CRYO CELL INTERNATIONAL INC
Form 10-Q
October 15, 2008
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended August 31, 2008

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

Commission File Number 0-23386

CRYO-CELL INTERNATIONAL, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE	**22-3023093**

(State or other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

700 Brooker Creek Blvd. Oldsmar, FL 34677

(Address of Principal Executive Offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 x

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

State the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date. As of October 13, 2008 11,750,543 shares of $0.01 par value common stock were outstanding net of treasury.

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	August 31, 2008 (unaudited)	November 30, 2007
Current Assets		
Cash and cash equivalents	$ 3,304,465	$ 3,364,711
Restricted cash	200,000	200,000
Marketable securities and other investments	1,125,000	1,002,810
Accounts receivable and advances (net of allowance for doubtful accounts of $740,038 and $625,349, respectively)	1,824,089	2,431,554
Deferred tax assets	18,000	18,000
Prepaid expenses and other current assets	664,460	570,112
Total current assets	7,136,015	7,587,187
Property and Equipment-net	2,719,644	3,115,581
Other Assets		
Marketable securities and other investments	11,880	43,200
Note receivable	88,655	80,088
Investment in Saneron CCEL Therapeutics, Inc.	684,000	684,000
Deposits and other assets	280,644	123,653
Total other assets	1,065,179	930,941
Total assets	$ 10,920,839	$ 11,633,709
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current Liabilities		
Accounts payable	1,056,659	$ 1,891,601
Accrued expenses	1,273,168	1,331,170
Deferred revenue	4,522,938	4,064,035
Total current liabilities	6,852,765	7,286,806
Other Liabilities		
Deferred revenue	6,970,469	6,696,841
Deferred tax liabilities	18,000	18,000
Long-term liability-revenue sharing agreements	3,750,000	3,750,000
Deferred consulting obligation	404,154	472,744
Total other liabilities	11,142,623	10,937,585
Stockholders Deficit		
Preferred stock ($.01 par value, 500,000 authorized and none issued)		
Common stock ($.01 par value, 20,000,000 authorized; 11,750,543 as of August 31, 2008 and 11,672,129 as of November 30, 2007 issued and outstanding)	117,505	116,721
Additional paid-in capital	24,636,699	24,410,628

Treasury stock, at cost	(807,020)	(807,020)
Accumulated other comprehensive loss	(94,056)	(118,619)
Accumulated deficit	(30,927,677)	(30,192,392)
Total stockholders deficit	(7,074,549)	(6,590,682)
Total liabilities and stockholders deficit	$ 10,920,839	$ 11,633,709

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

	Three Months Ended		Nine Months Ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
Revenue	$ 4,458,024	$ 4,550,128	$ 13,143,831	$ 13,173,166
Costs and Expenses:				
Cost of sales	1,624,431	1,668,211	4,690,280	4,787,618
Marketing, general & administrative expenses	2,730,268	3,595,890	8,471,353	10,835,492
Research, development and related engineering	67,819	163,402	161,601	480,742
Impairment of marketable securities	22,126		55,066	
Depreciation and amortization	97,869	134,739	299,159	401,379
Total costs and expenses	4,542,514	5,562,242	13,677,459	16,505,231
Operating Loss	(84,490)	(1,012,114)	(533,628)	(3,332,065)
Other Income (Expense):				
Interest income	22,432	67,607	116,572	226,431
Interest expense	(348,829)	(304,020)	(988,581)	(847,402)
Other income				10,419
Licensee income	293,007	226,300	757,635	778,519
Total other (expense) income	(33,391)	(10,113)	(114,374)	167,967
Loss before equity in losses of affiliate and income tax expense	(117,881)	(1,022,227)	(648,002)	(3,164,098)
Equity in losses of affiliate	(71,427)	(125,684)	(144,306)	(173,964)
Loss before income tax expense	(189,308)	(1,147,911)	(792,308)	(3,338,062)
Income tax expense				
Net Loss	$ (189,308)	$ (1,147,911)	$ (792,308)	$ (3,338,062)
Net loss per common share - basic	$ (0.02)	$ (0.10)	$ (0.07)	$ (0.29)
Weighted average common shares outstanding - basic	11,680,652	11,669,629	11,674,980	11,652,877
Net loss per common share - diluted	$ (0.02)	$ (0.10)	$ (0.07)	$ (0.29)
Weighted average common shares outstanding - diluted	11,680,652	11,669,629	11,674,980	11,652,877
Comprehensive loss:				
Net loss	$ (189,308)	(1,147,911)	$ (792,308)	(3,338,062)
Unrealized (loss) gain marketable securities	(12,614)	(3,780)	(30,503)	3,240
Write-off unrealized loss on marketable securities	22,126		55,066	
Recognition of unrealized gain on marketable securities				10,419

Comprehensive loss	$ (179,796)	$ (1,151,691)	$ (767,745)	$ (3,324,403)

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended	
	August 31, 2008	**August 31, 2007**
Cash flows from operating activities:		
Net loss	$ (792,308)	$ (3,338,062)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization expense	511,307	557,889
Loss(gain) on sale of marketable securities	2,057	(10,419)
Stock-based compensation	153,010	193,530
Provision for doubtful accounts	233,824	341,875
Impairment of marketable securities	55,066	
Equity in losses of affiliate	144,306	173,965
Changes in assets and liabilities:		
Accounts receivable and advances	373,641	(1,173,345)
Note receivable	(8,567)	13,151
Prepaid expenses and other current assets	(94,348)	(168,342)
Deposits and other assets	(156,991)	(12,039)
Accounts payable	(834,942)	(9,944)
Accrued expenses	(72,790)	(674,341)
Deferred consulting obligation	(68,590)	(63,959)
Deferred revenue	732,529	1,086,633
Net cash provided by (used in) operating activities	177,203	(3,083,408)
Cash flows from investing activities:		
Purchases of property and equipment	(115,370)	(605,873)
Purchase of marketable securities and other investments	(1,125,000)	(1,001,993)
Proceeds from sale of marketable securities	1,001,570	1,000,000
Net cash used in investing activities	(238,800)	(607,866)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,350	24,300
Net cash provided by financing activities	1,350	24,300
Decrease in cash and cash equivalents	(60,246)	(3,666,974)
Cash and cash equivalents - beginning of period	3,364,711	7,414,140
Cash and cash equivalents - end of period	$ 3,304,465	$ 3,747,166
Supplemental disclosure of cash flow information:		
Interest	$ 827,164	$ 822,376
Income taxes	$	$

Supplemental schedules of non-cash investing and financing activities:

Unrealized gain as a component of marketable securities and stockholders' deficit	$	(30,503)	$	3,240
Reclassification between additional paid in capital and accumulated deficit related to stock compensation expense	$	57,023	$	

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, 2008

(Unaudited)

Note 1 - Basis of Presentation

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of August 31, 2008 and November 30, 2007, the related Consolidated Statements of Operations and Comprehensive Loss and Cash Flows for the three and nine months ended August 31, 2008 and August 31, 2007 have been prepared by Cryo-Cell International, Inc. and its subsidiaries (the Company or Cryo-Cell). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for all periods presented have been made.

The unaudited consolidated financial statements herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Certain financial information and note disclosures which are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's November 30, 2007 Annual Report on Form 10-K.

Revenue Recognition

The Company records revenue from processing and storage of specimens. The Company recognizes revenue from processing fees upon completion of processing and cellular storage fees ratably over the contractual storage period. Deferred revenue on the accompanying balance sheets includes the portion of the annual storage fee and the twenty-one year storage fee that is recognized over the contractual storage period.

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

Income Taxes

Under the asset and liability method of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 109 *Accounting for Income Tax*es (SFAS 109), deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the deferred tax assets of the Company as of August 31, 2008 and November 30, 2007, has been provided as the Company believes it is more likely than not that the future income tax benefits will not be realized.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on December 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies* (SFAS 5). As required by FIN 48, which clarifies SFAS 109, 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. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. The adoption of FIN 48 resulted in no impact to the Company s unrecognized tax benefits. There have been no material changes in unrecognized tax benefits since December 1, 2007. Based on the information currently available, no significant changes in unrecognized tax benefits are expected in the next twelve months.

As of the date of adoption, the Company is subject to income taxes in the U.S. federal jurisdiction, and various states. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. Due to the net operating loss carry forwards dating back to 1998, the 1998 through 2007 tax years remain subject to examination by federal and state income tax authorities.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of the date of the adoption of FIN 48 and August 31, 2008, the Company had no provisions for interest or penalties related to uncertain tax positions.

Stock Compensation

As of August 31, 2008, the Company has two stock-based employee compensation plans, which are described in Note 5. Prior to December 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. Effective December 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, *Share-Based Payment* (SFAS 123R), using the modified prospective transition method. Under that transition method, compensation costs for the portion of awards for which the requisite service had not yet been rendered, and that were outstanding as of the adoption date, will be recognized as the service is rendered based on the grant date fair value of those awards calculated under SFAS 123R. The Company recognized approximately $21,000 and $71,000 for the three months ended August 31, 2008 and August 31, 2007, respectively of stock compensation expense. The Company recognized approximately $153,000 and $193,000 for the nine months ended August 31, 2008 and August 31, 2007, respectively of stock compensation expense.

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 myeloblative transplant procedure. 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 estimated potential liabilities. The Company accounts for the warranty as an obligation and recognizes the obligation in accordance with SFAS 5. 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 determines the expected usage and engraftment failure rate by analyzing data from the existing bank of U-Cord® specimens, cord blood stored in published private and public banks and the related historical usage and failure rates in the Company s bank and other private cord blood banks. The Company 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

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have been very low and a small increase in the number of transplants or engraftment failures could cause a significant increase in the estimated rates used in determining our reserve. In addition, the reserve will increase as additional U-Cord® specimens are stored which are subject to the warranty. As of August 31, 2008 and November 30, 2007 the Company recorded reserves under these programs in the amounts of approximately $97,000 and $73,000, respectively, which are included in accrued expenses in the accompanying consolidated balance sheets.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations* (SFAS 141 (R)), to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141(R) establishes principles and requirements for how the acquirer, recognizes and ensures the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures goodwill or a gain from a bargain purchase, and identifies financial statement disclosures related to the business combination.

SFAS 141 (R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will adopt SFAS 141 (R) on December 1, 2009. The Company is currently assessing the impact that SFAS 141 may have on its consolidated financial statements.

In February 2008, FASB issued Staff Position (FSP) SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, which delays for one-year the effective date of certain aspects of SFAS 157. The Company is currently assessing the impact that SFAS 157-2 may have on its consolidated financial statements. The Company adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157) related to financial assets and liabilities, and SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159) on December 1, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. SFAS 159 permits companies to make an election to carry certain eligible financial assets and liabilities at fair value, even if fair value measurement has not historically been required for such assets and liabilities under U.S. GAAP. The adoption of SFAS 157 and SFAS 159 did not impact the Company s consolidated financial statements.

In December 2007, FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact that SFAS 160 may have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently assessing the impact that SFAS 161 may have on its consolidated financial statements.

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Note 2 - Loss per Common Share

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

	Three Months Ended		Nine Months Ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
Numerator:				
Net Loss	$ (189,308)	$ (1,147,911)	$ (792,308)	$ (3,338,062)
Denominator:				
Weighted-average shares outstanding-basic	11,680,652	11,669,629	11,674,980	11,652,877
Dilutive common shares issuable upon exercise of stock options				
Weighted-average shares-diluted	11,680,652	11,669,629	11,674,980	11,652,877
Net loss per common share:				
Basic	$ (.02)	$ (.10)	$ (.07)	$ (.29)
Diluted	$ (.02)	$ (.10)	$ (.07)	$ (.29)

For the three and nine months ended August 31, 2008 and 2007, the Company excluded the effect of all outstanding options from the computation of earnings per share, as the effect of potentially dilutive shares from the outstanding stock options would be antidilutive. For the three and nine months ended August 31, 2008 and 2007, the number of stock options that are antidilutive are 1,002,621 and 1,074,593, respectively.

Note 3 - Legal Proceedings

The Company is involved in the following legal proceedings:

On February 22, 2002, the Company was named as a defendant in a complaint filed by PharmaStem Therapeutics, Inc. in the United States District Court of Delaware, Case No. 02-148-GMS, alleging patent infringement of U.S Patents Nos. 5,004,681 (681 patent) which relates to the collection, processing, and storage of stem cells derived from umbilical cord blood and 5,192,553 (553 patent) which relates to the therapeutic use of stem cells derived from umbilical cord blood. PharmaStem, a Delaware corporation, originally named as defendants eight companies (three of which are now out of business) involved in cord blood banking. The suit sought an injunction against the companies, an unspecified amount of damages or royalties, treble damages and attorney's fees. After a trial in October 2003, and rulings on post trial motions, the court entered final judgment finding that the defendants had not infringed PharmaStem s patents, and finding those patents valid.

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PharmaStem filed an appeal to the United States Court of Appeals for the Federal Circuit from the judgment entered by the District Court, and the defendants, including Cryo-Cell, filed a cross-appeal. On July 9, 2007, the Court of Appeals entered its decision, upholding the lower court's determination to grant judgment as a matter of law in favor of the defendants, including Cryo-Cell, on the ground that the plaintiff failed to prove infringement of either the '681 or '553 patents, and reversing the lower court's ruling with respect to validity of the patents. The Court of Appeals held both patents invalid on the ground of obviousness. PharmaStem s request for rehearing was denied and, on March 17, 2008, the United States Supreme Court denied PharmaStem s petition for *certiorari*, bringing the initial round of litigation to an end.

On July 28, 2004, the Company was named as a defendant in another complaint filed by PharmaStem in the United States District Court for the Middle District of Florida, Tampa Division, Case No. 8:04-cv-1740-T-30TGW alleging infringement of U.S. Patents Nos. 6,461,645 (the 645 patent) and 6,569,427 (the 427 patent). These patents are closely related to the 681 and 553 patents that were the subject of PharmaStem s Delaware litigation. PharmaStem also named as a defendant Dr. Bruce Zafran, a member of the Company s scientific and medical advisory board. The suit seeks an injunction, an unspecified amount of damages or royalties, treble damages and attorney's fees. The Judicial Panel on Multidistrict Litigation transferred this action to the District of Delaware for coordinated pretrial proceedings with other cases brought by PharmaStem alleging infringement of these same two patents by other defendants, in re: PharmaStem Therapeutics, Inc. Patent Litigation, MDL No. 1660. The Delaware court stayed all proceedings in these cases, including discovery, pending the outcome of the Federal Circuit appeal and reexamination proceedings in the U.S. Patent and Trademark Office.

In reexamination proceedings before the Patent Office, PharmaStem failed to file a timely response to Office Actions rejecting the claims of the 645 and 427 patents, with the result that the 645 reexamination has been terminated with an examiner s amendment canceling all claims. A similar disposition of the 427 patent is expected within the next few months. The 681 patent, held invalid by the Federal Circuit, is in the same posture before the Patent Office; while there is also a reexamination pending with respect to the 553 patent in which no action has been taken, since that patent was also held invalid by the Federal Circuit, a favorable, final disposition of that patent may be expected as well.

The decision of the Court of Appeals resolving the initial Delaware litigation will likely have a substantial impact on the second round of litigation involving PharmaStem s patents which, as noted above, has been stayed pending final decision on the appeal (which has now occurred) and the reexamination proceedings (which may continue for several months).

In August 2007, Mr. David Portnoy 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. Among the other forms of relief, Mr. Portnoy sought a declaration that the dissident slate was entitled to be installed as members of the Company's board of directors. Mr. Portnoy also sought reimbursement by the Company of his costs in connection with the 2007 Annual 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. The order did not require the Company to reimburse any of Mr. Portnoy s costs in connection with the 2007 Annual Meeting. On March 4, 2008, the Company held a Special Meeting of Stockholders, at which the following six directors, as described in management s proxy statement dated February 11, 2008 (the Proxy Statement), were elected by the Corporation s stockholders: Mercedes Walton, Ki Yong Choi, Andrew J. Filipowski, Anthony P. Finch, Gaby W. Goubran, and John Mathews. These directors were re-elected at the Annual Meeting of Stockholders on July 15, 2008.

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Note 4 - Investment in Saneron CCEL Therapeutics, Inc. (Saneron)

As of August 31, 2008 and November 30, 2007, the Company had an ownership interest of approximately 36% in Saneron, which is accounted for under the equity method of accounting. The Company evaluated the investment for impairment during the third quarter of 2008 and November 30, 2007 and believes no impairment of the investment exists. During fiscal 2006, the Company ceased recording equity in losses in Saneron once the investment balance was written down to the total amount of goodwill, as goodwill should not be amortized. As of August 31, 2008 and November 30, 2007, the net Saneron investment, comprised of goodwill, is reflected on the consolidated balance sheets at $684,000.

For the three and nine months ended August 31, 2008, the Company recorded equity in losses of Saneron only related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees of $71,427 and $144,306 respectively. For the three and nine months ended August 31, 2007, the Company recorded equity in losses of Saneron only related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees of $125,684 and $173,965, respectively. The Company will continue to record equity in losses of affiliates related to stock compensation expense as an offset to additional paid-in capital and not the investment balance.

As of August 31, 2008 and November 30, 2007, the Company has classified the initial value of Company stock held by Saneron of approximately $807,000 within stockholders equity as treasury stock. During 2007, Saneron sold 10,000 shares of the Company s stock which resulted in a reclassification from treasury stock to additional paid in capital of approximately $32,000.

Note 5 - Stock Options

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

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

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

As discussed above in Note 3, on January 22, 2008 the Delaware Chancery Court in New Castle County 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. The order provided that directors who sat on

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the Company s Board of Directors prior to the 2007 Annual Meeting would continue until the special meeting. This order made null and void the election of Andrew J. Filipowski as of August 2007, and as such cancelled 20,000 shares granted during 2007. Mr. Flilpowski received another option grant for 20,000 shares upon his election as a director at the March 4, 2008 special meeting.

During the third quarter of 2008, the Company reassessed the volatility calculation utilized in the computation of stock compensation expense under SFAS 123R. The Company determined that the volatility percentage that had been historically used in the SFAS 123R calculation had been higher than the actual volatility percentage. The effect of the change in the volatility variable resulted in a cumulative decrease in stock compensation expense of approximately $94,000, which is not material to the prior period or projected operating results and earnings trends for the year ending November 30, 2008.

Variables used to determine the fair value of the options granted for the three and nine months ended August 31, 2008 and 2007 are as follows:

	Three Months Ended		Nine Months Ended	
	August 31, 2008	August 31, 2007	August 31, 2008	August 31, 2007
Weighted average values:				
Expected dividends	0%	0%	0%	0%
Expected volatility	88%	92%	88%	93%
Risk free interest rate	3.18-3.50%	4.28-5.13%	2.47-3.50%	4.28-5.13%
Expected life	5 years	5 years	5 years	5 years

Stock option activity for the nine months ended August 31, 2008, was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Instrinsic Value
Outstanding at December 1, 2007	1,591,429	$ 2.13	2.02	$ 430,825
Granted	137,500	0.81		
Exercised	(507,500)	0.54		
Terminated	(195,088)	1.61		
Outstanding at August 31, 2008	1,026,341	$ 2.84	3.39	$ 25
Exercisable at August 31, 2008	792,979	$ 3.19	2.64	$ 0

The weighted average grant date fair value of options granted during the nine months ended August 31, 2008 and August 31, 2007 was $0.57 and $1.92, respectively. The total intrinsic value of options exercised during the nine months ended August 31, 2008 was $65,975. The total intrinsic value of options exercised during the nine months ended August 31, 2007 was $72,450.

The weighted average grant date fair value of options granted during the three months ended August 31, 2008 and August 31, 2007 was $0.51 and $1.18, respectively. The total intrinsic value of options exercised during the three months ended August 31, 2008 was $65,975. The total intrinsic value of options exercised during the three months ended August 31, 2007 was $0.

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Significant option groups exercisable at August 31, 2008 and related price and contractual life information are as follows:

Range of Exercise Prices	Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$0.54 to $0.99	8,774	$ 0.80	6.46
$1.00 to $ 2.00	32,667	$ 1.43	5.94
$2.01 to $ 3.00	93,840	$ 2.34	4.15
$3.01 to $ 4.00	466,240	$ 3.20	2.87
$4.01 to $ 5.00	191,488	$ 4.02	1.43
	792,979	$ 2.84	3.39

A summary of the status of the Company s non-vested shares as of August 31, 2008, and changes during the nine months ended August 31, 2008, is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at December 1, 2007	264,316	$ 2.12
Granted	137,500	0.57
Vested	(115,807)	2.15
Forfeited	(52,647)	1.59
Non-vested at August 31, 2008	233,362	$ 1.31

As of August 31, 2008 there was approximately $154,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.1 years as of August 31, 2008. The total fair value of shares vested during the nine months ended August 31, 2008 was approximately $249,000.

Note 6 - Marketable Securities and Other Investments

The Company accounts for marketable securities and other investments at cost, fair value or considers fair value in their measurement under various accounting literature, including SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), SFAS 157 and SFAS 159.

Marketable securities were $1,136,880 and $1,046,010 at August 31, 2008 and November 30, 2007, respectively. Included within marketable securities on the accompanying consolidated balance sheets as of August 31, 2008 are approximately $1,125,000 of variable rate demand notes which are being held to maturity. As of November 30, 2007, marketable securities include bond investments of approximately $1,003,000 which was held to maturity.

Other Investments

The Company uses the guidance as described above, to account for the other investments. The fair value of other investments determined based upon quoted market prices as of August 31, 2008 and

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November 30, 2007 was approximately $12,000 and $43,000, respectively and the unrealized holding loss recorded as a component of stockholders deficit on other investments was approximately $0 and $23,000 as of August 31, 2008 and November 30, 2007, respectively. The cost basis of the other investments was written down to fair value and approximately $22,000 and $55,000 was charged to impairment during the three and nine months ended August 31, 2008, respectively, as it was determined that the decline in fair market value was other-than-temporary.

Note 7 - License Agreements

On February 20, 2008, the Company entered into an agreement with Cryo-Cell de Venezuela for storage services and the exclusive license to market the Company s U-Cord program. The license allows Cryo-Cell de Venezuela to directly market the U-Cord program throughout Venezuela and to collect and ship the specimens to the Company s facility in Oldsmar, Florida for processing and storage. The Company will collect the processing and storage fees from the specimens. The initial non-refundable up-front storage services and license fee is $200,000. The Company received the first installment payment of $100,000 during the first quarter of fiscal 2008.

On March 17, 2008, the Company entered into a definitive License and Royalty Agreement with LifeCell International Private Ltd. (Lifecell) to establish and market its C elle[SM] preservation program in India and optionally, into the countries of Bangladesh, Nepal, Pakistan and Sri Lanka. The non-refundable up-front license fee of $250,000 is payable by Lifecell in installments. The first installment of $100,000, net of taxes, was partially paid during the second quarter of 2008. The final payment of $150,000, net of taxes, is payable in the second quarter of 2009. In consideration for the up-front license fee, the Company transferred its technology, know-how and quality systems to Lifecell. In addition, the Company will receive royalty fees of 8% of the C elle collection and processing revenues generated by Lifecell up to 10,000 specimens. The Company will also receive royalty fees of 8% on storage revenues up to 10,000 specimens. Once Lifecell has processed 10,000 specimens, the parties have agreed to renegotiate the royalty fee on collection, processing and storage revenues.

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

In recent years, the Company has expanded its research and development activities to develop technologies related to stem cells other than umbilical cord blood stem cells. In 2005, the Company entered into an agreement with Plureon Corporation under which the Company would provide collection and preservation of Plureon s proprietary placental fetal stem cells. During 2006 and the first part of 2007, the Company s research and development activities were focused on launching a commercial service relating to the Plureon stem cells. In April 2007, the Company announced that the commercial launch of this service would be postponed indefinitely due to technological commercialization considerations. During 2007, much of the Company s research and development

activities focused on the development of proprietary technology related to maternal placental stem cells (MPSCs). Also during 2007, the Company discovered technology related to menstrual stem cells. In November 2007, the Company announced the launch of its C elle[TM] service related to this technology, and the Company continues to focus its current research and development activities principally on the C elle service and related new menstrual stem cell technologies.

During the nine months ended August 31, 2008, the Company s revenues decreased less than 1% compared to the level in fiscal 2007. The Company incurred a net loss of approximately ($792,000) or ($.07) per basic common share for the first nine months of fiscal 2008, compared to a net loss of approximately ($3,338,000) or ($.29) per basic common share for fiscal 2007. The decrease in the net loss in the first nine months of fiscal 2008 is in part the result of a 2% decrease in cost of sales due to a decline in the number of specimens processed and a 22% decrease in marketing, general and administrative expenses, due mainly to the decrease in professional fees and consumer advertising. In addition, research and development expenses were approximately $162,000 for the nine months ended 2008, a decrease of approximately 66% in comparison to the same period in 2007. Research and development expenses in 2007 included expenses related to new products and services relating to placental stem cells planned at that time.

At August 31, 2008, the Company had cash and cash equivalents of $3,304,465 and marketable securities and other investments of $1,136,880. The Company s cash remained relatively the same, slightly decreasing by approximately $60,000 during the first nine months of fiscal 2008, as a result of approximately $177,000 of cash flow provided by operations which was offset by approximately $239,000 from the purchase of property and equipment and marketable securities and proceeds from the exercise of stock options. As of October 14, 2008, the Company maintains no indebtedness.

Results of Operations - Nine Month Period Ended August 31, 2008

Revenues. Revenues for the nine months ended August 31, 2008 were $13,149,145 as compared to $13,173,166 for the same period in 2007, representing a less than 1% decrease. The decrease is primarily attributable to a decrease in specimens processed of 12%, partially offset by a 16% increase in recurring annual storage fee revenue and a decrease in sales discounts of 21% for the nine months ended August 31, 2008 compared to the 2007 period. Sales discounts represent discounts to returning clients and promotions offered to newly enrolled clients.

Cost of Sales. Cost of sales for the nine months ended August 31, 2008 was $4,690,280 as compared to $4,787,618 for the same period in 2007, representing a 2% decrease. Cost of sales was 36% of revenues for the nine months ended August 31, 2008 and 36% for the nine months ended August 31, 2007. 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 $212,000 for the nine months ended August 31, 2008 compared to approximately $157,000 for the 2007 period. The decrease in Cost of Sales is primarily attributable to the decrease in specimens processed during the nine months ended August 31, 2008 compared to the 2007 period.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses during the first nine months of fiscal 2008 were $8,414,330 as compared to $10,835,492 for the 2007 period representing a 22% decrease. These expenses are primarily comprised of expenses for consumer advertising, salaries and wages for personnel and professional fees. The decrease was principally attributable to a 56% decrease in professional fees compared to the 2007 period, which included $580,000 in professional fees associated with a proxy contest initiated by a dissident shareholder group. The decrease also resulted from a 43% decrease in public relation activities and a 17% decrease in consumer advertising.

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Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the nine months ended August 31, 2008 were $161,601 as compared to $480,742 for the nine months ended August 31, 2007. The expenses for the nine months ended August 31, 2008 are primarily comprised of expenses related to the commercialization of the Company s new stem cell technology, C elle. The expenses for the 2007 period were comprised of development expenses for the Company s proprietary technology developed by the Company for the collection, processing and cryogenic preservation of Plureon® fetal placental stem cells. In April 2007, the Company announced that it decided to indefinitely postpone plans to launch the fetal placental stem cell service, primary due to technological commercialization considerations.

Impairment of Marketable Securities. For the nine months ended August 31, 2008, the Company recorded an impairment of marketable securities of $55,066. During the period ended August 31, 2008, management reviewed the cost basis of certain investments in marketable securities and determined that the decline in market value was other-than temporary, resulting in these investments being written down to fair value.

Depreciation and Amortization. Depreciation and Amortization for the nine months ended August 31, 2008 was $299,159 as compared to $401,379 for the 2007 period due to more assets being fully depreciated in 2008.

Interest Expense. Interest expense for the first nine months of fiscal 2008 was $988,581 as compared to $847,402 for the 2007 period. Interest expense is mainly comprised of payments made to the other parties to the Company s Revenue Sharing Agreements (RSAs) based on the Company s storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company s RSAs provide that in exchange for an up-front payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs covering the following states: New York, Texas, Florida and Illinois (including contiguous states). Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of $24,184 and $28,458 for the 2008 period and 2007 period, respectively. If the Company s storage revenues continue to increase in areas covered by RSAs, the Company s interest expense related to the RSA payments will also increase.

Licensee Income. Licensee income for the first nine months of fiscal 2008 was $757,635 compared to $778,519 for the 2007 period. On March 17, 2008, the Company entered into a definitive License and Royalty Agreement with LifeCell to establish and market its C elle[SM] menstrual stem cell preservation program in India and optionally, into the countries of Bangladesh, Nepal, Pakistan and Sri Lanka. The non-refundable up-front license fee of $250,000 is payable by Lifecell in installments. The first installment of $100,000, net of taxes, was partially paid during the second quarter of 2008 and has been recognized as licensee income. The final payment of $150,000, net of taxes, is payable in the second quarter of 2009. In consideration for the up-front license fee, the Company transferred its technology, know-how and quality systems to Lifecell. On February 20, 2008, the Company entered into an agreement with Cryo-Cell de Venezuela for storage services and the exclusive license to market the Company s U-Cord program. The license allows Cryo-Cell de Venezuela to directly market the U-Cord program throughout Venezuela and to collect and ship the specimens to the Company s facility in Oldsmar, Florida. The initial up-front storage services and license fee is $200,000. The Company received the first installment payment of $100,000 during the first quarter of fiscal 2008. The agreement was amended on August 29, 2008. The amendment to the agreement acknowledges that the first installment payment is non-refundable and the Company recognized the $100,000 payment in the third quarter of fiscal 2008, which is included in licensee income. The remaining $657,635 is royalty income earned on subsequent processing and storage of cord blood stem cell specimens in geographical areas where the Company has license agreements, and

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from the sale of sub-license agreements by licensees. Licensee income for the nine months ended August 31, 2007 consisted of $254,880 received as installment payments from the non-recurring sale of the India license agreement and $523,639 of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees.

Equity in Losses of Affiliate. Equity in losses of affiliate was $144,306 for the nine months ended August 31, 2008, compared to $173,964 for the 2007 period. Equity in losses of affiliate for the nine months ended August 31, 2008 and August 31, 2007, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

Income Taxes. There was no income tax expense for the nine months ended August 31, 2008 and for the same period in 2007. The Company did not record income tax expense during the first nine months of 2008 due to the tax benefits of the Company s net loss not being recognized due to a full valuation for deferred tax assets being recorded. Management believes it is more likely than not that future tax benefits will not be realized as a result of future income.

Results of Operations Three Month Period Ended August 31, 2008

Revenues. Revenues for the three months ended August 31, 2008 were $4,458,024 as compared to $4,550,128 for the same period in 2007, representing 2% decrease. The decrease is primarily attributable to a decrease in specimens processed of 15% partially offset by an 15% increase in recurring annual storage fee revenue and a decrease in sales discounts of 28% for the three months ended August 31, 2008 compared to the 2007 period. Sales discounts represent discounts to returning clients and promotions offered to newly enrolled clients.

Cost of Sales. Cost of sales for the three months ended August 31, 2008 was $1,624,431 as compared to $1,668,211 for the same period in 2007, representing a 3% decrease. Cost of sales was 36% of revenues for the three months ended August 31, 2008 and 37% for the three months ended August 31, 2007. 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 $70,000 for the three months ended August 31, 2008 compared to approximately $50,000 for the 2007 period. The decrease in Cost of Sales is primarily attributable to the decrease in specimens processed during the three months ended August 31, 2008 compared to the 2007 period.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses for the three months ended August 31, 2008 were $2,730,268 as compared to $3,595,890 for the 2007 period representing a 24% decrease. These expenses are primarily comprised of expenses for consumer advertising, salaries and wages for personnel and professional fees. The decrease was principally attributable to a 79% decrease in legal fees from the 2007 period, which included $423,000 in professional fees associated with a proxy contest initiated by a dissident shareholder group. The decrease also reflected a change in marketing strategy that resulted in a decrease in expenses.

Impairment of Marketable Securities. During the three months ended August 31, 2008, the Company recognized $22,126 in charges related to impairment of marketable securities. During the period ended August 31, 2008, management reviewed the cost basis of certain investments in marketable securities and determined that the decline in market value was other-than temporary, resulting in these investments being written down to fair value.

Depreciation and Amortization. Depreciation and amortization for the three months ended August 31, 2008 was $97,869 as compared to $134,739 for the 2007 period due to more assets being fully depreciated in 2008.

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Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the three months ended August 31, 2008 were $67,819 as compared to $163,402 for the three months ended August 31, 2007. The expenses for the three months ended August 31, 2008 are primarily comprised of expenses related to the commercialization of the Company s new stem cell technology, C elle. The expenses for the 2007 period were comprised of development expenses for the Company s proprietary technology developed by the Company for the collection, processing and cryogenic preservation of Plureon® fetal placental stem cells. In April 2007, the Company announced that it decided to indefinitely postpone plans to launch the fetal placental stem cell service, primary due to technological commercialization considerations.

Interest Expense. Interest expense for the three months ended August 31, 2008 was $348,829 as compared to $304,020 for the 2007 period. Interest expense is mainly comprised of payments made to the other parties to the Company s Revenue Sharing Agreements (RSAs) based on the Company s storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company s RSAs provide that in exchange for an up-front payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs covering the following states: New York, Texas, Florida and Illinois (including contiguous states). Also included in interest expense is the amortization of the present value of a deferred consulting agreement in the amount of $7,193 and $9,713 for the 2008 period and 2007 period, respectively. If the Company s storage revenues continue to increase in areas covered by RSAs, the Company s interest expense related to the RSA payments will also increase.

Licensee Income. Licensee income for the three months ended August 31, 2008 was $293,007 compared to $226,300 for the 2007 period. On February 20, 2008, the Company entered into an agreement with Cryo-Cell de Venezuela for storage services and the exclusive license to market the Company s U-Cord program. The license allows Cryo-Cell de Venezuela to directly market the U-Cord program throughout Venezuela and to collect and ship the specimens to the Company s facility in Oldsmar, Florida. The initial up-front storage services and license fee is $200,000. The Company received the first installment payment of $100,000 during the first quarter of fiscal 2008. The agreement was amended on August 29, 2008. The amendment to the agreement acknowledges that the first installment payment is non-refundable and the Company recognized the $100,000 payment as licensee income for the three months ended August 31, 2008. The remaining licensee income for the three months ended August 31, 2007 consisted of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees.

Equity in Losses of Affiliate. Equity in losses of affiliate was $71,427 for the three months ended August 31, 2008, compared to $125,684 for the 2007 period. Equity in losses of affiliate for the three months ended August 31, 2008 and August 31, 2007, solely consists of amounts related to compensation expense for stock option awards that were granted by Saneron to certain consultants and employees.

Income Taxes. There was no income tax expense for the three months ended August 31, 2008 and for the same period in 2007. The Company did not record income tax expense during the second quarter of 2008 due to the tax benefits of the Company s net loss not being recognized due to a full valuation for deferred tax assets being recorded. Management believes that it is more likely than not that future tax benefits will not be realized as a result of future income.

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Liquidity and Capital Resources

Through August 31, 2008, the Company s sources of cash have been from sales of its U-Cord® program to customers, the sale of license agreements and proceeds from RSAs. Currently, the Company s cash flow is derived primarily from sales relating to its storage services, including the initial fees and ongoing storage fees.

At August 31, 2008, the Company had cash and cash equivalents of $3,304,465 as compared to $3,364,711 at November 30, 2007. The decrease in cash and cash equivalents during the nine months ended August 31, 2008 was primarily attributable to the following:

Cash provided by operating activities for the nine months ended August 31, 2008 amounted to $177,203, which was primarily attributable to the Company s receipt of approximately $189,000 from the sale of sub license agreements to international affiliates during the first nine months of 2008.

Cash used in investing activities for the nine months ended August 31, 2008 amounted to $238,800 which was primarily attributable to the purchase of property and equipment and marketable securities.

Cash provided from financing activities for the nine months ended August 31, 2008 amounted to $1,350 as a result of an exercise of stock options.

The Company does not have a line of credit or other type of financing instrument. The Company anticipates making capital expenditures of approximately $500,000 during the next twelve months.

The Company anticipates that its cash and cash equivalents, marketable securities and cash flows from operations will be sufficient to fund its cash needs for at least the next 12 months. Cash flows from operations will depend primarily upon increasing revenues from sales of its umbilical cord blood cellular storage services and new service offerings, and controlling 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 the reductions in expenditures, if necessary, will not have an adverse effect on the Company s business operations, including sales activities and the development of new services and technology.

Critical Accounting Policies

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

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Revenue Recognition

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

Accounts Receivable

Accounts receivable consist of the amounts due from clients that have enrolled in the U-Cord® processing and storage program and amounts due from license affiliates and do not require collateral. Accounts receivable due from clients are due within 30 days and are stated at amounts due from clients net of an allowance for doubtful accounts. Also included in accounts receivable are amounts due from interest-free financing plans that extended payments for services for a maximum period of 15 months. During 2007, the Company discontinued offering these financing plans. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering the length of time accounts receivable are past due, the Company s previous loss history, and the customer s current ability to pay its obligations. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Income Taxes

Under the asset and liability method of SFAS 109 deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. A valuation allowance covering the deferred tax assets of the Company as of August 31, 2008 and November 30, 2007, has been provided as the Company believes it is more likely than not that the future income tax benefits will not be realized. The Company did not record an income tax benefit during the three and nine months ended August 31, 2008, as the benefit was offset by an increase in the valuation allowance.

The Company adopted the provisions of FIN 48 on December 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with SFAS 5. As required by FIN 48, which clarifies SFAS 109, 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. As of the date of the adoption of FIN 48 and August 31, 2008, the Company had no provisions for interest or penalties related to uncertain tax positions.

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Revenue Sharing Agreements

The Company has entered into Revenue Sharing Agreements (RSAs) with various parties whereby these parties contracted with the Company for a percentage of future storage revenues the Company generates from clients in specific geographical areas. The RSAs have no definitive term or termination provisions. The sharing applies to the storage fees for all specified specimens in the area up to the number covered in the contract. When the number of specimens is filled, any additional specimens stored in that area are not subject to revenue sharing. As there are empty spaces resulting from attrition, the Company agrees to fill them as soon as possible. The parties typically pay the Company a non-refundable up-front fee for the rights to these future payments. The Company had recognized these non-refundable fees as a long-term liability. Given the criteria under which these RSAs are established, cash payments on these contracts can fluctuate from period to period. All payments made to the other parties to the RSAs are recognized as interest expense. At such time as the total payments can be determined, the Company will commence amortizing these liabilities under the effective interest method. The Company does not intend to enter into additional RSAs.

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 four active licensing agreements, one covering Mexico, Central America, Ecuador and Venezuela, and two covering India.