	37,500		2.32
Vested	(17,419)		2.90
Forfeited	(19,987)		2.86
Nonvested at February 28, 2007	335,310	\$	3.11

As of February 28, 2007, there was approximately \$379,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of shares vested during the quarter ended February 28, 2007 was approximately \$51,000.

**Note 6 Marketable Securities and Other Investments**

The Company has certain investments in marketable securities, which are categorized as marketable securities and other investments on the accompanying balance sheets and accounted for under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). Marketable securities were \$1,052,221 and \$1,040,341 at February 28, 2007 and November 30, 2006, respectively. In accordance with SFAS 115, the Company recorded a gain of \$5,510 for the three months ended February 28, 2006, in conjunction with the sale of certain marketable securities. Included within marketable securities on the accompanying consolidated balance sheet as of February 28, 2007 and November 30, 2006 is a bond investment of \$989,581 and \$989,581, respectively, which is being held to maturity. The estimated fair market value of this bond was \$997,190 and \$994,380 as of February 28, 2007 and November 30, 2006, respectively.

**Other Investments**

The Company uses the guidance in SFAS 115 as described above, to account for the other investments. The fair value of other investments as of February 28, 2007 and November 30, 2006 was approximately \$63,000 and \$51,000, respectively, and the unrealized holding loss recorded as a component of stockholders deficit on other investments was approximately \$12,000 and \$6,000 as of February 28, 2007 and November 30, 2006, respectively.

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### **Note 7 Deferred Consulting Obligation**

During June 2002, the Company entered into a long-term consulting agreement with a former officer to provide future consulting services to the Company. The Company initially recognized the present value of this agreement as a liability. In August 2004, the Company stopped making payments under the consulting agreement. This agreement was terminated and following negotiations, a new agreement was negotiated by the parties and signed on April 15, 2005. The Company commenced payments under the terms of the new agreement during the second quarter of 2005. The terms of the settlement are confidential. The present value of the new agreement has been reflected as a liability on the consolidated balance sheet as of February 28, 2007 and November 30, 2006.

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

#### **Overview**

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

The Company reported a net loss for the three months ended February 28, 2007 of approximately (\$787,000) or (\$.07) per basic common share, compared to net income of approximately \$56,000, or \$.00 per basic common share for the three months ended February 28, 2006. The net loss in the 2007 period is in part the result of a 25% increase in cost of sales and a 32% increase in marketing, general and administrative expenses for the first quarter of 2007 over the first quarter of 2006, partially offset by the 13% increase in revenue. In addition, the net loss was increased by certain expenses in the 2007 period, including approximately \$134,000 in research and development expenses relating to the Company's development expenses of proprietary technology developed by the Company for the collection, processing and cryogenic preservation of Plureon<sup>®</sup> fetal placental stem cells and approximately \$55,000 in stock option compensation which is the result of the Company's adoption of FASB Statement No. 123(R). The impact of the higher costs and expenses was partially offset by the increase in revenue in the 2007 period. The Company experienced an operating loss in the first quarter of 2006 due to increases in cost of sales and marketing, general, and administrative expenses. However, the Company continued to be profitable largely due to an increase in licensee income, which was partly due to an installment payment from a non-recurring sale of a license agreement and partly due to increased royalties from its international affiliates.

In October 2005, the Company announced an agreement with Plureon Corporation giving the Company exclusive rights to market the service of collecting, processing and preserving Plureon fetal placental stem cells as a supplement to its existing services involving U-Cord<sup>®</sup> stem cells. The Company has decided to indefinitely postpone plans to launch the Plureon fetal placental stem cell service, primarily due to technological commercialization considerations. The Company's research and development relating to the procurement, processing and cryopreservation of stem cells from placental tissue has contributed to its independent creation of valuable proprietary technology that the Company will protect and commercialize. The Company continues to work on its intellectual property unrelated to

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Plureon, to explore new technologies related to other types of stem cells that could potentially lead to new products or services. Further development is necessary before the Company can announce commercialization plans.

At February 28, 2007, the Company had cash and cash equivalents of \$5,740,957 and marketable securities and other investments of \$1,052,221. The Company's cash decreased by approximately \$1,673,000 during the first quarter, as a result of the decline in cash flow from operations and the purchase of property and equipment. The decline in operating cash flow was partially the result of the implementation of in-house financing plans during the first quarter. The in-house financing plan allows the Company's clients to pay the first year's fee over twelve or fifteen months. As of April 16, 2007, the Company maintains no indebtedness.

## **Results of Operations**

**Revenues.** Revenues for the three months ended February 28, 2007 were \$4,173,702 as compared to \$3,691,253 for the same period in 2006, representing a 13% 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 an increase in storage revenues.

**Cost of Sales.** Cost of sales for the three months ended February 28, 2007 was \$1,515,101 as compared to \$1,207,516 for the same period in 2006, representing a 25% increase. Cost of sales was 36% of revenues for the three months ended February 28, 2007 and 33% for the three months ended February 28, 2006. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and the costs associated with storage of specimens at the Safti-Cell facility in Arizona. Cost of sales increased due to an increase in return medical courier service charges of approximately \$228,000 and an increase in cord blood collection reimbursements of approximately \$45,000. The increase in return medical courier service charges is a direct result of the price increase implemented during the first quarter of fiscal 2006. As part of the service enhancements associated with this price increase, the Company now incurs the cost of the return shipping of its cord blood collection kits.

**Marketing, General and Administrative Expenses.** Marketing, general and administrative expenses during the three months ended February 28, 2007 were \$3,257,006 as compared to \$2,473,964 for the three months ended February 28, 2006 representing a 32% increase. The increase was principally attributable to the implementation of the Company's previously announced strategic initiatives to increase market share and achieve unit growth by strengthening the resources allocated to sales and marketing. This resulted in an increase of approximately \$815,000 in marketing expense, principally related to expenses for consumer advertising and salaries and wages. During the first quarter of 2007, the Company adopted SFAS 123R resulting in stock option compensation of \$55,320 versus \$27,936 in the first quarter of 2006. Marketing, general and administrative expenses were 78% of revenues for the three months ended February 28, 2007 compared to 67% for the three months ended February 28, 2006. 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.

**Research, Development and Related Engineering Expenses.** Research, development and related engineering expenses for the three months ended February 28, 2007 were \$133,564 as compared to \$11,620 for the three months ended February 28, 2006. The increase was due to expenses related to the Company's development expenses for its proprietary technology developed by the Company for the collection, processing and cryogenic preservation of Plureon® fetal placental stem cells.

**Interest Expense.** Interest expense for the three months ended February 28, 2007 was \$256,466 as

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compared to \$229,673 for the same period in 2006. Interest expense is mainly comprised of payments made to the other parties to the Company's RSAs based on the Company's storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company's RSAs provide that in exchange for an up-front payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs covering the following states: New York, Texas, Florida and Illinois (including contiguous states). As the Company receives annual storage fees relating to specimens from these states, the portion of the fees shared with the parties to the RSAs are recognized as interest expense. If the Company's revenues continue to increase in areas covered by RSAs, the Company's interest expense related to the RSA payments will also increase. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of \$9,447 and \$11,821 for the three months ended February 28, 2007 and February 28, 2006, respectively.

**Licensee Income.** Licensee income for the three months ended February 28, 2007, was \$287,995 as compared to \$333,234 for the same period in 2006. Licensee income for the three months ended February 28, 2007 consisted of \$127,440 received as an installment payment from the non-recurring sale of the India license agreement and \$160,555 of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees. Licensee income for the three months ended February 28, 2006 consisted of \$148,723 received as an installment payment from the non-recurring sale of the India license agreement and \$184,511 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 declined due to the effect of amendments executed during the first quarter of fiscal 2007 in which the Company and its international licensees agreed to changes in the royalty fees for processing and storage in those geographical areas.

**Equity in Losses of Affiliate.** Equity in losses of affiliate was \$28,613 for the three months ended February 28, 2007, compared to \$10,308 for the 2006 period. During the fiscal year ended November 30, 2006, the Company ceased recording equity in losses from operations once the investment balance was written down to the total amount of goodwill, as goodwill should not be amortized. Equity in losses of affiliate for the three months ended February 28, 2007, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees. During the three months ended February 28, 2006, the Company recorded approximately \$7,000 in equity in losses of affiliates related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

**Income Taxes.** There was no income tax expense for the three months ended February 28, 2007 and for the same period in 2006. The Company did not record income tax expense during the first quarter of 2007 due to the tax benefits of the Company's net loss not being recognized due to a full valuation for deferred tax assets being recorded. It is management's belief it is more likely than not that future tax benefits will not be realized as a result of future income.

**Liquidity and Capital Resources**

Through February 28, 2007, 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.

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At February 28, 2007, the Company had cash and cash equivalents of \$5,740,957 as compared to \$7,414,140 at November 30, 2006. The decrease in cash and cash equivalents during the three months ended February 28, 2007 was primarily attributable to the following:

Cash used in operating activities for the three months ended February 28, 2007 amounted to \$1,271,822, which was primarily attributable to the implementation of interest-free financing plans and the payments of certain prior year accounts payable relating to purchases of laboratory equipment and outstanding invoices related to the return medical courier service. In addition, the net loss in the first quarter of 2007 contributed to the use of cash.

Cash used in investing activities for the three months ended February 28, 2007 amounted to \$ 401,361 which was attributable to the purchase of property and equipment.

There was no cash used in or provided by financing activities for the three months ended February 28, 2007.

The Company also has certain investments in marketable securities totaling \$1,052,221 at February 28, 2007.

The Company does not have a line of credit or other type of financing instrument. Capital expenditures for the Company's new facility were funded from cash flows from operations. The Company anticipates making capital expenditures of approximately \$500,000 for the fiscal year 2007.

The Company anticipates that its cash and cash equivalents, marketable securities and cash flows from operations will be sufficient to fund its cash needs for at least the next 12 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 pursue certain opportunities, 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. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, (SAB 101) as amended by SAB 104, and Emerging Issues Task Force (EITF) Issue No. 00-21 for all revenue transactions. The Company recognizes revenue from processing fees upon completion of processing and cellular storage fees ratably over the contractual storage period. The Company also records revenue from shipping and handling when earned. Shipping and handling costs are expensed and included in cost of sales.

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### **Accounts Receivable**

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

### **Income Taxes**

Under the asset and liability method of FASB Statement No. 109 Accounting for Income Taxes (SFAS 109), deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the deferred tax assets of the Company as of February 28, 2007 and November 30, 2006, has been provided as the Company does not believe it is more likely than not that the future income tax benefits will be realized. The Company did not record an income tax benefit during the first quarter of 2007, as the benefit was offset by an increase in the valuation allowance.

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

### **Investment in Saneron**

The Company made a significant investment in an entity that is involved in the area of stem cell research. The Company accounts for this investment under the equity method, and at least annually, reviews its investment for possible impairment and, if necessary, adjusts the carrying value of such investment. The Company records equity in losses of affiliates until the investment balance is zero and only goodwill is remaining. The investment is reviewed annually to determine if an other than temporary impairment exists. The Company does not believe that an impairment exists as of February 28, 2007 and November 30, 2006.

### **Revenue Sharing Agreements**

The Company has entered into Revenue Sharing Agreements (RSAs) with various parties whereby these parties contracted with the Company for a percentage of future storage revenues the Company generates from clients in specific geographical areas. The RSAs have no definitive term or termination provisions. The sharing applies to the storage fees for all specified specimens in the area up to the number covered in the contract. When the number of specimens is filled, any additional specimens



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stored in that area are not subject to revenue sharing. As there are empty spaces resulting from attrition, the Company agrees to fill them as soon as possible. The parties typically pay the Company a non-refundable up-front fee for the rights to these future payments. The Company had recognized these non-refundable fees as a long-term liability. Given the criteria under which these RSAs are established, cash receipts from these contracts can fluctuate from period to period. All payments made to the other parties to the RSAs are recognized as interest expense. At such time as the total payments can be determined, the Company will commence amortizing these liabilities under the effective interest method. The Company does not intend to enter into additional RSAs.

## **License and Royalty Agreements**

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

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

## **Marketable Securities and Other Investments**

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

## **Deferred Consulting Fees**

The Company entered into a long-term consulting agreement with the founder and prior Chairman and Chief Executive Officer to provide future consulting services to the Company. The Company initially recognized the present value of this agreement as a liability. In August 2004, the Company stopped making payments under the consulting agreement. This agreement was terminated and following negotiations, a new agreement was negotiated by the parties and signed on April 15, 2005. The Company commenced payments under the terms of the new agreement during the second quarter of 2005. The terms of the settlement are confidential. The present value of the 2005 agreement has been reflected as a liability on the consolidated balance sheet as of February 28, 2007 and November 30, 2006.

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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.

### **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 recognizes the obligation in accordance with SFAS No. 5, Accounting for Contingencies. The Company's reserve balance is based on the \$50,000 maximum payment and the \$10,000 maximum expense reimbursement multiplied by formulas to determine the projected number of units requiring a payout. The Company determined the estimated expected usage and engraftment failure rates based on an analysis of the historical usage and failure rates and the historical usage and failure rates in other private and public cord blood banks based on published data. The Company's estimates of expected usage and engraftment failure could change as a result of changes in actual usage rates or failure rates and such changes would require an adjustment to the established reserves. The historical usage and failure rates have been very low and a small increase in the number of transplants or engraftment failures could cause a significant increase in the estimated rates used in determining our reserve. In addition, the reserve will increase as additional U-Cord® specimens are stored which are subject to the guarantee.

### **Forward Looking Statements**

This Form 10-Q, press releases and certain information provided periodically in writing or orally by the Company's officers or its agents may contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934. The terms Cryo-Cell International, Inc., Cryo-Cell Company, we, our and us 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-Q and in other places, particularly, Management's Discussion and Analysis of Financial Condition and Results of Operations, and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things:

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

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

(v) the failure of the offering of stem cell processing and storage services for new types of stem cells, 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 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; and

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

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.

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

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

**Foreign Exchange Risk**

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

**Interest Rate Risk**

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

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### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

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

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

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

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

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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 1A. RISK FACTORS**

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

**The commercial launch of our fetal placental stem cell storage services has been delayed indefinitely, and there is no assurance that other stem cell services will be launched or will gain market acceptance.**

In April 2007, we announced that the commercial launch of the fetal placental stem cell service in association with Plureon Corporation would be postponed indefinitely due to technological commercialization considerations. The Company continues to work on the Company's intellectual property unrelated to Plureon, to explore new technologies related to other types of stem cells that could potentially lead to new products or services. However, further development is necessary before we can announce commercialization plans. There can be no assurance that such development will be successful or that such commercial services will ever be launched. Such new service offerings would be new and untested, and there is no assurance that, if launched, they would gain market acceptance. Unlike umbilical cord blood stem cells, any new stem cells have not yet been used in human therapies. Market acceptance of such new services will depend upon the willingness of prospective parents to pay for the processing and storage of such cells based upon the possibility that such treatments will be discovered in the future. Further, if there are setbacks in medical and scientific research relating to treatment applications for new types of cells, this may adversely affect our future sales, if any, of these services.

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

None.

**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

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 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: April 16, 2007