

CRYO CELL INTERNATIONAL INC
Form 10-Q
October 17, 2011
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended August 31, 2011

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

Commission File Number 0-23386

CRYO-CELL INTERNATIONAL, INC.

(Exact name of Registrant as Specified in its Charter)

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DELAWARE
(State or other Jurisdiction)

22-3023093
(I.R.S. Employer

of Incorporation or Organization)

Identification No.)

700 Brooker Creek Blvd. Oldsmar, FL 34677

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

State the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date. As of October 17, 2011, 11,764,325 shares of \$0.01 par value common stock were outstanding net of treasury.

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS

| | August 31, 2011 (unaudited) | November 30, 2010 (as adjusted) (1) |
|--|-----------------------------------|---|
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash and cash equivalents | \$ 5,873,490 | \$ 8,369,537 |
| Restricted cash | 2,700,000 | 200,000 |
| Marketable securities and other investments | 1,002,000 | 1,132,000 |
| Accounts receivable and advances (net of allowance for doubtful accounts of \$1,062,040 and \$783,354, respectively) | 2,566,860 | 2,356,279 |
| Deferred tax assets | 173,241 | 173,241 |
| Prepaid expenses and other current assets | 886,440 | 647,510 |
| Total current assets | 13,202,031 | 12,878,567 |
| <u>Property and Equipment-net</u> | 2,384,534 | 2,222,168 |
| <u>Other Assets</u> | | |
| Marketable securities and other investments | 6,404 | 6,404 |
| Investment in Saneron CCEL Therapeutics, Inc. | 684,000 | 684,000 |
| Deposits and other assets, net | 699,743 | 756,280 |
| Deferred tax assets, less current portion | 1,615,000 | 1,615,000 |
| Total other assets | 3,005,147 | 3,061,684 |
| Total assets | \$ 18,591,712 | \$ 18,162,419 |
| <u>LIABILITIES AND STOCKHOLDERS DEFICIT</u> | | |
| <u>Current Liabilities</u> | | |
| Accounts payable | \$ 875,134 | 1,053,186 |
| Accrued expenses | 3,195,063 | 1,621,221 |
| Deferred revenue (1) | 5,657,897 | 5,472,332 |
| Total current liabilities | 9,728,094 | 8,146,739 |
| <u>Other Liabilities</u> | | |
| Deferred revenue, net of current portion (1) | 7,392,659 | 7,015,118 |
| Long-term liability-revenue sharing agreements | 3,750,000 | 3,750,000 |
| Deferred consulting obligation | 102,800 | 183,055 |
| Total other liabilities | 11,245,459 | 10,948,173 |
| Commitments and Contingencies | | |
| <u>Stockholders Deficit</u> | | |
| Preferred stock (\$.01 par value, 500,000 authorized and none issued) | | |

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| | | |
|---|--------------------|------------------|
| Common stock (\$.01 par value, 20,000,000 authorized; 11,764,325 as of August 31, 2011 and 11,752,574 as of November 30, 2010 issued and outstanding) | 117,643 | 117,526 |
| Additional paid-in capital | 25,330,694 | 24,808,591 |
| Accumulated deficit (1) | (27,251,588) | (25,280,020) |
| Treasury stock, at cost | (484,535) | (484,535) |
| Accumulated other comprehensive loss | (94,055) | (94,055) |
| Total stockholders' deficit | (2,381,841) | (932,493) |
| | | |
| Total liabilities and stockholders' deficit | \$ 18,591,712 | \$ 18,162,419 |

(1) See Note 7, Retrospective Adoption of New Accounting Principle

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**

(Unaudited)

| | For the Three Months Ended August 31, | | For the Nine Months Ended August 31, | |
|---|--|---------------------------|---|---------------------------|
| | August 31, 2011 | 2010 (as adjusted) (1) | August 31, 2011 | 2010 (as adjusted) (1) |
| Revenue: | | | | |
| Processing and storage fees (1) | \$ 4,073,091 | \$ 4,224,367 | \$ 12,519,532 | \$ 12,076,036 |
| Licensee income | 334,907 | 334,374 | 962,297 | 1,108,274 |
| Total revenue (1) | 4,407,998 | 4,558,741 | 13,481,829 | 13,184,310 |
| Costs and Expenses: | | | | |
| Cost of sales | 1,194,292 | 1,079,448 | 3,459,570 | 3,320,028 |
| Marketing, general and administrative expenses | 4,959,626 | 2,362,308 | 10,175,920 | 6,966,269 |
| Research, development and related engineering | 52,236 | 18,896 | 168,515 | 81,459 |
| Depreciation and amortization | 104,684 | 73,909 | 264,700 | 220,707 |
| Total costs and expenses | 6,310,838 | 3,534,561 | 14,068,705 | 10,588,463 |
| Operating (Loss) Income (1) | (1,902,840) | 1,024,180 | (586,876) | 2,595,847 |
| Other Income (Expense): | | | | |
| Interest income | 4,874 | 5,982 | 17,280 | 17,803 |
| Interest expense | (409,497) | (387,783) | (1,200,927) | (1,107,608) |
| Total other expense | (404,623) | (381,801) | (1,183,647) | (1,089,805) |
| (Loss) income before equity in losses of affiliate and income tax expense (1) | (2,307,463) | 642,379 | (1,770,523) | 1,506,042 |
| Equity in losses of affiliate | (36,002) | (28,338) | (92,214) | (62,111) |
| (Loss) income before income tax expense (1) | (2,343,465) | 614,041 | (1,862,737) | 1,443,931 |
| Income tax (expense) benefit | (38,951) | 1,749,480 | (108,831) | 1,677,935 |
| Net (Loss) Income (1) | \$ (2,382,416) | \$ 2,363,521 | \$ (1,971,568) | \$ 3,121,866 |
| Net (loss) income per common share - basic | \$ (0.20) | \$ 0.20 | \$ (0.17) | \$ 0.27 |
| Weighted average common shares outstanding - basic | 11,757,803 | 11,752,574 | 11,754,324 | 11,752,574 |
| Net (loss) income per common share - diluted | \$ (0.20) | \$ 0.20 | \$ (0.17) | \$ 0.26 |

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| | | | | |
|--|------------|------------|------------|------------|
| Weighted average common shares outstanding - diluted | 11,757,803 | 11,782,101 | 11,754,324 | 11,799,276 |
|--|------------|------------|------------|------------|

(1) See Note 7, Retrospective Adoption of New Accounting Principle
The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | For the Nine Months Ended August 31, | |
|--|---|---------------------------|
| | August 31, 2011 | 2010 (as adjusted) (1) |
| Cash Flows from Operating Activities: | | |
| Net (loss) income (1) | \$ (1,971,568) | \$ 3,121,866 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 428,540 | 437,126 |
| Loss on sale of property and equipment | 1,214 | |
| Compensatory element of stock options | 407,244 | 98,460 |
| Provision for doubtful accounts | 196,555 | 270,460 |
| Write-off of abandoned patents | 207,571 | |
| Equity in losses of affiliate | 92,214 | 62,111 |
| Deferred income tax benefit | | (1,788,241) |
| Changes in assets and liabilities: | | |
| Accounts receivable and advances | (407,136) | (247,472) |
| Prepaid expenses and other current assets | (238,930) | (38,811) |
| Deposits and other assets | (134,604) | (54,219) |
| Accounts payable | (178,052) | 252,470 |
| Accrued expenses | 1,573,842 | (413,932) |
| Deferred consulting obligation | (80,255) | (74,836) |
| Deferred revenue (1) | 563,106 | 78,303 |
| Net cash provided by operating activities | 459,741 | 1,703,285 |
| Cash flows from investing activities: | | |
| Restricted cash held in escrow | (2,500,000) | |
| Purchases of property and equipment | (560,444) | (313,666) |
| Purchases of marketable securities and other investments | | (1,035,000) |
| Proceeds from sale of marketable securities and other investments | 130,000 | 863,000 |
| Investments in patents and trademarks | (48,106) | (187,735) |
| Net cash used in investing activities | (2,978,550) | (673,401) |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options | 22,762 | |
| Net cash provided by financing activities | 22,762 | |
| (Decrease) increase in cash and cash equivalents | (2,496,047) | 1,029,884 |
| Cash and cash equivalents - beginning of period | 8,369,537 | 6,850,765 |
| Cash and cash equivalents - end of period | \$ 5,873,490 | \$ 7,880,649 |

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- (1) See Note 7, Retrospective Adoption of New Accounting Principle
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, 2011

(Unaudited)

Note 1 Basis of Presentation and Significant Accounting Policies

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of August 31, 2011 and November 30, 2010, the related Consolidated Statements of Operations for the three and nine months ended August 31, 2011 and August 31, 2010 and Cash Flows for the nine months ended August 31, 2011 and 2010 have been prepared by Cryo-Cell International, Inc. and its subsidiaries (the Company or Cryo-Cell) 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, 2010 Annual Report on Form 10-K. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for all periods presented have been made. The results of operations for the three and nine months ended August 31, 2011 are not necessarily indicative of the results expected for any interim period in the future or the entire year ending November 30, 2011.

Retrospective Adoption of New Accounting Principle

In October 2009, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), which addresses the accounting for multiple deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit and modified the manner in which the transaction consideration is allocated across the separately identified deliverables. The new accounting standard permits prospective or retrospective adoption, and the Company elected retrospective adoption during the first quarter of 2011.

Under the historical accounting principle, the Company would have used the residual method to allocate revenue between processing and storage since (a) each of the products has value to the customer on a standalone basis and (b) vendor-specific objective evidence of fair value (VSOE) existed for the undelivered service, storage, and (c) there is no general right of return to consider. As a result, the Company was permitted to allocate the initial sales discounts given to clients upon processing a specimen entirely to the processing fee.

The new accounting principle requires the Company to establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) VSOE, (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP). VSOE generally exists only when the Company sells the deliverable separately and it is the price actually charged by the Company for that deliverable. The new accounting principle also requires that any discounts given to the customer be recognized by applying the relative selling price method whereby after the Company determines the selling price to be allocated to each deliverable (processing and storage), the sum of the prices of the deliverables is then compared to the arrangement consideration, and any difference is applied to the separate deliverables ratably.

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The Company had the option of adopting the new accounting principle on a prospective or retrospective basis. Prospective adoption would have required the Company to apply the new accounting principle to revenue transactions beginning in fiscal year 2011 without reflecting the impact of the new accounting principle on revenue transactions from prior to December 1, 2010. The Company believes prospective adoption would have resulted in financial information that was not comparable between financial periods because of the significant amount of past discounts given; therefore, the Company elected retrospective adoption. Retrospective adoption required the Company to revise its previously issued financial statements as if the new accounting principle had always been applied. The Company believes retrospective adoption provides the most comparable and useful financial information for financial statement users, is more consistent with the information the Company's management uses to evaluate its business, and better reflects the underlying economic performance of the Company.

The 2010 financial statements and notes to the financial statements presented herein have been adjusted to reflect the retrospective adoption of the new accounting principle. Refer to Note 7, *Retrospective Adoption of New Accounting Principle* in this Form 10-Q for additional information on the impact of adoption.

Revenue Recognition

Revenue Recognition for Arrangements with Multiple Deliverables

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

The Company has identified two deliverables generally contained in the arrangements involving the sale of its U-Cord® product. The first deliverable is the processing of a specimen. The second deliverable is either the annual storage of a specimen or the 21 year storage fee charged for a specimen. The Company has allocated revenue between these deliverables using the relative selling price method. The Company has VSOE for its annual storage fees as the Company renews storage fees annually with its customers on a standalone basis. Because the Company has neither VSOE nor TPE for the processing and 21 year storage deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to processing a specimen are recognized at the time of sale. Amounts allocated to the storage of a specimen are recognized ratably over the contractual storage period. Any discounts given to the customer are recognized by applying the relative selling price method whereby after the Company determines the selling price to be allocated to each deliverable (processing and storage), the sum of the prices of the deliverables is then compared to the arrangement consideration, and any difference is applied to the separate deliverables ratably.

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

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

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The Company has not had a third party conduct a physical inventory count of all specimens stored; however, the Company from time to time will perform a physical inventory count of specimens stored to ensure that all records are accurate.

Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The Company has recorded a valuation allowance of \$7,570,000 and \$7,136,000 as of August 31, 2011 and November 30, 2010, respectively, as the Company does not believe it is more likely than not that all future income tax benefits will be realized. When the Company changes its determination as to the amount of deferred tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to income tax expense in the period in which such determination is made. The ultimate realization of the Company's deferred tax assets depends upon generating sufficient taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, the Company projects future levels of taxable income. This assessment requires significant judgment. We examine the evidence related to the recent history of losses, the economic conditions in which we operate and our forecasts and projections to make that determination.

There was no U.S. income tax expense for the three and nine months ended August 31, 2011 and 2010. The Company did not record U.S. income tax expense during the three and nine months ended August 31, 2011 and 2010 due to the utilization of net operating losses and foreign tax credit carryforwards, which were previously reserved through valuation allowances in the Company's financial statements.

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

The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recognized approximately \$39,000 and \$39,000 for the three months ended August 31, 2011 and 2010, respectively, of foreign income tax expense. The Company recognized approximately \$109,000 and \$110,000 for the nine months ended August 31, 2011 and 2010, respectively, of foreign income tax expense.

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

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. For the three and nine months ended August 31, 2011 and August 31, 2010, the Company had no provisions for interest or penalties related to uncertain tax positions.

Stock Compensation

As of August 31, 2011, the Company has two stock-based employee compensation plans, which are described in Note 4. The Company recognized approximately \$314,000 and \$34,000 for the three months ended August 31, 2011 and 2010, respectively of stock compensation expense. The Company recognized approximately \$407,000 and \$98,000 for the nine months ended August 31, 2011 and 2010, respectively of stock compensation expense.

The Company recognizes stock-based compensation based on the fair value of the related awards. The Company estimates the fair value of all stock option awards as of the grant date by applying the Black-Scholes option pricing model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period.

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

Patents

The Company incurs certain legal and related costs in connection with patent and trademark applications. If a future economic benefit is anticipated from the resulting patent or trademark or an alternate future use is available to the Company, such costs are capitalized and amortized over the expected life of the patent or trademark. The Company's assessment of future economic benefit involves considerable management judgment. A different conclusion could result in the reduction of the carrying value of these assets. During the third quarter of 2011, management decided to discontinue pursuing certain patents and trademarks resulting in a write-off of approximately \$208,000 for abandoned patents and trademarks which is included in marketing, general and administrative expenses in the accompanying consolidated statement of operations for the three and nine months ended August 31, 2011.

Fair Value of Financial Instruments

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of August 31, 2011 and November 30, 2010, respectively, segregated among the appropriate levels within the fair value hierarchy:

| Description | Fair Value at August 31, 2011 | Fair Value Measurements at August 31, 2011 Using | | |
|-------------------------------|-------------------------------------|---|--------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Available-for-sale securities | \$ 1,008,404 | \$ 6,404 | \$ 1,002,000 | |

| Description | Fair Value at November 30, 2010 | Fair Value Measurements at November 30, 2010 Using | | |
|-------------------------------|---------------------------------------|---|--------------|------------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Available-for-sale securities | \$ 1,138,404 | \$ 6,404 | \$ 1,132,000 | |

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

Available-for-sale securities the Company invested \$1,002,000 and \$1,132,000 in variable rate demand notes at August 31, 2011 and November 30, 2010, respectively. The interest rate on these variable rate demand notes resets every seven days to adjust to current market conditions. The Company can redeem these investments at cost at any time with seven days notice. Therefore, the investments are held at cost, which approximates fair value, and are classified as short-term investments on the accompanying consolidated balance sheets and within Level 2 of the fair value hierarchy.

The Company further invests in exchange-traded equity securities of \$6,404 at August 31, 2011 and November 30, 2010. Fair values for these investments are based on quoted prices in active markets and are therefore classified within Level 1 of the fair value hierarchy. There was no unrealized holding loss recorded as a component of stockholders' deficit on other investments as of August 31, 2011 and November 30, 2010.

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The Company is permitted to make an election to carry certain eligible financial assets and liabilities at fair value, even if fair value measurement has not historically been required for such assets and liabilities under U.S. GAAP. The Company made no elections to record any such assets and or liabilities at fair value. Adjustments to the fair value in the Company's marketable securities and other investments are reflected in accumulated other comprehensive loss.

Product Warranty and Cryo-Cell Cares™ Program

In December 2005, the Company began providing its customers enrolled under the new pricing structure with a payment warranty under which the Company agrees to pay \$50,000 to its client if the U-Cord® product retrieved is used for a stem cell transplant for the donor or an immediate family member and fails to engraft, subject to various restrictions. Additionally, under the Cryo-Cell Cares™ program the Company will pay \$10,000 to the client to offset personal expenses if the U-Cord® product is used for bone marrow reconstitution in a myeloblastic transplant procedure. The product warranty and the Cryo-Cell Cares program is available to the clients who enroll under this structure for as long as the specimen is stored with the Company. The Company has not experienced any claims under the warranty program nor has it incurred costs related to these warranties. The Company does not maintain insurance for this warranty program and therefore; maintains reserves to cover the estimated potential liabilities. The Company's reserve balance is based on the \$50,000 maximum payment and the \$10,000 maximum expense reimbursement multiplied by formulas to determine the projected number of units requiring a payout. The Company determined the estimated expected usage and engraftment failure rates based on an analysis of the historical usage and failure rates and the historical usage and failure rates in other private and public cord blood banks based on published data. The Company's estimates of expected usage and engraftment failure could change as a result of changes in actual usage rates or failure rates and such changes would require an adjustment to the established reserves. The historical usage and failure rates 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 the reserve. In addition, the reserve will increase as additional U-Cord® specimens are stored which are subject to the warranty. As of August 31, 2011 and November 30, 2010 the Company recorded reserves under these programs in the amounts of \$13,005 and \$11,732, respectively, which are included in accrued expenses in the accompanying consolidated balance sheets.

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which clarifies the wording and disclosures required in Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement (ASC 820), to converge with those used (to be used) in International Financial Reporting Standards (IFRS). The update explains how to measure and disclose fair value under ASC 820. However, the FASB does not expect the changes in this standards update to alter the current application of the requirements in ASC 820. The provisions of ASU 2011-04 are effective for public entities prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is prohibited. Therefore, ASU 2011-04 is effective for the Company during the second quarter of fiscal 2012. The Company does not expect ASU 2011-04 to have a material effect on the Company's results of operations, financial condition, and cash flows.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of equity. This update is effective for us in our first quarter of fiscal 2013 and should be applied retrospectively. We do not believe adoption of this new guidance will have a significant impact on our consolidated financial statements.

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

The following table sets forth the calculation of basic and diluted net (loss) income per common share:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | August 31, 2011 | August 31, 2010 | August 31, 2011 | August 31, 2010 |
| Numerator: | | | | |
| Net (Loss) Income | \$ (2,382,416) | \$ 2,363,521 | \$ (1,971,568) | \$ 3,121,866 |
| Denominator: | | | | |
| Weighted-average shares outstanding-basic | 11,757,803 | 11,752,574 | 11,754,324 | 11,752,574 |
| Dilutive common shares issuable upon exercise of stock options | | 29,527 | | 46,702 |
| Weighted-average shares-diluted | 11,757,803 | 11,782,101 | 11,754,324 | 11,799,276 |
| Net (loss) income per common share: | | | | |
| Basic | (\$.20) | \$.20 | (\$.17) | \$.27 |
| Diluted | (\$.20) | \$.20 | (\$.17) | \$.26 |

The Company excluded the effect of all outstanding options from the computation of earnings per share for the three and nine months ended August 31, 2011, as the effect of potentially dilutive shares would be anti-dilutive. The Company excluded the effect of 673,589 and 650,255 outstanding stock options for the three and nine months ended August 31, 2010 from the computation of diluted earnings per share, as the effect of potentially dilutive shares would be anti-dilutive.

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

As of August 31, 2011 and November 30, 2010, the Company had an ownership interest of 34% and 35%, respectively, in Saneron, which is accounted for under the equity method of accounting. During 2006, the Company ceased recording its share of Saneron's losses once the investment balance was written down to the total amount of goodwill, as goodwill should not be amortized. As of August 31, 2011 and November 30, 2010, the net Saneron investment, which represents goodwill, is reflected on the consolidated balance sheets at \$684,000. During the periods ended August 31, 2011 and November 30, 2010, management reviewed the Saneron investment to determine if there were any indicators that would imply that the investment was impaired. Based on management's review, there were no indicators of other than temporary impairment and therefore; goodwill was not impaired as of August 31, 2011 and November 30, 2010.

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For the three and nine months ended August 31, 2011, the Company recorded equity in losses of Saneron operations of approximately \$36,000 and \$92,000, respectively, related to certain stock and warrant awards in the Company's common stock that were granted by Saneron at below fair value to certain employees, consultants and members of Saneron management who represent owners of Saneron and serve on its board of directors. For the three and nine months ended August 31, 2010, the Company recorded equity in losses of Saneron operations of approximately \$28,000 and \$62,000, respectively, related to certain stock and warrant awards in the Company's common stock that were granted by Saneron at below fair value to certain employees, consultants and members of Saneron management who represent owners of Saneron and serve on its board of directors. The Company will continue to record equity in losses of affiliates related to stock compensation expense as this offsets additional paid-in capital and not the investment balance.

As of August 31, 2011 and November 30, 2010, the Company has classified the Company's portion of the value of Company stock held by Saneron of approximately \$485,000 within stockholders' deficit as treasury stock.

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

Note 4 Stock Options

The Company maintains the 2000 Stock Incentive Plan (the Plan) under which it 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. As of August 31, 2011 and November 30, 2010, there were 279,701 and 341,387 options to purchase shares issued, but not yet exercised under the 2000 plan, respectively. No further options will be issued under the plan.

The Company also maintains the 2006 Stock Incentive Plan (the 2006 Plan) under which it has reserved 1,000,000 shares of the Company's common stock for issuance pursuant to stock options, restricted stock, stock-appreciation rights (commonly referred to as SARs), stock awards (i.e. performance shares and performance units). As of August 31, 2011 and November 30, 2010, there were 734,533 and 475,034 options to purchase shares issued, but not yet exercised under the 2006 plan, respectively. As of August 31, 2011, there were 113,421 shares available for future issuance under the 2006 plan.

The fair value of each option award is estimated on the date of the grant using the Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's stock over the most recent period commensurate with the expected life of the Company's stock options. 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 calculated, in accordance with the simplified method for plain vanilla stock options allowed under GAAP. Expected dividends is based on the historical trend of the Company not issuing dividends.

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Variables used to determine the fair value of the options granted for the three and nine months ended August 31, 2011 and August 31, 2010 are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------|--------------------|-----------------|-------------------|-----------------|
| | August 31, 2011 | August 31, 2010 | August 31, 2011 | August 31, 2010 |
| Weighted average values: | | | | |
| Expected dividends | 0% | 0% | 0% | 0% |
| Expected volatility | 108.85% | 103.14% | 107.62% | 100.51% |
| Risk free interest rate | 1.02% | 1.70% | 1.21% | 2.22% |
| Expected life | 5.7 years | 5.0 years | 5.6 years | 5.0 years |

Stock option activity for the nine months ended August 31, 2011, was as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|-----------|---------------------------------|---|---------------------------|
| Outstanding at November 30, 2010 | 816,421 | \$ 1.87 | 4.67 | \$ 471,109 |
| Granted | 347,500 | 2.68 | | \$ 78,200 |
| Exercised | (11,751) | 1.94 | | \$ 7,740 |
| Expired/forfeited | (137,936) | 1.77 | | \$ 164,315 |
| Outstanding at August 31, 2011 | 1,014,234 | \$ 2.16 | 5.59 | \$ 820,052 |
| Exercisable at August 31, 2011 | 685,990 | \$ 2.01 | 4.52 | \$ 682,514 |

The weighted average grant date fair value of options granted during the nine months ended August 31, 2011 and August 31, 2010 was \$2.14 and \$1.02, respectively.

The aggregate intrinsic value represents the total value of the difference between the Company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on August 31, 2011. The intrinsic value of the Company's stock options changes based on the closing price of the Company's stock.

There were 11,751 options exercised during the nine months ended August 31, 2011. There were no options exercised during the nine months ended August 31, 2010.

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Significant option groups outstanding and exercisable at August 31, 2011 and related price and contractual life information are as follows:

| Range of Exercise Prices | Outstanding | Outstanding | | Exercisable | |
|--------------------------|-------------|---|---------------------------------|-------------|---------------------------------|
| | | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Outstanding | Weighted Average Exercise Price |
| \$0.45 to \$1.00 | 135,000 | 4.93 | \$.85 | 130,835 | \$.85 |
| \$1.01 to \$ 2.00 | 362,033 | 5.02 | \$ 1.57 | 294,618 | \$ 1.57 |
| \$2.01 to \$ 3.00 | 352,500 | 8.25 | \$ 2.73 | 98,336 | \$ 2.66 |
| \$3.01 to \$ 4.00 | 164,701 | 1.67 | \$ 3.34 | 162,201 | \$ 3.34 |
| | 1,014,234 | 5.59 | \$ 2.16 | 685,990 | \$ 2.01 |

A summary of the status of the Company's non-vested shares as of August 31, 2011, and changes during the nine months ended August 31, 2011, is presented below:

| | Shares | Weighted Average Grant-Date Fair Value |
|---------------------------------|-----------|--|
| Non-vested at November 30, 2010 | 381,967 | \$ 1.11 |
| Granted | 347,500 | 2.14 |
| Vested | (333,654) | 1.29 |
| Forfeited | (67,569) | 1.24 |
| Non-vested at August 31, 2011 | 328,244 | \$ 1.98 |

As of August 31, 2011, there was approximately \$555,783 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2000 and 2006 Stock Incentive Plans. The cost is expected to be recognized over a weighted-average period of 2.33 years as of August 31, 2011. The total fair value of shares vested during the nine months ended August 31, 2011 was approximately \$431,000.

On August 24, 2011, the Board of Directors approved the acceleration of any unvested stock options and an extension of the exercise period for the board of directors and officers upon a change in control (see Note 8).

On August 31, 2011, the Board of Directors granted Mr. David Portnoy and Mr. Mark Portnoy, co-Chief Executive Officers, options to purchase 100,000 shares each of the Company's common stock with an exercise of \$2.90 per share. The options vest in three tranches, with 33% of the options vesting immediately on the date of grant; 33% vesting on the one year anniversary of the date of grant; and 33% vesting on the two year anniversary of the date of grant. The issuance of the options resulted in an increase in stock compensation expense of approximately \$159,000 for the three and nine months ended August 31, 2011, which is reflected in marketing, general and administrative expenses in the accompanying consolidated statements of operations.

Note 5 License 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 licensing agreement may also give the investor the right to sell sub-license agreements. 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, collectability

and when all material services or conditions relating to the sale have been substantially performed based on the terms of the agreement.

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The Company enters into two types of licensing agreements and in both types, the Company earns revenue on the initial license fees. Under the technology agreements, the Company earns processing and storage royalties from the affiliates that process in their own facility. Under the marketing agreements, the Company earns processing and storage revenues from affiliates that store specimens in the Company's facility in Oldsmar, Florida.

Technology Agreements

The Company has entered into definitive License and Royalty Agreements with Cryo-Cell de Mexico (Mexico) and Asia Cryo-Cell Private Limited to establish and market its U-Cord program in Mexico and India, respectively.

The Company has entered into definitive License and Royalty Agreements with Asia Cryo-Cell Private Limited and S-Evans Bio-Sciences, Inc. to establish and market its Célle program in India and China, respectively.

On August 19, 2011, the Company received notification from Mexico that they were terminating the license agreement effective immediately due to an alleged breach of the license agreement. On October 17, 2011, the Company and Mexico entered into an amendment to the license agreement whereby the termination has been revoked and Mexico will pay the Company \$1,863,000 in 37 monthly installments of \$50,000 and a final payment of \$13,000. Mexico will have no other continuing obligations to the Company for royalties or other license payments and the agreement will be effectively terminated once the entire \$1,863,000 has been received. The amendment will result in a reduction of licensee income in future periods.

Marketing Agreements

The Company has entered into definitive license agreements to market both the Company's U-Cord® and CélleSM programs in Aruba, Bonaire, Chile, Colombia, Costa Rica, Curacao, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Pakistan, Peru, St. Maarten, Suriname and Venezuela.

Processing and storage revenues from specimens originating in territories that store at the Company's facility in Oldsmar, Florida totaled approximately \$314,000 and \$202,000 for the three months ended August 31, 2011 and 2010 and are reflected in processing and storage fees in the accompanying consolidated statements of operations. Processing and storage revenues from specimens originating in territories that store at the Company's facility in Oldsmar, Florida totaled approximately \$992,000 and \$745,000 for the nine months ended August 31, 2011 and 2010 and are reflected in processing and storage fees in the accompanying consolidated statements of operations.

The following table details the initial license fees for the technology and marketing agreements and processing and storage royalties earned for the technology agreements for the three months ended August 31, 2011 and 2010 and the nine months ended August 31, 2011 and 2010. The initial license fees and processing and storage royalties are reflected in licensee income in the accompanying consolidated statements of operations.

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| | Three Months Ended August 31, 2011 | | | Nine Months Ended August 31, 2011 | | |
|--------------|------------------------------------|-------------------------------|-------------------|-----------------------------------|-------------------------------|-------------------|
| | License Fee | Process and Storage Royalties | Total | License Fee | Process and Storage Royalties | Total |
| China | \$ | \$ | \$ | \$ | \$ 50,000 | \$ 50,000 |
| India | | 141,177 | 141,177 | | 423,530 | 423,530 |
| Mexico | | 177,747 | 177,747 | | 453,015 | 453,015 |
| Costa Rica | 15,983 | | 15,983 | 15,983 | | 15,983 |
| Germany | | | | 9,769 | | 9,769 |
| Nicaragua | | | | 10,000 | | 10,000 |
| Total | \$ 15,983 | \$ 318,924 | \$ 334,907 | \$ 35,752 | \$ 926,545 | \$ 962,297 |

| | Three Months Ended August 31, 2010 | | | Nine Months Ended August 31, 2010 | | |
|--------------|------------------------------------|-------------------------------|-------------------|-----------------------------------|-------------------------------|---------------------|
| | License Fee | Process and Storage Royalties | Total | License Fee | Process and Storage Royalties | Total |
| India | \$ | \$ 116,471 | \$ 116,471 | \$ | \$ 309,572 | \$ 309,572 |
| Mexico | | 212,903 | 212,903 | | 638,702 | 638,702 |
| Nicaragua | 5,000 | | 5,000 | 15,000 | | 15,000 |
| Pakistan | | | | 20,000 | | 20,000 |
| Venezuela | | | | 125,000 | | 125,000 |
| Total | \$ 5,000 | \$ 329,374 | \$ 334,374 | \$ 160,000 | \$ 948,274 | \$ 1,108,274 |

Note 6 Legal Proceedings

On December 16, 2010, the Company filed an action in the Circuit Court in Pinellas County, Florida against Cord Blood America, Inc. (CBAI) seeking an injunction against consummation of the proposed acquisition by CBAI of the assets of Cryo-Cell de Mexico, S.A. de C.V. (CCMEX), the Company's exclusive licensee in Mexico. The action is docketed at Civil No. 10-17412-CI-20. The Company believes that the proposed acquisition would violate its License Agreement with CCMEX. CBAI announced on December 8, 2010 that it had entered into a letter of intent for the proposed acquisition with CCMEX on December 3, 2010.

The Company also filed a motion for a temporary injunction. CBAI filed a motion to dismiss on the ground that CCMEX was an indispensable party to the action. After a hearing on January 14, 2011, the court granted the motion to dismiss, allowing the Company to join CCMEX to the action, and setting a hearing on February 25, 2011 on the Company's motion for an injunction. On January 20, 2011, the Company filed an amended complaint alleging tortious interference with a business relationship by CBAI, misappropriation of trade secrets and confidential information in violation of the Florida Uniform Trade Secrets Act by CBAI, dilution of trademark in violation of Florida Statute Section 495.151 by CBAI, common law unfair competition against CBAI, breach of license agreement by CCMEX and unfair and deceptive trade practices in violation of the Florida Unfair and Deceptive Trade Practices Act by CCMEX and CBAI. The amended complaint sought damages against CBAI and CCMEX and injunctive relief. After CCMEX was joined to the action, both defendants filed motions to dismiss, and the injunction hearing has been continued. On March 18, 2011, the court granted the motions to dismiss filed by CBAI and CCMEX. The court granted the motion for a rehearing filed by the Company. On September 7, 2011, the court granted the motions to dismiss filed by CBAI and CCMEX. The Company does not plan on filing an appeal.

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In addition, from time to time the Company is subject to proceedings, lawsuits, contract disputes and other claims in the normal course of its business. The Company believes that the ultimate resolution of current matters should not have a material adverse effect on the Company's business, consolidated financial position or results of operations. It is possible, however, that there could be an unfavorable ultimate outcome for or resolution which could be material to the Company's results of operations for a particular quarterly reporting period. Litigation is inherently uncertain and there can be no assurance that the Company will prevail. On May 26, 2011, a complaint for monetary damages was served against the Company. The complaint did not specify the amount claimed, other than stating that it is more than \$75,000 which is the jurisdictional amount of the court the complaint was filed in. At this time, it is not possible for the Company to estimate the loss or the range of possible loss, due to the current early stage of the litigation, the meaningful legal uncertainties associated with the claim and the fact that the complaint did not specify the amount of damages sought. No amounts have been accrued as of August 31, 2011. The Company believes it has meritorious defenses to the claims and intends to vigorously defend itself, however, the ultimate resolution of this complaint is uncertain at this time. A trial has been scheduled for February 6, 2013.

Note 7 Retrospective Adoption of New Accounting Principle

In October 2009, the FASB amended the accounting standards related to revenue recognition for arrangements with multiple deliverables. During the quarter ended February 28, 2011, the Company adopted the new accounting principle on a retrospective basis. The Company believes retrospective adoption provides the most comparable and useful financial information for financial statement users, is more consistent with the information the Company's management uses to evaluate its business, and better reflects the underlying economic performance of the Company. The financial statements and notes to the financial statements presented herein have been adjusted to reflect the retrospective adoption of the new accounting principle. Note 1, *Basis of Presentation* under the subheadings *Retrospective Adoption of New Accounting Principle* and *Revenue Recognition for Arrangements with Multiple Deliverables* of this Form 10-Q provide additional information on the Company's change in accounting resulting from the adoption of the new accounting principle and the Company's revenue recognition accounting policy.

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The following table presents the effects of the retrospective adoption of the new accounting principle to the Company's previously reported consolidated financial statements:

| | As Previously Reported | As Adjusted |
|---|---------------------------|-----------------|
| Consolidated Balance Sheet as of November 30, 2010: | | |
| Current liabilities - deferred revenue | \$ 5,598,088 | \$ 5,472,332 |
| Long-term liabilities - deferred revenue | \$ 7,507,437 | \$ 7,015,118 |
| Accumulated deficit | \$ (25,898,095) | \$ (25,280,020) |
| Consolidated Statement of Operations for the Three Months Ended August 31, 2010: | | |
| Processing and storage fees | \$ 4,204,485 | \$ 4,224,367 |
| Total revenue | \$ 4,538,859 | \$ 4,558,741 |
| Operating Income | \$ 1,004,298 | \$ 1,024,180 |
| Income before equity in losses of affiliate and income tax expense | \$ 622,497 | \$ 642,379 |
| Income before income tax expense | \$ 594,159 | \$ 614,041 |
| Net income | \$ 2,343,639 | \$ 2,363,521 |
| Net income per common share - basic | \$ 0.20 | \$ 0.20 |
| Net income per common share - diluted | \$ 0.20 | \$ 0.20 |
| Consolidated Statement of Income for the Nine Months Ended August 31, 2010: | | |
| Processing and storage fees | \$ 11,970,773 | \$ 12,076,036 |
| Total revenue | \$ 13,079,047 | \$ 13,184,310 |
| Operating Income | \$ 2,490,584 | \$ 2,595,847 |
| Income before equity in losses of affiliate and income tax expense | \$ 1,400,779 | \$ 1,506,042 |
| Income before income tax expense | \$ 1,338,668 | \$ 1,443,931 |
| Net income | \$ 3,016,603 | \$ 3,121,866 |
| Net income per common share - basic | \$ 0.26 | \$ 0.27 |
| Net income per common share - diluted | \$ 0.26 | \$ 0.26 |
| Consolidated Statement of Cash Flows for the Nine Months Ended August 31, 2010: | | |
| Net income | \$ 3,016,603 | \$ 3,121,866 |
| Change in deferred revenue | \$ 183,566 | \$ 78,303 |

Note 8 Proxy Contest

In August 2007, Mr. David Portnoy (the plaintiff) brought an action against the Company and its directors in Delaware Chancery Court in New Castle County. The plaintiff alleged breaches of fiduciary duties in connection with the Company's 2007 Annual Meeting and requested declaratory and injunctive relief relating to the election of directors at that meeting. On January 22, 2008, the Court issued an order under which the Company was required to hold a special meeting of shareholders for the election of directors on March 4, 2008; and the order provided that directors who sat on the Company's Board of Directors prior to the 2007 Annual Meeting would continue in office until the special meeting. The order provided that the members of the management slate pay their own proxy solicitation costs in connection with the special meeting; any costs to the Company of holding the special meeting; and the costs of a special master to preside over the special meeting. On March 4, 2008, the Company held a Special Meeting of Stockholders, at which the directors nominated in management's proxy statement dated February 11, 2008 were elected by the Corporation's stockholders.

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On May 9, 2011, the Company was notified that Mr. David Portnoy nominated five directors to the Company's board of directors to compete with the Company's board of directors at the 2011 Annual Meeting. Mr. Portnoy conducted his own solicitation of the Company's shareholders in favor of his nominees. In light of the activities associated with the 2007 annual meeting, on June 6, 2011, Mr. Portnoy brought another action seeking declaratory relief in the Delaware Chancery Court before the same judge that had ruled on the 2007 action.

On August 24, 2011, the Board of Directors of the Company approved funding a Grantor trust to escrow the amounts that may become payable to Mercedes Walton, Jill Taymans and Julie Allickson (the Participants) under their respective Employment Agreements as a result of a Change in Control (as that term is defined in the respective employment agreements as a majority change in the Company's Board of Directors). The trustee of the Grantor Trust Agreement is Wells Fargo Bank, National Association (Trustee). On August 25, 2011, the Company transferred \$2,500,000 to the Trust and this is reflected as restricted cash in the accompanying consolidated balance sheet as of August 31, 2011. The Trust became irrevocable upon the Change in Control on August 25, 2011. The Company has no power to direct the Trustee to return the funds to the Company. The funds will be returned to the Company when the Trustee is satisfied that the obligations have been satisfied per any agreed upon terms. If the Company becomes insolvent, the Trustee will cease payments of benefits to the Participants and the cash will revert to the Company. Upon written approval of all Participants, the Company may terminate the Trust. As of October 17, 2011, two of the three Participants continue to be employed by the Company.

On August 24, 2011, the Board of Directors of the Company approved the acceleration of any unvested stock options and the extension of the exercise period of such options for options held by the Board of Directors and Mercedes Walton, Jill Taymans and Julie Allickson in the event of a Change in Control. The Company recorded approximately \$100,000 in stock option expense as a result of the acceleration and the extension of the exercise period and this is reflected in marketing, general and administrative expenses in the accompanying consolidated statements of operations for the three and nine months ended August 31, 2011.

The Company held its 2011 Annual Meeting of Stockholders on August 25, 2011 (the Annual Meeting). The final voting results were certified by the Inspector of Elections on August 30, 2011. Mr. Portnoy's nominees were elected to the Company's board of directors triggering a complete change in the Company's Board of Directors.

On August 31, 2011, the newly elected Board of Directors of the Company terminated its Chief Executive Officer and former Chairman of the Board of Directors, Mercedes Walton for cause. In accordance with Ms. Walton's employment agreement dated August 15, 2005, as amended July 16, 2007, Ms. Walton could be entitled to severance in the amount up to \$950,000 related to lost salary, bonuses and benefits. In addition, the Company could be required to pay all reasonable legal fees and expenses incurred by Ms. Walton as a result of the termination, as well as outplacement services. The Company has recorded an accrual of approximately \$950,000 associated with the agreement and it is reflected in marketing, general and administrative expenses in the accompanying consolidated statements of operations. Given the fact that Ms. Walton was terminated for cause, the Company believes that Ms. Walton has not earned the right to this severance and intends to defend itself against this agreement.

On August 31, 2011 the Company's Board of Directors approved the reimbursement by the Company to the Portnoy Group of its costs associated with the litigation resulting from the 2007 Annual Meeting and the 2011 Annual Meeting's proxy contest. The total costs reimbursed were approximately \$528,000 and are reflected in marketing, general and administrative expenses in the accompanying consolidated statements of operations for the three and nine months ended August 31, 2011.

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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 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 for new clients; storage fees for existing customers depend on the contracts with such customers. The Company also offers a one-time payment plan. The one-time plan includes the collection kit, processing and testing, return medical courier service and 21 years of pre-paid storage fees. The Company also receives other income from licensing fees and royalties from global affiliates domiciled outside of the United States of America.

In recent years, the Company has expanded its research and development activities to develop technologies related to stem cells harvested from sources beyond umbilical cord blood stem cells. In 2006, the Company discovered novel technology related to menstrual stem cells. During 2007, much of the Company's research and development activities focused on the development of proprietary technology related to maternal placental stem cells (MPSCs). In November 2007, the Company announced the commercial launch of the CélleSM service related to this patent-pending technology. The Company continues to focus independently-funded research and development activities through a vast network of research collaboration partners.

In August 2011, there was a change in control of the board of directors. The Company intends to re-focus its efforts on the Company's U-Cord business while continuing to develop the Célle technology.

During the nine months ended August 31, 2011, total revenue increased 2% as compared to the same period in 2010. The Company reported a net loss of approximately (\$1,972,000), or (\$.17) per basic common share for the nine months ended August 31, 2011 compared to net income of approximately \$3,122,000 or \$.27 per basic common share for the same period in 2010. The decrease in net income for the nine months ended August 31, 2011 principally resulted from a 46% increase in marketing, general and administrative expenses, due mainly to the costs associated with the proxy contest, an increase in stock option compensation expense, an increase in sales and marketing initiatives, and a 4% increase in cost of sales due primarily to a 9% increase in specimens processed. In addition, research and development expenses were approximately \$169,000 for the nine months ended August 31, 2011, an increase of approximately \$87,000 in comparison to the same period in 2010.

As of August 31, 2011, the Company had cash and cash equivalents of \$5,873,490. The Company's cash decreased by approximately \$2,500,000 during the first nine months of fiscal 2011, which was primarily attributable to funding a Grantor trust in the amount of \$2,500,000 to escrow amounts that may become payable to certain participants under their respective Employment Agreements as a result of a change in control, as that term is defined in the Employment Agreements. The trust became irrevocable upon the change in control of the board of directors and is reflected as restricted cash on the accompanying consolidated balance sheet as of August 31, 2011. As of October 15, 2011, the Company maintains no long-term indebtedness.

Table of Contents**Results of Operations - Nine Month Period Ended August 31, 2011 Compared to the Nine Month Period Ended August 31, 2010**

Revenues. Revenues for the nine months ended August 31, 2011 were \$13,481,829 as compared to \$13,184,310 for the same period in 2010. The increase in revenue was primarily attributable to a 4% increase in processing and storage fees, which was partially offset by a 13% decrease in licensee income which was largely due to timing of the execution of licensee agreements and payment terms of up-front fees. The 2010 period included a \$125,000 up-front fee from the Company's licensee in Venezuela.

Processing and Storage Fees. The increase in processing and storage fee revenue is primarily attributable to an increase in specimens processed of 9% and a 5% increase in recurring annual storage fee revenue, partially offset by an increase in sales discounts of 5% for fiscal 2011 compared to the 2010 period. Sales discounts represent discounts to returning clients and promotions offered to newly enrolled clients from time to time.

Licensee Income. Licensee income for the nine months ended August 31, 2011, was \$962,297 as compared to \$1,108,274 for the 2010 period. Licensee income for the nine months ended August 31, 2011 primarily consisted of \$926,545 in royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The remaining licensee income of \$35,752 related to installment payments of non-refundable up-front license fees from the licensees of the Company's U-Cord program in Costa Rica, Nicaragua and Germany. Licensee income for the nine months ended August 31, 2010 primarily consisted of \$948,274 in royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The remaining licensee income of \$160,000 related to installment payments of non-refundable up-front license fees from the licensees of the Company's U-Cord program in Nicaragua, Pakistan and Venezuela.

Cost of Sales. Cost of sales for the nine months ended August 31, 2011 was \$3,459,570 as compared to \$3,320,028 for the same period in 2010, representing a 4% increase. Cost of sales was 26% of revenues for the nine months ended August 31, 2011 and 25% for the nine months ended August 31, 2010. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and depreciation expense of approximately \$164,000 and \$216,000 for the nine months ended August 31, 2011 and 2010, respectively. The increase in cost of sales is primarily attributable to the 9% increase in specimens processed during the nine months ended August 31, 2011 compared to the 2010 period and corresponding increases in lab supplies and testing fees.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses for the nine months ended August 31, 2011 were \$10,175,920 as compared to \$6,966,269 for the 2010 period representing a 46% increase. These expenses are primarily comprised of expenses for the proxy contest, consumer advertising, salaries and wages for personnel and professional fees. The increase was due in part to an increase in fees associated with the annual meeting. The total fees expended for the 2011 Annual Meeting were approximately \$940,000 including the reimbursement by the Company to the Portnoy Group of its costs associated with the 2007 and 2011 Annual Meetings of approximately \$528,000. In addition to this reimbursement, the Company incurred approximately \$412,000 in fees associated with the 2011 Annual Meeting. The increase was also due to an approximate \$950,000 accrual of severance in accordance with Mercedes Walton, the Company's former Chairman and CEO's employment agreement dated August 15, 2005, as amended July 16, 2007. Per the employment agreement, Ms. Walton could be entitled to severance in the amount up to \$950,000 related to lost salary, bonuses and benefits. Due to the circumstances of the termination, the Company believes that Ms. Walton has not earned the right to this severance and intends to defend itself against this agreement. In addition, the increase was also due to increased legal expenses associated with litigation, the write-off of abandoned patents and trademarks due to the decision of management to discontinue pursuing certain patents and trademarks, an increase in stock option compensation expense and expenses for consulting and outside services, as well as, increased selling expenses related to consumer advertising and customer service.

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Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the nine months ended August 31, 2011 were \$168,515 as compared to \$81,459 for the 2010 period representing a 107% increase. The expenses for the nine months ended August 31, 2011 and 2010 are primarily comprised of expenses related to the continued commercialization of the Company's new stem cell technology, Célle, which was launched in November 2007. The increase is due primarily to validations relating to the new cord tissue services and validations performed to optimize the Célle process.

Depreciation and Amortization. Depreciation and amortization (not included in Cost of Sales) for the nine months ended August 31, 2011 was \$264,700 compared to \$220,707 for the 2010 period. The increase was due to the Company's purchases of property and equipment and the implementation of software during the 2011 period.

Interest Expense. Interest expense during the nine months ended August 31, 2011, was \$1,200,927 compared to \$1,107,608 during the comparable period in 2010. Interest expense is mainly comprised of amounts due to the parties to the Company's revenue sharing agreements (RSAs) based on the Company's storage revenue. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of \$7,437 and \$12,855 for the nine months ended August 31, 2011 and 2010, respectively, as well as interest paid of \$6,621 related to the installment payments made to Safti-Cell, Inc. for the Asset Purchase Agreement for the nine months ended August 31, 2010.

Equity in Losses of Affiliate. Equity in losses of affiliate was \$92,214 for the nine months ended August 31, 2011, compared to \$62,111 for the 2010 period. Equity in losses of affiliate for the nine months ended August 31, 2011 and 2010, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

Income Taxes. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The ultimate realization of our deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, we must project future levels of taxable income. This assessment requires significant judgment. We examine the evidence related to the recent history of tax losses, the economic conditions which we operate and our forecasts and projections to make that determination.

The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recorded \$108,831 and \$110,306 for the nine months ended August 31, 2011 and 2010, respectively, of foreign income tax expense which is included in income tax expense in the accompanying consolidated statements of operations.

There was no U.S. income tax expense for the nine months ended August 31, 2011. The Company did not record U.S. income tax expense during the nine months ended August 31, 2011 due to the utilization of net operating losses and foreign tax credit carryforwards, which were not previously benefited in the Company's financial statements.

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

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Results of Operations - Three Month Period Ended August 31, 2011 Compared to the Three Month Period Ended August 31, 2010

Revenues. Revenues for the three months ended August 31, 2011 were \$4,407,998 as compared to \$4,558,741 for the same period in 2010. The decrease in revenue was primarily attributable to a 4% decrease in processing and storage fees.

Processing and Storage Fees. The decrease in processing and storage fee revenue is primarily attributable to a decrease in the average selling price, partially offset by an increase in specimens processed of 4% for the three months ended August 31, 2011 compared to the 2010 period.

Licensee Income. Licensee income for the three months ended August 31, 2011, was \$334,907 as compared to \$334,374 for the 2010 period. Licensee income for the three months ended August 31, 2011 primarily consisted of \$318,924 in royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The remaining licensee income of \$15,983 related to installment payments of non-refundable up-front license fees from the licensee of the Company's U-Cord program in Costa Rica. Licensee income for the three months ended August 31, 2010 primarily consisted of \$329,374 in royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The remaining licensee income of \$5,000 related to installment payments of non-refundable up-front license fees from the licensee of the Company's U-Cord program in Nicaragua.

Cost of Sales. Cost of sales for the three months ended August 31, 2011 was \$1,194,292 as compared to \$1,079,448 for the same period in 2010, representing an 11% increase. Cost of sales was 27% of revenues for the three months ended August 31, 2011 and 24% for the three months ended August 31, 2010. Cost of sales includes wages and supplies associated with process enhancements to the existing production procedures and quality systems in the processing of cord blood specimens at the Company's facility in Oldsmar, Florida and depreciation expense of approximately \$55,000 and \$73,000 for the three months ended August 31, 2011 and 2010, respectively. The increase in cost of sales is primarily attributable to the 4% increase in specimens processed during the three months ended August 31, 2011 compared to the 2010 period and corresponding increase in lab supplies and testing fees.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses for the three months ended August 31, 2011 were \$4,959,626 as compared to \$2,362,308 for the 2010 period representing a 110% increase. These expenses are primarily comprised of expenses for the 2011 Annual Meeting, consumer advertising, salaries and wages for personnel and professional fees. The increase was due to an increase in fees associated with the 2011 Annual Meeting. The total fees expended on the 2011 Annual Meeting were approximately \$940,000, including the reimbursement by the Company to the Portnoy Group of their costs associated with the 2007 and 2011 Annual Meetings of approximately \$528,000. In addition to this reimbursement, the Company incurred approximately \$412,000 in fees associated with the 2011 Annual Meeting. The increase was also due to an approximate \$950,000 accrual of severance in accordance with Mercedes Walton, the Company's former Chairman and CEO's employment agreement dated August 15, 2005, as amended July 16, 2007. Per the employment agreement, Ms. Walton could be entitled to severance in the amount up to \$950,000 related to lost salary, bonuses and benefits. Due to the circumstances of the termination, the Company believes that Ms. Walton has not earned the right to this severance and intends to defend itself against this agreement. In addition, the increase was due to the write-off of abandoned patents and trademarks due to the decision of management to discontinue pursuing certain patents and trademarks, an increase in stock option compensation expense and expenses for consulting and outside services, as well as, increased selling expenses related to consumer advertising and customer service.

Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the three months ended August 31, 2011 were \$52,236 as compared to \$18,896 for the 2010 period. The expenses for the three months ended August 31, 2011 and 2010 are primarily comprised of expenses related to the continued commercialization of the Company's new stem cell technology, CélleSM, which was launched in November 2007. The increase is due primarily to validations relating to the new cord tissue services and validations performed to optimize the Célle process.

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Depreciation and Amortization. Depreciation and amortization (not included in Cost of Sales) for the three months ended August 31, 2011 was \$104,684 compared to \$73,909 for the 2010 period. The increase was due to the Company's implementation of new software during the 2011 period.

Interest Expense. Interest expense during the three months ended August 31, 2011, was \$409,497 compared to \$387,783 during the comparable period in 2010. Interest expense is mainly comprised of payments made to the other parties to the Company's RSAs based on the Company's storage revenue. Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of \$1,904 and \$3,645 for the three months ended August 31, 2011 and 2010, respectively, as well as interest paid of \$1,707 related to the installment payments made to Safti-Cell, Inc. for the Asset Purchase Agreement for the three months ended August 31, 2010.

Equity in Losses of Affiliate. Equity in losses of affiliate was \$36,002 for the three months ended August 31, 2011, compared to \$28,338 for the 2010 period. Equity in losses of affiliate for the three months ended August 31, 2011 and 2010, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

Income Taxes. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The ultimate realization of our deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, we must project future levels of taxable income. This assessment requires significant judgment. We examine the evidence related to the recent history of tax losses, the economic conditions which we operate and our forecasts and projections to make that determination.

The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recorded \$38,951 and \$38,761 for the three months ended August 31, 2011 and 2010, respectively, of foreign income tax expense, which is included in income tax expense in the accompanying consolidated statements of operations.

There was no U.S. income tax expense for the three months ended August 31, 2011. The Company did not record U.S. income tax expense during the third quarter of 2011 or 2010 due to the utilization of net operating losses and foreign tax credit carryforwards, which were not previously benefited in the Company's financial statements.

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

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Liquidity and Capital Resources

Through August 31, 2011, the Company's principal source of cash has been from sales of its U-Cord® program to customers, the sale of license agreements and proceeds from licensees. Currently, the Company's cash flow is derived primarily from sales relating to its storage services, including the initial fee and ongoing storage fees. The Company does not expect a change in its principal source of cash flow.

At August 31, 2011, the Company had cash and cash equivalents of \$5,873,490 as compared to \$8,369,537 at November 30, 2010. The decrease in cash and cash equivalents during the nine months ended August 31, 2010 was primarily attributable to the following:

Net cash provided by operating activities for the nine months ended August 31, 2011 was \$459,741, which was primarily attributable to the Company's operating activities.

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

Net cash used in investing activities for the nine months ended August 31, 2011 was \$2,978,550, which was primarily attributable to the funding a trust in the amount of \$2,500,000 to escrow amounts that may become payable to certain participants under their respective Employment Agreements as a result of a change in control.

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

Net cash provided by financing activities for the nine months ended August 31, 2011 was \$22,762 due to the exercise of stock options. There was no cash provided by or used in financing activities during the first nine months of fiscal 2010.

The Company does not have a line of credit.

The Company anticipates making non-discretionary capital expenditures of approximately \$750,000 over the next twelve months for software enhancements and purchases of property and equipment. The Company anticipates funding future property and equipment purchases with cash-on-hand and cash flows from future operations.

The Company anticipates that its cash and cash equivalents, marketable securities and cash flows from future operations will be sufficient to fund its known cash needs for at least the next 12 months. Cash flows from operations will depend primarily upon increasing revenues from sales of its umbilical cord blood cellular storage services and the C elle service, and managing discretionary expenses. If expected increases in revenues are not realized, or if expenses are higher than anticipated, the Company may be required to reduce or defer cash expenditures or otherwise manage its cash resources during the next 12 months so that they are sufficient to meet the Company's cash needs for that period. In addition, the Company may consider seeking equity or debt financing if deemed appropriate for its plan of operations, and if such financing can be obtained on acceptable terms. There is no assurance that any reductions in expenditures, if necessary, will not have an adverse effect on the Company's business operations, including sales activities and the development of new services and technology.

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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.

Retrospective Adoption of New Accounting Principle

In October 2009, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU), which addresses the accounting for multiple deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit and modified the manner in which the transaction consideration is allocated across the separately identified deliverables. The new accounting standard permits prospective or retrospective adoption, and the Company elected retrospective adoption during the first quarter of 2011.

Under the historical accounting principle, the Company would have used the residual method to allocate revenue between processing and storage since (a) each of the products has value to the customer on a standalone basis and (b) vendor-specific objective evidence of fair value (VSOE) existed for the undelivered service, storage, and (c) there is no general right of return to consider. As a result, the Company was permitted to allocate the initial sales discounts given to clients upon processing a specimen entirely to the processing fee.

The new accounting principle requires the Company to establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) VSOE, (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. The new accounting principle also requires that any discounts given to the customer, be recognized by applying the relative selling price method whereby after the Company determines the selling price to be allocated to each deliverable (processing and storage), the sum of the prices of the deliverables is then compared to the arrangement consideration, and any difference is applied to the separate deliverables ratably.

The Company had the option of adopting the new accounting principle on a prospective or retrospective basis. Prospective adoption would have required the Company to apply the new accounting principle to sales beginning in fiscal year 2011 without reflecting the impact of the new accounting principle on sales made prior to December 1, 2010. The Company believes prospective adoption would have resulted in financial information that was not comparable between financial periods because of the significant amount of past discounts given; therefore, the Company elected retrospective adoption. Retrospective adoption required the Company to revise its previously issued financial statements as if the new accounting principle had always been applied. The Company believes retrospective adoption provides the most comparable and useful financial information for financial statement users, is more consistent with the information the Company's management uses to evaluate its business, and better reflects the underlying economic performance of the Company.

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Note 1, *Basis of Presentation* under the subheadings *Retrospective Adoption of New Accounting Principle* and *Revenue Recognition for Arrangements with Multiple Deliverables* as well as Note 7, *Retrospective Adoption of New Accounting Principle* of this Form 10-Q provides additional information on the Company's change in accounting resulting from the adoption of the new accounting principle and the Company's revenue recognition accounting policy.

Revenue Recognition

Revenue Recognition for Arrangements with Multiple Deliverables

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

The Company has identified two deliverables generally contained in the arrangements involving the sale of its U-Cord® product. The first deliverable is the processing of a specimen. The second deliverable is either the annual storage of a specimen or the 21 year storage fee charged for a specimen. The Company has allocated revenue between these deliverables using the relative selling price method. The Company has VSOE for its annual storage fees as the Company renews storage fees annually with its customers on a standalone basis. Because the Company has neither VSOE nor TPE for the processing and 21 year storage deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to processing a specimen are recognized at the time of sale. Amounts allocated to the storage of a specimen are recognized ratably over the contractual storage period. Any discounts given to the customer are recognized by applying the relative selling price method whereby after the Company determines the selling price to be allocated to each deliverable (processing and storage), the sum of the prices of the deliverables is then compared to the arrangement consideration, and any difference is applied to the separate deliverables ratably.

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

The Company records revenue from processing and storage of specimens and pursuant to agreements with licensees. The Company recognizes revenue from processing fees upon completion of processing and recognizes storage fees ratably over the contractual storage period (1 or 21 years), as well as, licensee income from royalties paid by licensees related to storage contracts which the Company has under license agreements. Contracted storage periods can range from one to twenty-one years. Deferred revenue on the accompanying consolidated balance sheets includes the portion of the annual storage fee and the twenty-one year storage fee that is being recognized over the contractual storage period as well as royalties received from foreign licensees related to long-term storage contracts in which the Company has future obligations under the license agreement. The Company classifies deferred revenue as current if the Company expects to recognize the related revenue over the next 12 months.

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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, collectability and when all material services or conditions relating to the sale have been substantially performed based on the terms of the agreement. The Company has twenty four active licensing agreements. The following areas each have one license agreement: Mexico, El Salvador, Guatemala, Ecuador, Panama, Honduras, China, Pakistan, Chile, Colombia, Peru, Bonaire, St. Maarten, Aruba and Suriname. The following areas each have two license agreements: Venezuela, India, Nicaragua, Curacao and Costa Rica.

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

Accounts Receivable

Accounts receivable consist of the amounts due from clients that have enrolled and processed in the U-Cord® processing and storage program and amounts due from licensee affiliates and do not require collateral. Accounts receivable due from clients and licensee affiliates that store specimens at the Company's facility in Oldsmar, Florida 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 and licensees' current ability to pay its obligations. Therefore, if the financial condition of the Company's clients were to deteriorate beyond the estimates, the Company may have to increase the allowance for doubtful accounts which could have a negative impact on earnings. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The Company has recorded a valuation allowance of approximately \$7,570,000 and \$7,136,000 as of August 31, 2011 and November 30, 2010, respectively, as the Company does not believe it is more likely than not that the future income tax benefits will be realized. When the Company changes its determination as to the amount of deferred tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to income tax expense in the period in which such determination is made. The ultimate realization of the Company's deferred tax assets depends upon generating sufficient taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, the Company projects future levels of taxable income. This assessment requires significant judgment. We examine the evidence related to the recent history of losses, the economic conditions in which we operate and our forecasts and projections to make that determination.

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The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements.

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 reviews annually to determine if an other than temporary impairment exists. The Company previously recorded equity in losses of affiliate until the investment balance was zero and only goodwill remained. The investment is reviewed annually to determine if an other than temporary impairment exists. The Company does not believe that an impairment exists as of August 31, 2011 and November 30, 2010. If actual future results are not consistent with the Company's assumptions and estimates, the Company may be required to record impairment charges in the future which could have a negative impact on earnings.

Patents

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

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 and collects from clients in specific geographical areas. The RSAs have no definitive term or termination provisions. The sharing applies to the storage fees for all specified specimens in the area up to the number covered in the contract. When the number of specimens is filled, any additional specimens stored in that area are not subject to revenue sharing. As there are empty spaces resulting from attrition, the Company agrees to fill them as soon as possible. The parties typically pay the Company a non-refundable up-front fee for the rights to these future payments. The Company recognized these non-refundable fees as a long-term liability. Given the criteria under which these RSAs are established, cash flows related to 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.

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Off-Balance Sheet Arrangements

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

Forward-Looking Statements

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

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

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The factors that might cause such differences include, among others, the risk factors set forth in Part I, Item 1A. Risk Factors of our most recent Annual Report on Form 10-K and the following:

- (i) any adverse effect or limitations caused by recent increases in government regulation of stem cell storage facilities;
- (ii) any increased competition in our business including increasing competition from public cord blood banks particularly in overseas markets but also in the U.S.;
- (iii) any decrease or slowdown in the number of people seeking to store umbilical cord blood stem cells or decrease in the number of people paying annual storage fees;
- (iv) market acceptance of our CélleSM service which will require publication of scientific studies, consumer awareness, and the development of new therapies from the CélleSM technology, none of which are certain;
- (v) any new services relating to other types of stem cells that have not yet been offered commercially, and there is no assurance that other stem cell services will be launched or will gain market acceptance;

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- (vi) any adverse impacts on revenue or operating margins due to the costs associated with increased growth in our business, including the possibility of unanticipated costs relating to the operation of our facility and costs relating to the commercial launch of the placental stem cell service offering or any other new types of stem cells;
- (vii) any unique risks posed by our international activities, including but not limited to local business laws or practices that diminish our affiliates' ability to effectively compete in their local markets;
- (viii) any technological or medical breakthroughs that would render our business of stem cell preservation obsolete;
- (ix) any material failure or malfunction in our storage facilities; or any natural disaster or act of terrorism that adversely affects stored specimens;
- (x) any adverse results to our prospects, financial condition or reputation arising from any material failure or compromise of our information systems;
- (xi) the costs associated with defending or prosecuting litigation matters, particularly including litigation related to intellectual property, and any material adverse result from such matters;
- (xii) any negative consequences resulting from deriving, shipping and storing specimens at a second location;
- (xiii) current market, business and economic conditions in general and in our industry in particular;
- (xiv) the success of our licensing agreements and their ability to provide us with royalty fees;
- (xv) any difficulties and increased expense in enforcing our international licensing agreements;
- (xvi) any adverse performance by or relations with any of our licensees;
- (xvii) any inability to enter into new licensing arrangements including arrangements with non-refundable upfront fees;
- (xviii) any inability to realize cost savings as a result of recent acquisitions;
- (xix) any inability to realize a return on an investment;
- (xx) any increased U.S. income tax expense as a result of inability to utilize or exhaustion of net operating losses;

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- (xxi) any adverse impact on our revenues as a result of greater emphasis in the future on the promotion of our CélleSM service and any shifting of our marketing dollars towards our CélleSM service;
- (xxii) adverse impact on our revenues and operating margins as a result of discounting of our services in order to generate new business in tough economic times where consumers are selective with discretionary spending;
- (xxiii) the success of our global expansion initiatives;
- (xxiv) our actual future ownership stake in future therapies emerging from our collaborative research partnerships;
- (xxv) the ability of our Cryology Reproductive Tissue StorageSM services to generate new revenues;
- (xxvi) our ability to minimize our future costs related to R&D initiatives and collaborations and the success of such initiatives and collaborations;
- (xxvii) any inability to successfully identify and consummate strategic acquisitions;
- (xxviii) any inability to realize benefits from any strategic acquisitions;
- (xxix) costs associated with potential claims by the former Chairman and CEO;
- (xxx) the costs associated with proxy contests and its impact on our business and
- (xxxi) other factors many of which are beyond our control.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the three months ended August 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

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

CEO and CFO Certifications

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 16, 2010, the Company filed an action in the Circuit Court in Pinellas County, Florida against Cord Blood America, Inc. (CBAI) seeking an injunction against consummation of the proposed acquisition by CBAI of the assets of Cryo-Cell de Mexico, S.A. de C.V. (CCMEX), the Company's exclusive licensee in Mexico. The action is docketed at Civil No. 10-17412-CI-20. The Company believes that the proposed acquisition would violate its License Agreement with CCMEX. CBAI announced on December 8, 2010 that it had entered into a letter of intent for the proposed acquisition with CCMEX on December 3, 2010.

The Company also filed a motion for a temporary injunction. CBAI filed a motion to dismiss on the ground that CCMEX was an indispensable party to the action. After a hearing on January 14, 2011, the court granted the motion to dismiss, allowing the Company to join CCMEX to the action, and setting a hearing on February 25, 2011 on the Company's motion for an injunction. On January 20, 2011, the Company filed an amended complaint alleging tortious interference with a business relationship by CBAI, misappropriation of trade secrets and confidential information in violation of the Florida Uniform Trade Secrets Act by CBAI, dilution of trademark in violation of Florida Statute Section 495.151 by CBAI, common law unfair competition against CBAI, breach of license agreement by CCMEX and unfair and deceptive trade practices in violation of the Florida Unfair and Deceptive Trade Practices Act by CCMEX and CBAI. The amended complaint sought damages against CBAI and CCMEX and injunctive relief. After CCMEX was joined to the action, both defendants filed motions to dismiss, and the injunction hearing has been continued. On March 18, 2011, the court granted the motions to dismiss filed by CBAI and CCMEX. The court granted the motion for a rehearing filed by the Company. On September 7, 2011, the court granted the motions to dismiss filed by CBAI and CCMEX. The Company does not plan on filing an appeal.

In addition, from time to time the Company is subject to proceedings, lawsuits, contract disputes and other claims in the normal course of its business. The Company believes that the ultimate resolution of current matters should not have a material adverse effect on the Company's business, consolidated financial position or results of operations. It is possible, however, that there could be an unfavorable ultimate outcome for or resolution which could be material to the Company's results of operations for a particular quarterly reporting period. Litigation is inherently uncertain and there can be no assurance that the Company will prevail. On May 26, 2011, a complaint for monetary damages was served against the Company. The complaint did not specify the amount claimed, other than stating that it is more than \$75,000 which is the jurisdictional amount of the court the complaint was filed in. At this time, it is not possible for the Company to estimate the loss or the range of possible loss, due to the current early stage of the litigation, the meaningful legal uncertainties associated with the claim and the fact that the complaint did not specify the amount of damages sought. No amounts have been accrued as of August 31, 2011. The Company believes it has meritorious defenses to the claims and intends to vigorously defend itself, however, the ultimate resolution of this complaint is uncertain at this time. A trial has been scheduled for February 6, 2013. See Note 6 - Legal Proceedings to the accompanying financial statements for additional information related to litigation .

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ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended November 30, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

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

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

Cryo-Cell International, Inc.

/s/ David Portnoy

David Portnoy
Co-Chief Executive Officer

Cryo-Cell International, Inc.

/s/ Mark Portnoy
Mark Portnoy
Co-Chief Executive Officer

Cryo-Cell International, Inc.

/s/ Jill Taymans

Jill M. Taymans
Vice President, Finance

Date: October 17, 2011