CRYO CELL INTERNATIONAL INC
Form 10KSB
February 28, 2007

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-KSB

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended November 30, 2006

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _____ to _____

Commission File Number 000-23386

CRYO-CELL INTERNATIONAL, INC.

(Exact Name of Small Business Issuer as specified in its charter)

22-3023093	**DELAWARE**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
700 Brooker Creek Blvd, Suite 1800, Oldsmar, FL	**34677**
(Address of principal executive offices)	**(Zip Code)**

Issuer s telephone number: (813) 749-2100

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class

None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, par value $.01 per share

(Title of class)

Check whether Issuer: (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the past 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of issuer s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form or any amendment to this Form 10-KSB 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

Issuer s revenues for its most recent fiscal year: $17,180,383.

As of February 22, 2007 the aggregate market value of the voting stock held by non-affiliates of the Issuer was approximately $26,365,717. The market value of Common Stock of the Issuer, par value $0.01 per share, was computed by reference to the average of the closing bid and asked prices of the Issuer s Common Stock on such date.

The number of shares outstanding of the Issuer s Common Stock, par value $0.01 per share, as of February 23, 2006: 11,624,629.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (check one): Yes ¨; No x

FORWARD LOOKING STATEMENTS

This Form 10-KSB, 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, believe, goal, plan, intend, estimate and similar expressions and variations t used, are intended to specifically identify forward-looking statements. Those statements appear in a number of places in this Form 10-KSB and in other places, particularly, Management s Discussion and Analysis of Financial Condition or Plan of Operation, and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things:

(i) our future performance and operating results;

(ii) our future operating plans;

(iii) our liquidity and capital resources; and

(iv) our legal proceedings;

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

(i) any adverse effect or limitations caused by recent increases in government regulation of stem cell storage facilities;

(ii) any increased competition in our business;

(iii) any decrease or slowdown in the number of people seeking to store umbilical cord blood stem cells or decrease in the number of people paying annual storage fees;

(iv) any failure to timely launch the processing and storage of Plureon® (placental) stem cells, which remains subject to certain developments, including completion of clinical validation and testing for commercialization of the process and the Company s development of its final business and economic model in offering this service;

(v) the failure of the offering of processing and storage services for placental stem cells and possibly other new types of stem cells, services that have not previously been offered commercially, to gain market acceptance;

(vi) any adverse impacts on revenue or operating margins due to the costs associated with increased growth in our business, including the possibility of unanticipated costs relating to the operation of our new facility and costs relating to the commercial launch of the placental stem cell service offering or any other new types of stem cells;

(vii) any unique risks posed by our international activities, including but not limited to local business laws or practices that diminish our affiliates ability to effectively compete in their local markets;

(viii) any technological or medical breakthroughs that would render the Company s business of stem cell preservation obsolete;

(ix) any material failure or malfunction in our storage facilities; or any natural disaster or act of terrorism that adversely affects stored specimens;

(x) any adverse results to our prospects, financial condition or reputation arising from any material failure or compromise of our information systems;

(xi) the costs associated with defending or prosecuting litigation matters, particularly including litigation related to intellectual property, and any material adverse result from such matters;

(xii) any negative consequences resulting from deriving, shipping and storing specimens at a second location; and

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

We undertake no obligation to publicly update or revise the forward-looking statements made in this Form 10-KSB to reflect events or circumstances after the date of this Form 10-KSB 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 Cryo-Cell files from time to time with the Securities and Exchange Commission, including its Quarterly Reports on Form 10-QSB and any Current Reports on Form 8-K.

Part I

ITEM 1. DESCRIPTION OF BUSINESS.

Introduction

Cryo-Cell International, Inc. (the Company or Cryo-Cell) was incorporated on September 11, 1989 in the State of Delaware. 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 believes it is the world s largest family cord blood stem cell bank in terms of the number of specimens preserved. Its headquarters facility in Oldsmar, Florida handles all aspects of its U.S.-based business operations, including the processing and storage of specimens. The specimens are stored in commercially available cryogenic storage units. Several other companies involved in commercial cell banking rely on shipping their specimens elsewhere for processing and storage.

It is the Company s mission to inform expectant parents and their prenatal care providers of the potential medical benefits from preserving stem cells and to provide them the means and processes for collection and storage of these cells. Today, stem cell transplants are known and accepted treatments for approximately 70 diseases, a number of them life-threatening. With continued research in this area of medical technology, other therapeutic uses for cord blood stem cells are being explored. A vast majority of expectant parents are simply unaware that umbilical cord blood contains a rich supply of non-controversial stem cells and that they can be collected, processed and stored for the potential future use of the newborn and possibly related family members. A baby s stem cells are a perfect match for the baby throughout its life and have at least a 1-in-4 chance of being a perfect match for a sibling. There is no assurance, however, that a perfect match means the cells could be used to treat certain diseases of the newborn or a relative. Today, it is still common for the cord blood (the blood remaining in the umbilical cord and placenta) to be discarded at the time of birth as medical waste.

Despite the potential benefits of U-Cord® stem cell preservation, the number of parents of newborns participating in stem cell preservation is still relatively small compared to the number of births (four million per annum) in the United States. Some reasons for this low level of market penetration are the misperception of the high cost of stem cell storage and a general lack of awareness of the benefits of stem cell preservation programs. However, evolving medical technology could significantly increase the utilization of the U-Cord® blood for transplantation and/or other types of treatments. The Company believes it offers the highest quality, highest value service targeted to a broad base of the market, and anticipates that its growth and profitability should come from increases in stem cell specimen storage volume driven by its value-driven competitive leadership position; a fast-growing embedded client base; expanded consumer and professional channels; increased public awareness and accelerated market penetration.

The Company believes that it provides several key advantages over its competitors, including:

a state-of-the-art laboratory processing facility,

a safe, secure and monitored storage environment,

demonstrated success in the transplant of processed specimens,

7 day per week processing capability,

a 24-hour, 7 day per week clinical support staff to assist clients and medical caregivers,

high-value pricing,

the option of participating in Upromise®, a nationally recognized 529 registered college savings plan that gives clients money back for college,

our Client for Life Program, announced in December 2005, that enables clients to lock-in today s U-Cord® service prices for the family s future newborns, and

a $10,000 Cryo-Cell Cares payment that provides families with a lump-sum payment to assist with personal living expenses in the event that their child s Cryo-Cell processed and stored cord blood specimen is utilized for bone marrow transplant.

Background

Nearly fifty years ago researchers discovered that cells could be cryopreserved at extremely low temperatures and all cellular activity would cease until the specimens were thawed. Historically, cryopreservation was required for organ transplants, blood banking and medical research. Today, cryopreservation of umbilical cord blood stem cells gives expectant parents the opportunity to potentially take advantage of evolving cellular therapies and other medical technologies.

Cell Banking

Hematopoietic stem cells are the building blocks of our blood and immune systems. They form the white blood cells that fight infection, red blood cells that carry oxygen throughout the body and platelets that promote healing. Stem cells are found in bone marrow where they continue to generate cells throughout our lives. Stem cells can be stored in a cryogenic environment, and upon thawing, infused into a patient. They can be returned to the individual from whom they were taken (autologous) or donated to someone else (allogeneic). An individual s own bone marrow may be used for a transplant if the cancer has not entered the marrow system (metastasized). Otherwise, a marrow donor needs to be identified to provide the needed bone marrow. The availability of a marrow donor or matched stem cell specimen allows physicians to administer larger doses of chemotherapy or radiation in an effort to eradicate the disease. Stem cell therapies and transplants are used for both cancerous and non-cancerous diseases.

Stem cells are found in umbilical cord/placental blood (cord blood stem cells) and can be collected and stored after a baby is born. Over 8,000 cord blood stem cell transplants have been performed to date. The Company believes that parents will want to save and store these cells for potential future use by their family, either for the donor or for another family member. Moreover, researchers believe they may be utilized in the future for treating diseases that currently have no cure.

The Company believes that the market for cord blood stem cell preservation is enhanced by the national discussion on stem cell research developments and the current focus on reducing prohibitive health care costs. With the increasing costs of bone marrow matches and transplants, a newborn s U-Cord® cells can be stored as a precautionary measure. Medical technology is constantly evolving which may provide new uses for cryopreserved cord blood stem cells.

Plureon® Stem Cells

In October 2005, the Company announced an exclusive Strategic Relationship Agreement with Plureon Corporation, a private biotechnology company, to provide collection and preservation of Plureon s proprietary stem cells in the United States of America. Under the terms of the agreement, the Company will develop the proprietary methodology to collect, process and cryogenically preserve Plureon® Stem Cells (PSCs) collected from placental tissue at the time of birth. The agreement establishes exclusive license rights for the Company to market this service in the United States, and first right-of-refusal for other global markets. The agreement stipulates that the Company must meet certain sales thresholds, after the launch of the service, in order to retain its exclusivity.

PSCs are a novel type of stem cell found in placental tissue and amniotic fluid and discovered by researchers working in the Laboratory for Cell Therapy and Tissue Engineering at Children s Hospital Boston (a Harvard Medical School teaching affiliate in Boston, MA). Although, to date, PSCs have not been used in human therapies, researchers believe that PSCs may become an alternative to embryonic stem cells in the development of human cellular therapies and for use in regenerative medicine. Researchers have already demonstrated that PSCs have the ability to cure diabetes in small animals. This finding attracted the interest of several large pharmaceutical and life sciences companies. Plureon Corporation has a research and development agreement in the field of diabetes with BD (Becton Dickinson and Company). Plureon is also researching the use of PSCs in treating a host of other diseases, disabilities, and injuries.

In the laboratory, PSCs have been differentiated into many other cell types, including bone, cardiac muscle, skeletal muscle, nerves, liver, and pancreatic cells. Even after hundreds of population doublings, PSCs appear to remain stable and retain their key characteristics. PSCs are collected without harm to an embryo or fetus, and so they do not give rise to the ethical controversy surrounding embryonic stem cells. PSCs differ from embryonic stem cells in other respects, as well. For instance, embryonic stem cells have been shown to form teratomas when implanted into animals, whereas Plureon cells are non-cancer forming.

Cryo-Cell believes that this bundled service will provide parents with the unique opportunity to collect both cord blood and PSCs for their future therapeutic potential. The Company expects to charge a fee for cell collection, processing and storage, and to pay royalties to Plureon for sub-licensing the underlying technology. Technological and related commercialization considerations, combined with emerging regulatory standards, have contributed to postponement of the Company s plans to launch the Plureon service, which was previously anticipated during 2006. Cryo-Cell currently anticipates the commercial launch of the Plureon® service, in combination with its U-Cord® service during 2007, subject to any unexpected technological and/or related business developments. Prior to the Company s commercial launch of this service, certain developments must occur, including completion of clinical validation and testing for commercialization of the process and the Company s development of its final business and economic model in offering this service.

Cellular Storage Services

The Company enters into storage agreements with its clients under which the Company charges a fee for the processing and testing of the umbilical cord blood. Thereafter, the client is charged an annual fee to store the specimen, unless the client has entered into a 21-year pre-paid storage plan.

In November 2004, the Company relocated its corporate headquarters to a newly constructed, nearly 18,000 square-foot state-of-the-art current Good Manufacturing Practice and Good Tissue Practice (cGMP/cGTP)-compliant facility. Food and Drug Administration (FDA) 21 CFR Part 1271, a new federal regulation with an effective date of May 2005, requires human cellular and tissue-based products to be manufactured in compliance with good tissue practices (cGTPs). The Company s laboratory processing facility contains a class 10,000 clean room and class 100 environments for the processing of cord blood stem cells and other cellular tissues. In addition, the cellular products cryogenic storage area has been designed as a bunker, with enhanced provisions for security, building fortification for environmental element protection and back-up systems for operational redundancies. The Company believes that it was the first private bank to process cord blood in a technologically and operationally advanced cGMP/cGTP-compliant facility. The Company s facility, which also currently houses the Company s clinical services, marketing and administrative operations, is designed and appointed to accommodate a broad range of events such as client tours and open houses, as well as educational workshops for clinicians and expectant parents.

In June 2006, the Company announced that it had signed an amendment to its lease to create a Center of Excellence to be used as a training and educational facility. Under the terms of the lease, the Company will add an additional suite of approximately 9,600 square feet. The Center of Excellence, which is expected to open during 2007, will be housed in a separate facility adjacent to the Company s corporate headquarters. The Company will use the facility as an event center where the Company

will organize, on its own, as well as, by partnering with hospitals and healthcare providers, a variety of pregnancy and parenting-related education classes and professional seminars. Building public awareness for clinicians and families on the significant benefits of umbilical cord blood stem cell preservation continues to be a major initiative for Cryo-Cell.

The Company, in combination with its global affiliates, currently stores over 135,000 cord blood stem cell specimens worldwide for the exclusive benefit of newborn babies and possibly other members of their family. Approximately 33,000 of these specimens are split specimens, for which the Company stores a duplicate specimen at a secondary storage facility in Sedona, Arizona. The Company believes it is the world s largest family cord blood stem cell bank in terms of the number of worldwide specimens preserved.

Medical and Scientific Advisory Board

The Company has a seven member Medical and Scientific Advisory Board (MSAB), with Stephen Noga, M.D., Ph.D. serving as its Chairman. Dr. Noga is currently the Director of Medical Oncology & Hematology at the Alvin & Lois Lapidus Cancer Institute and the Director of the Cellular Therapeutics Program, both at Sinai Hospital of Baltimore. He is an Associate Professor of Oncology and Pathology at The Johns Hopkins University School of Medicine. In addition to his expertise in cellular therapies, Dr. Noga is a noted speaker, has served on many editorial boards and has organized many conferences, advisory committees and review groups.

Dr. Noga is joined by six other highly qualified MSAB members, each having expertise in the areas of either transplant medicine, infectious disease, laboratory/transfusion medicine and/or obstetrics/gynecology.

Marketing

The Company markets its preservation services directly to expectant parents and by distributing information through obstetricians, pediatricians, Lamaze instructors and other childbirth educators, certified nurse-midwives and other related healthcare professionals. The Company believes that its growth has been facilitated by a variety of referral sources, resulting from high levels of customer satisfaction. New expectant parent referrals during 2006 were provided by physicians, midwives and childbirth educators, and by client-to-client referrals and repeat clients storing the stem cells of their additional children.

During 2006, the Company increased its marketing activities with its clinical referral sources, including physicians, midwives and hospitals. Promotional activities were launched that included advertisements in several clinical journals and telemarketing activities. In addition, the Company exhibited at conferences, trade shows and other meetings attended by medical professionals. Significant portions of client referrals to the Company are from medical caregiver professionals.

To increase awareness among expectant parent audiences, the Company continues to promote its service in several national targeted prenatal magazines including American Baby and Fit Pregnancy, as well as several magazines distributed during childbirth classes. Expectant parents have also received information via emails and the Company has increased its internet marketing campaigns.

The Company s clinical support team of specially trained R.N.s and L.P.Ns. are available 24 hours, 7 days a week to enroll clients and educate both expectant parents and the medical community on the life-saving potential of cord blood stem cell preservation.

The Company continues to use its Web site, www.cryo-cell.com, to market its services and to provide resource information to expectant parents. The site, which is frequently updated and improved, is divided into areas of interest, including sections for expectant parents, medical caregivers and investors. Expectant parents may request and receive information about the U-Cord® service and enroll in online. Viewers may read about successful transplants using Cryo-Cell stored cord blood stem cells and access other topical information.

Competition

Growth in the number of families banking their newborn s cord blood stem cells has been accompanied by an increasing landscape of competitors. The Company competes against approximately 25 other national private cord blood banks. Some of these companies, such as Cord Blood Registry, Inc. are competitors who, as privately owned entities, can leverage considerable resources to market and sell their services. Other competitors such as ViaCord, a division of ViaCell, and LifeBankUSA, a division of Celgene, are both publicly traded corporations.

The competitors mentioned above, and others, may have access to greater financial resources. Nevertheless, the Company believes it is currently well positioned to compete in the industry. Importantly, these competitors mentioned above, along with others, charge more for comparable quality service. In addition, the Company possesses an industry-recognized AABB accreditation, and believes that it was the first private cord blood bank to process in a cGMP- and cGTP-compliant facility exceeding current FDA requirements. In November 2005, the Company was granted ISO 9001:2000 certification from BSI America s, Inc., a leading quality management systems registrar. ISO (International Organization for Standardization) standards are internationally recognized as an effective framework for a quality management system (QMS). This achievement positions Cryo-Cell as the only cGMP- and cGTP-compliant private cord blood bank with both ISO certification and AABB accreditation. The Company believes it offers the most superior value of highest quality cryopreservation processing and storage in the industry.

The Company also operates in an environment where various public cord blood banks are encouraging parents to donate their newborn s cord blood rather than privately banking it. Although this option is generally no-cost to the parents, there is no assurance that the newborn s cells would be available to the family, if they were needed. The Company believes that the distinctive benefits of private cord blood banking clearly differentiate its services from that of public cord banks.

The Company believes that its longevity and experience; value-based pricing strategy; superior customer service supported by a 24/7 professional nurse staff; premier technical and operational expertise; state-of-the-art facilities; innovative marketing programs and its expansive client base will continue to provide a competitive advantage.

Research, Development and Related Engineering

The Company incurred costs of $486,164 during fiscal 2006, compared to $26,148 during fiscal 2005, on research, development and related engineering expenses. Research, development and related engineering expenses are due to the Company s development expenses for the proprietary technology to collect, process and cryogenically preserve Plureon Stem Cells (PSCs) collected from placenta under the agreement with Plureon Corporation.

Government Regulation

The Company is required to register with the FDA under the Public Health Service Act because of its ongoing cellular storage business and is subject to FDA inspection. This requirement applies to all establishments engaged in the recovery, processing, storage, labeling, packaging, or distribution of any Human Cells, Tissues, and Cellular and Tissue-Based Products (HCT/Ps) or the screening or testing of a cell or tissue donor. The Company voluntarily registered with the FDA in January 2003 and has successfully updated that registration for 2006, thus meeting this compliance requirement.

Currently, the states of New York, New Jersey and Maryland require cord blood banks to be registered or licensed. The Company is currently registered or licensed to operate in these states. If the Company identifies other states with licensing requirements or if other states adopt such requirements, the Company would have to obtain licenses or registration to continue providing cord blood services in those states.

Federal and state laws govern the Company s ability to obtain and, in some cases, to use and disclose data that we may need to conduct certain activities. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires the Department of Health and Human Services to issue a series of regulations establishing standards for the electronic transmission of certain health information. The Company is not subject to HIPPA because the Company does not engage in certain electronic transactions related to the reimbursement of healthcare and because blood and tissue procurement and banking activities are exempt. However, the healthcare providers that collect umbilical cord blood for the Company s customers are subject to HIPAA. The identifiable information shared is only what is permitted by HIPAA.

The Company is also subject to local, state and federal laws and regulations relating to safe working conditions, laboratory and manufacturing practices and the use and disposal of hazardous or potentially hazardous substances. These laws include the Occupational Safety and Health Act (OSHA), current Good Tissue Practices (cGTPs), current Good Manufacturing Practices (cGMPs), Environmental Protection Agency (EPA), and those of the local Department of Health.

Enacted in 1970, OSHA requires all employers to assure safe and healthful working conditions for working men and women through development and implementation of work standards, education, and training. OSHA enforces the standards developed under the Act, applicable to all employers in the U.S. and its territories. Current Good Tissue Practices (cGTPs) are laws, enforced by the Food and Drug Administration (FDA), that define and govern methods used in the manufacture of Human Cells, Tissues, and cellular and tissue-based Products (HCT/Ps). Current Good Manufacturing Practices (cGMPs) are laws, enforced by the FDA, that define and govern methods used in the manufacture of drugs and finished pharmaceuticals. Both of the latter federal practices, or laws, govern the Company s products.

The Environmental Protection Agency (EPA) governs the management and proper disposal of products and by-products or waste. These products must be disposed in a manner that does not adversely affect the environmental from which it came or where disposed of. The Department of Health on the local level primarily regulates systems and associated equipment employed in recovery activities such as back-up generators; therefore, governing specific internal processes.

Evolving legislation and regulations governing private cord blood banking in various jurisdictions throughout the world may impact the Company s international licensees.

The Company believed until February 2004 that it was subject to regulation as a medical device manufacturer because of its development and manufacture of its proprietary storage systems technology. As a result of the Board of Directors decision in January 2004 to discontinue further investment in and utilization of such technology and a verbal confirmation from the FDA, the Company believes it is no longer a medical device manufacturer.

In addition, as the organization grows and evolves, other legislation and regulations are expected to impact the Company. One such evolution involves activities that may be designated as or involve medical research or cooperative agreements associated with medical research. These types of activities are also governed by the FDA, specifying oversight by an Institutional Review Board (IRB). The IRB is a board or committee that approves the initiation of, and conducts periodic review of, biomedical research involving human subjects. The primary purpose of such review is to assure the protection of the rights and welfare of the human subjects. Governance of biomedical research is codified as laws by Title 21 of the Code of Federal Regulations (CFR) Part 56, and enforced by the FDA.

Hence, as the Company continues to evolve, other impacting governance is expected and planned for.

Subsidiaries and Joint Ventures

Since its inception, Cryo-Cell has entered into a number of business activities through subsidiaries and joint ventures, including the following activities and those described under International below. Cryo-Cell has de-emphasized certain of these activities in recent periods in connection with the Board of Directors strategic decision to focus the Company s priorities and resources on its core business of marketing cord blood stem cell preservation services. In the future, the Company expects to evaluate and pursue certain opportunities, on a selective basis, in which operational synergies and economic potential align with Cryo-Cell s strategic direction.

Saneron CCEL Therapeutics, Inc. The Company owned an approximate 38% interest in Saneron CCEL Therapeutics, Inc. (Saneron) as of November 30, 2006 and 2005. Saneron has exclusively licensed from both the University of South Florida (USF) and the University of Minnesota (UMN) various patents and patent applications for the therapeutic use of umbilical cord blood stem cells and Sertoli cells.

To date, Saneron has received eight SBIR/STTR grants, has been the industry sponsor on seven Florida High Tech Corridor grants, and has participated in several other corporate and non-profit R&D projects to continue their efforts towards the development of cellular therapies for neurological and cardiac disorders. In November 2005, Saneron received a grant from the Johnnie B. Byrd, Sr. Alzheimer s Center and Research Institute, Inc. for the study of the Saneron U-CORD-CELL as a treatment for Alzheimer s. During 2006, Saneron and GE Healthcare completed two phases of a joint research project intended to optimize GE Healthcare s Ficoll-Paque for isolating stem cells from umbilical cord blood. The preliminary results from that study were presented at the International Society for Cellular Therapy meeting in Berlin, Germany. Validation studies needed for the submission of a Drug Master File of Saneron s U-CORD-CELL have been underway at Cryo-Cell International s GMP facility and the University of South Florida.

Safti-Cell, Inc. In October 2001, the Company sold 90% of Safti-Cell, Inc. (Safti-Cell), a then-inactive subsidiary of the Company, to Red Rock Partners, an Arizona general partnership. Mr. Charles Nyberg, a former member of the Board of Directors of the Company, owns a significant interest in Red Rock Partners; however, the sale took place prior to the time that Mr. Nyberg became a member of the Company s Board of Directors. In December 2004, Mr. Nyberg resigned from the Company s Board of Directors. In October 2001, the Company and Safti-Cell entered into a twenty-year storage agreement under which the Company pays an annual fee to Safti-Cell for each specimen stored by Safti-Cell in its Arizona facility for the Company s customers. In October 2002, Safti-Cell brought the facility into service, and the Company began providing dual storage service to its customers. The Company currently stores approximately 33,000 split specimens at the Safti-Cell facility. In May 2005, the Company implemented a new processing methodology in accordance with emerging requirements of the AABB. The new process utilizes closed-system bags rather than vial storage. In view of this transition to a new processing methodology, as well as the enhanced level of security designed in the Company s new facility, the Company discontinued offering the dual storage service to new customers.

Revenue Sharing Agreements

The Company has entered into Revenue Sharing Agreements (RSAs) with various third parties. The Company s RSAs provide that in exchange for a non-refundable up-front payment, the Company would share for the duration of the contract a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from 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 an up-front fee for the rights to these future payments. The Company reflects these up-front payments as long-term liabilities on the accompanying consolidated financial statements. Payments by the Company to the parties that have entered in to the RSAs totaled $940,828 in fiscal 2006 and $798,199 in fiscal 2005. Such payments are recorded as interest expense in the accompanying consolidated statements of operations and comprehensive (loss) income.

Summary descriptions of the Company s current RSAs are found below, grouped by the geographic location to which they relate.

Florida. In 1999, the Company signed a revenue sharing agreement, which applies to net storage revenues originating from specimens from within the State of Florida for $1,000,000, and entitles the investors to net revenues from a maximum of 33,000 storage spaces. Mr. Charles Nyberg, a former member of the Board of Directors of the Company, currently has a 50% interest in the shared revenue under this agreement. Mr. Nyberg purchased this revenue sharing agreement prior to the time he became a member of the Board. Mr. Nyberg resigned from the Board of Directors during December 2004.

Illinois. In 1996, the Company signed agreements with a group of investors entitling them to an on-going 50% share in the Company s portion of net storage revenues generated by specimens stored in the Illinois Masonic Medical Center for a price of $1,000,000. The agreements were modified in 1998 to entitle the investors to a 50% share of the Company s portion of net revenues relating to a maximum of 33,000 storage spaces for specimens originating in Illinois and its contiguous states and stored in Oldsmar, Florida.

New York. In 1999, the Company entered into a modified revenue sharing agreement with Bio-Stor International, Inc. (Bio-Stor) for the purchase of 90% of the Company s 50% portion of net storage revenues generated from the specimens originating from the Company s clients in the State of New York for up to 33,000 shared storage spaces.

In 1998 an agreement previously entered into by the Company with a private investor was revised. Per the terms of the original agreement, the investor had purchased 10% of a revenue sharing agreement applicable to revenue associated with specimens from the State of New Jersey. The new agreement has transferred the $100,000 investment to the State of New York. Under the revised agreement the investor receives 10% of the 50% share in the Company s portion of net storage revenues generated by the specimens originating from the Company s clients in the State of New York for up to 33,000 storage spaces.

Texas. In 2001, the Company entered into an agreement with two investors, entitling them to on-going shares in a portion of the Company s net storage revenue generated by specimens originating from the State of Texas for a price of $750,000. The investors are entitled to a 37.5% share of net storage revenues originating in the State of Texas to a maximum of 33,000 storage spaces. Mr. Charles Nyberg owns a 50% interest in the shared revenue under this revenue sharing agreement. Mr. Nyberg purchased this revenue sharing agreement prior to the time he became a member of the Board. Mr. Nyberg resigned from the Board of Directors during December 2004.

International

In fiscal 2000 the Company began entering into licensing and royalty agreements with certain parties in various international areas in an attempt to capitalize on the Company s technology. The Company has discontinued two of these relationships in an effort to focus on its core business. In the future, the Company expects to evaluate and pursue certain opportunities, on a selective basis, in which operational synergies and economic potential align with Cryo-Cell s strategic direction. The following details the background and current status of the significant agreements.

Mexico. On June 13, 2001, the Company entered into an agreement with Cryo-Cell de Mexico, as amended in October 2001, for the exclusive license to market the Company s U-Cord® program. The license allows Cryo-Cell de Mexico to directly market and sub-license the U-Cord® program throughout Mexico, Central America and Ecuador. The Company received an initial up-front license fee payment of $600,000 and, until the amendment described below effective January 1, 2007, was entitled to receive ongoing royalties of 15% of adjusted cord blood processing fees and 25% of storage revenues generated by Cryo-Cell de Mexico s laboratory operations. The Company recorded royalties and sub-license fees from Cryo-Cell de Mexico in the amount of $608,043 and $597,013 for the years ended November 30, 2006 and 2005, respectively, and this is reflected in licensee income in the accompanying consolidated statements of operations and comprehensive (loss) income. In addition, the Company processes and stores specimens sent from sub-licensees in Central America, Ecuador, and to a lesser extent Mexico. Processing revenues from specimens originating in these territories totaled $410,785 and $248,900 for the years ended November 30, 2006 and 2005 and is reflected in revenues in the accompanying consolidated statements of operations and comprehensive (loss) income.

On February 7, 2007, the Company and Cryo-Cell de Mexico executed an amendment to their definitive License and Royalty Agreement. The amendment changes the royalties payable to the Company for all U-Cord® collection, processing and storage revenues generated effective January 1, 2007. Following the amendment, the Company receives royalty fees ranging from $35 to $75 per specimen, depending on the then current pricing structure in effect for U-Cord® collection, processing and testing fees in Mexico. The Company s royalties on storage revenues are now at a level of 10%, compared to 25% prior to the amendment. The total royalty payments per the revised agreement are now capped at $1 million annually and $10 million cumulatively dating back to October 15, 2001.

India/Malaysia/Singapore. On July 14, 2004, the Company entered into a definitive License and Royalty Agreement with Asia Cryo-Cell Private Limited (ACCPL) to establish and market its U-Cord® program in India. The up-front license fee of $750,000 is payable by ACCPL in installments, with $275,000 paid in 2004, a second payment of $175,000 paid in 2006, and the final $300,000 payable in 2007 as described below. ACCPL has an option to expand into Singapore and Malaysia for one year after March 5, 2006, the date the licensed services were first offered for sale to the general public in India, as defined in the agreement. In consideration for the up-front license fee, the Company transferred its technology, know-how and quality systems to ACCPL in 2004. The payment of $175,000 received by the Company during fiscal 2006 is included in licensee income in the consolidated statement of operations and comprehensive (loss) income. The remaining balance due of $300,000 will be recognized under the installment basis of accounting, recognizing each payment when received.

On January 22, 2007, the Company and ACCPL executed an amendment to the definitive License and Royalty Agreement. The amendment changes the royalties payable to the Company for all cord blood collection, processing and storage revenues generated after September 1, 2006. Following the amendment, the Company receives royalty fees ranging from $35 to $75 per specimen, depending on the then current pricing structure in effect for cord blood collection, processing and testing fees in India, Singapore and Malaysia rather than the previous royalty rate of 8.5-10%. The Company will now receive royalties on storage revenues of 10%, compared to 10-15%, based on volume, prior to the amendment. All revenues generated prior to the effective date are subject to the original agreement. Per the amendment, ACCPL is required to pay the two remaining license fee payments of $150,000 each by January 31, 2007 and May 31, 2007, respectively, and the first such payment was made in January 2007. The total royalty payments per the agreement are now capped at $1 million annually and $10 million cumulatively dating back to July 14, 2004.

The Company recorded royalties and sub-license fees from ACCPL in the amount of $170,058 and $16,302 for the years ended November 30, 2006 and 2005, respectively, and this is reflected in licensee income in the accompanying consolidated statements of operations and comprehensive (loss) income.

Employees

At November 30, 2006, there are 60 full-time and 6 part-time employees on the staff of the Company. Additional employees and staff will be hired on an as needed basis. The Company believes its relationship with its employees is good.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company entered into a ten-year lease in April 2004 for its new 17,600 square foot current Good Manufacturing and Good Tissue Practice (cGMP/cGTP) compliant corporate headquarters in Oldsmar, Florida for rent of approximately $141,000 per year for each of the first two years and escalating thereafter. The lease effectively commenced during October 2004, and the Company moved into this facility in November 2004. This facility contains the Company s executive offices, its conference and training center, its laboratory processing and cryogenic storage facility and its scientific offices.

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

ITEM 3. LEGAL PROCEEDINGS.

The Company is periodically involved in litigation and regulatory proceedings incidental to the conduct of business and the Company expects that it will be involved in such litigation and regulatory proceedings from time to time. While the Company believes that any adverse outcome of such pending matters will not materially affect our business or financial condition, there can be no assurance that this will be the case. In addition to the foregoing, the Company is currently involved in the following:

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

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

On September 15, 2004, the court ruled on the post trial motions. The court vacated its judgment, overturning the jury s verdict for patent infringement and damages previously entered against the Company, and denied PharmaStem s request for an injunction and enhanced damages against the defendants. The court entered a new judgment in favor of the Company and the other defendant blood

banks with regard to PharmaStem s 553 patent, holding that the cord blood banks are not, and cannot be, liable for contributory infringement of the patent because they do not sell, or offer for sale, umbilical cord blood. Rather, the private blood banks provide a service of processing and preserving of cord blood for families. With regard to PharmaStem s 681 patent, the court granted Cryo-Cell and its co-defendants a new trial on the issues of infringement, finding that the jury s earlier verdict of infringement was against the great weight of the evidence.

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

PharmaStem has filed an appeal of the decision to the United States Court of Appeals for the Federal Circuit. Cryo-Cell and the other defendants have filed a cross-appeal on the issues of the validity and enforceability of the 681 and 553 patents.

On July 28, 2004, the Company was named as a defendant in a complaint filed by PharmaStem Therapeutics, Inc. in the United States District Court for the Middle District of Florida, Tampa Division, Case No. 8:04-cv-1740-T-30TGW alleging infringement of U.S. Patents Nos. 6,461,645 and 6,569,427. These patents are closely related to the 681 and 553 patents that were the subject of PharmaStem s Delaware litigation. PharmaStem also named as a defendant Dr. Bruce Zafran, a member of the Company s scientific and medical advisory board. The suit seeks an injunction, an unspecified amount of damages or royalties, treble damages and attorney s fees. The Company has filed an answer and counterclaims against PharmaStem and its Chief Executive Officer, Nicholas Didier. PharmaStem and Didier have filed motions to dismiss those counterclaims. The Judicial Panel on Multidistrict Litigation transferred this action to the District of Delaware for coordinated pretrial proceedings with other cases brought by PharmaStem alleging infringement of these same two patents by other defendants, *In re: PharmaStem Therapeutics, Inc. Patent Litigation*, MDL No. 1660. The Company intends to vigorously defend the suit. The Delaware court has stayed all proceedings in these cases, including discovery, pending the outcome of the Federal Circuit appeal and reexamination proceedings in the U.S. Patent and Trademark Office. The reexamination proceedings involve all four of the patents on which PharmaStem has sued. In January 2005, a Patent Office examiner entered an office action rejecting all claims of the 553 patent.

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

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

The Company s common stock traded on the Over-The-Counter market since January 10, 1991, the date of the Company s initial public offering. In January 1997, the Company s stock began trading on the NASDAQ SmallCap market. Effective July 24, 2003, the Company s common stock was delisted from The Nasdaq SmallCap Market under a decision of the Nasdaq Listing Qualifications Panel. At that time, the Company s common stock began trading on the Over-the-Counter Bulletin Board under the symbol CCEL . The following table shows, for the calendar periods indicated, the high and low closing bid quotations for the Company s common stock as reported by the Dow Jones Retrieval Service. The quotations represent inter-dealer prices without retail mark-up, markdown or commission and may not represent actual transactions.

	Low Closing Bid	High Closing Bid
2005		
February 28, 2005	2.75	6.70
May 31, 2005	2.15	3.86
August 31, 2005	2.82	3.90
November 30, 2005	2.30	3.89
2006		
February 28, 2006	3.26	3.85
May 31, 2006	2.55	3.40
August 31, 2006	2.19	2.80
November 30, 2006	2.25	2.80

The Company has not declared any cash dividends on its common stock and does not expect to do so in the near future.

As of November 30, 2006, the Company had 318 shareholders of record, and management believes there are approximately 5,000 additional beneficial holders of the Company s common stock.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion and analysis of the financial condition and results of operations of the Company for the two years ended November 30, 2006, should be read in conjunction with the consolidated financial statements and related notes as well as other information contained in this Annual Report on Form 10-KSB.

Overview

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

During the year ended November 30, 2006, the Company increased its revenues by 19% over the level in fiscal 2005 and incurred a net loss of approximately $2,811,000, compared to net income of approximately $1,033,000 for fiscal 2005. Net storage revenues increased because of an increase in the customer base and the effects of a price increase implemented during fiscal 2006. The Company reported a net loss in fiscal 2006 of approximately ($2.8 million), or ($0.24) per basic common share, compared to net income of approximately $1.0 million, or $0.09 per basic common share, in fiscal 2005. The net loss in fiscal 2006 is in part the result of a 46% increase in cost of sales and a 42% increase in marketing, general and administrative expenses in fiscal 2006 over fiscal 2005, partially offset by the 19% increase in revenue. In addition, the net loss consisted of certain expenses in the 2006 period including approximately $1.0 million for corporate re-branding and strategic corporate development; approximately $486,000 in research and development expenses relating to the Company s development expenses of proprietary technology to collect, process and cryogenically preserve Plureon® Stem Cells (PSCs) collected from placental stem cells under an agreement with Plureon Corporation; and the effect of an investment that was deemed permanently impaired and recorded as an impairment of assets in the amount of approximately $147,000. The impact of the higher costs and expenses was partially offset by the increase in revenue and a significant increase in licensee income in 2006. In addition, net income in fiscal 2005 was increased by the effect of a non-cash income liability reversal of $498,000 in connection with the renegotiation of a consulting agreement with a former officer.

In October 2005, the Company announced an agreement with Plureon Corporation under which the Company will have the exclusive rights to market the service of collecting, processing and preserving Plureon® placental stem cells as a supplement to its existing services involving U-Cord® stem cells. The Company expects to launch this service during fiscal 2007. The Company expects to charge an initial fee for collection and processing the placental stem cells, in addition to its existing fees for collection and processing of U-Cord® stem cells. Also, the Company will charge an additional annual storage fee for storage of the placental stem cells, in addition to the storage fee for the U-Cord® stem cells. The Company will pay royalties to Plureon Corporation for sub-licensing the underlying technology.

At November 30, 2006, the Company had cash and cash equivalents of $7,414,140 and marketable securities and other investments of $1,040,341. The Company s cash decreased by approximately $565,000 during fiscal 2006, as a result of the purchase of a bond investment and the purchase of property and equipment, which was partially offset by cash flow from operations and the proceeds from the redemption of marketable securities. The total of cash and marketable securities was essentially flat compared to the end of fiscal 2005. As of February 23, 2007, the Company maintains no indebtedness.

Results of Operations

Revenues. For the fiscal year ended November 30, 2006, the Company had revenues of $17,180,383 compared to $14,451,331 in fiscal 2005, representing a 19% increase. The increase is primarily attributable to the effects of a successfully implemented price increase during fiscal 2006 for newly enrolling clients, as well as the overall increase in customer base over the prior year, which led to a significant increase in storage revenues.

***Cost of Sales*.** For the fiscal year ended November 30, 2006, cost of sales was $6,067,671, as compared to $4,143,002 in 2005, representing a 46% increase. Costs of sales were 35% of revenues in fiscal 2006 compared to 29% in fiscal 2005. The increase in cost of sales was due in part to the expenses associated with the Company s introduction of service enhancements in connection with the recent price increase. The enhancements include return shipping by a medical courier to all new U.S. customers, which accounted for approximately $800,000 of the increase. Other contributing factors were increases in cord blood collection reimbursements, as well as an increase in expenses for lab supplies due to the Company s April 2005 implementation of a new processing methodology in accordance with newly established standards of the AABB. The new process utilizes closed-system bags rather than vial storage. This change caused lab supplies to increase approximately $200,000 from the prior year. Due to this transition to a new processing methodology, as well as the enhanced level of security designed in the Company s new facility, the Company discontinued offering the dual storage service to new customers during the second quarter of fiscal 2005.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses during the fiscal year ended November 30, 2006 were $12,957,465 as compared to $9,104,087 for the fiscal year ended November 30, 2005 representing a 42% increase. The increase was principally attributable to the implementation of the Company s previously announced strategic initiatives to increase market share and achieve unit growth by strengthening the resources allocated to sales and marketing. This resulted in an increase of $2.9 million in marketing expense, principally related to expenses for consumer advertising and consulting fees related to corporate re-branding. In addition, general and administrative costs increased as a result of the Company s decision to enhance existing production procedures and quality systems, as well as consulting expenses. Marketing, general and administrative expenses were 75% of revenues for the fiscal year ended November 30, 2006 compared to 63% for the fiscal year ended November 30, 2005. Marketing, general and administrative expenses increased as a percentage of revenues due to the aforementioned increases, which were partially offset by the increase in revenues.

Research, Development and Related Engineering Expenses. Research, development and related engineering expenses for the fiscal year ended November 30, 2006, were $486,164 as compared to $26,148 in 2005. The increase was due to expenses related to the Company s development expenses for the proprietary technology to collect, process and cryogenically preserve Plureon® Stem Cells (PSCs) collected from placental stem cells under the agreement with Plureon.

Renegotiation of Deferred Consulting Agreement. For the year ended November 30, 2005, the Company recorded other income of $498,161 due to the cancellation of a deferred consulting obligation agreement. A new deferred consulting agreement was negotiated and signed during the second quarter 2005. The terms of this settlement agreement are confidential.

Impairment of Assets. For the fiscal year ended November 30, 2006, the Company recorded an impairment of assets of $147,420. During the fiscal year ended November 30, 2006, management reviewed the cost basis of certain investments in marketable securities and determined that the decline in market value was other-than temporary, resulting in these investments being written down to fair value.

Interest Expense. Interest expense during the fiscal year ended November 30, 2006, was $1,015,389 compared to $863,713 in 2005. Interest expense is mainly comprised of payments made to the other parties to the Company s RSAs based on the Company s storage revenue. Prior to fiscal 2002, the Company entered into RSAs with individuals and entities for specific geographic areas. The Company s RSAs provide that in exchange for an up-front payment, the Company would share in perpetuity a percentage of its future revenue derived from the annual storage fees charged related to a certain number of specimens that originated from specific areas. The Company currently has four RSAs in effect covering the following areas: 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 $41,391 and $30,779 for the years ended November 30, 2006 and 2005, 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 fiscal year ended November 30, 2006, was $926,824 as compared to $613,316 in 2005. Licensee income for the fiscal year ended November 30, 2006, consisted of $148,723 received as an installment payment from the non-recurring sale of the India license agreement and $778,101 of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees. Licensee income for the fiscal year ended November 30, 2005 consisted of royalty income earned on the subsequent processing and storage of specimens in geographical areas where the Company has license agreements, and from the sale of sub-license agreements by licensees. In late 2006 and early 2007, the Company and its international licensees agreed to changes in the royalty fees for processing and storage in those geographical areas. The new rates are expected to have a negative impact on future royalty income.

Equity in Losses of Affiliates. Equity in losses of affiliates was $84,287 for the fiscal year ended November 30, 2006 compared to a loss of $119,762 in 2005. During fiscal 2006 and 2005, the Company identified certain stock and warrant awards that were granted by Saneron at below fair market value to certain employees, consultants and members of Saneron management who represent owners of Saneron and serve on the board of directors. As a result, included in equity in losses of affiliates is approximately $83,000 related to compensation expense that resulted from the stock awards in 2006 and approximately $88,000 in 2005.

Income Taxes. The Company did not record an income tax benefit during the fiscal year ended November 30, 2006, as the benefit was offset by an increase in the valuation allowance. Income tax benefit was $36,001 for the fiscal year ended November 30, 2005. The Company recorded an income tax benefit during the fiscal year ended November 30, 2005 due to the reversal of a federal income tax accrual that had been recorded during the fourth quarter of fiscal 2004 for estimated tax payments, which was partially offset by the provision recorded for the year ended November 30, 2005 based on the net profits of the Company.

Liquidity and Capital Resources

Through November 30, 2006, 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 RSAs. Currently, the Company s cash flow is derived primarily from sales relating to its storage services, including the Initial Fee and ongoing storage fees.

At November 30, 2006, the Company had cash and cash equivalents of $7,414,140 as compared to $7,979,377 in 2005. The decrease in cash and cash equivalents was primarily attributable to the following:

Cash provided by operating activities in fiscal 2006 amounted to $924,901 which was primarily attributable to the Company s operating activities including licensing fees, a price increase, and an increase in recurring revenue from the current client base. During the prior year, the Company began requiring credit cards to be used by all new clients. This has resulted in an increase in operating cash flow.

Cash used in investing activities in fiscal 2006 amounted to $1,490,138, which was primarily attributable to the purchase of a bond investment and property and equipment, partially offset by proceeds for the redemption of marketable securities.

There were no cash flows used in or provided by financing activities for fiscal 2006.

The Company also has certain investments in marketable securities totaling $1,040,341 as of November 30, 2006.

The Company does not have a line of credit or other type of financing instrument. Capital expenditures for the Company s new facility were funded from cash flow from operations. The Company anticipates making capital expenditures of approximately $1,400,000 over the next twelve months including $500,000 in the anticipated expenditures related to the lease amendment described below.

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

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

Critical Accounting Policies

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company s critical accounting policies as the ones that are most important to the portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The Company believes that its estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. For further discussion of the Company s significant and critical accounting policies, refer to Note 1 Summary of Critical and Significant Accounting Policies to the Consolidated Financial Statements contained in Item 7 of this document.

Revenue Recognition

The Company records revenue from processing and storage of specimens. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, (SAB 101) as amended by SAB 104, and Emerging Issues Task Force (EITF) Issue No. 00-21 for all revenue transactions. The Company recognizes revenue from processing fees upon completion of processing and cellular storage fees ratably over the contractual storage period. The Company also records revenue from shipping and handling when earned. Shipping and handling costs are expensed and included in cost of sales.

Accounts Receivable

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

Income Taxes

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

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

Investment in Saneron

The Company made a significant investment in an entity that is involved in the area of stem cell research. The Company accounts for this investment under the equity method, and at least annually, reviews its investment for possible impairment and, if necessary, adjusts the carrying value of such investment. The Company records equity in losses of affiliates until the investment balance is zero and only goodwill is remaining. The investment is reviewed annually to determine if an other than temporary impairment exists. The Company does not believe that an impairment exists as of November 30, 2006 and November 30, 2005.

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 receipts from these contracts can fluctuate from period to period. All payments made to the other parties to the RSAs are recognized as interest expense. At such time as the total payments can be determined, the Company will commence amortizing these liabilities under the effective interest method. The Company does not intend to enter into additional RSAs.

License and Royalty Agreements

The Company has entered into licensing agreements with certain investors in various international markets in an attempt to capitalize on the Company s technology. The investors typically pay a licensing fee to receive Company marketing programs, technology and know-how in a selected area. The investor may be given a right to sell sub-license agreements as well. As part of the accounting for the up-front license revenue, revenue from the up-front license fee is recognized based on such factors as when the

payment is due, collectibility and when all material services or conditions relating to the sale have been substantially performed based on the terms of the agreement. The Company has two active licensing agreements, one covering Mexico, Central America, and Ecuador, and the other one covering India, with an option to expand into Singapore and Malaysia.

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

Marketable Securities and Other Investments

The Company has certain investments in certificates of deposit, and equity securities, which are categorized as marketable securities and other investments. The Company believes these are conservative investments with a low risk for any loss of principal. The Company regularly assesses its marketable security investments for impairments and adjusts its investment strategy, as it deems appropriate. The Company classifies marketable securities and other investments as current in the accompanying consolidated balance sheets based on original maturity dates of less than one year. The cost basis of the other investments has been written down to fair value. The Company recorded an impairment charge of approximately $147,000 on one of its available for sale securities during the fiscal year ended November 30, 2006 as its decline in fair market value was determined to be other-than-temporary.

Deferred Consulting Fees

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

Litigation

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

Product Guarantee and Cryo-Cell Cares™ Program

In December 2005, the Company began providing its customers enrolled under the new pricing structure with a payment guarantee under which the Company agrees to pay $50,000 to its client if the U-Cord® product retrieved is used for a stem cell transplant for the donor or an immediate family member and fails to engraft, subject to various restrictions. Additionally, under the Cryo-Cell Cares™ program the Company will pay $10,000 to the client to offset personal expenses if the U-Cord® product is used for bone marrow reconstitution in a myeloblative transplant procedure. The Company has not experienced any claims under the

guarantee program nor has it incurred costs related to these guarantees. The Company does not maintain insurance for this guarantee program and therefore maintains reserves to cover our estimated potential liabilities. The Company accounts for the guarantee as an obligation and recognizes the obligation in accordance with SFAS No. 5, Accounting for Contingencies. The Company s reserve balance is based on the $50,000 maximum payment and the $10,000 maximum expense reimbursement multiplied by formulas to determine the projected number of units requiring a payout. The Company 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 have been very low and a small increase in the number of transplants or engraftment failures could cause a significant increase in the estimated rates used in determining our reserve. In addition, the reserve will increase as additional U-Cord® specimens are stored which are subject to the guarantee. As of November 30, 2006 and November 30, 2005 the Company recorded reserves under these programs in the amounts of $35,238 and $0, respectively, which are included in accrued expenses in the accompanying consolidated balance sheets.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably 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.

Risk Factors That May Affect Future Results

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. A number of these risks are listed below. These risks could affect actual future results and could cause them to differ materially from any forward-looking statements we have made in this report. You should carefully consider the risks described below, as well as the other information set forth in this Form 10-KSB. The risks and uncertainties described below are not the only ones we face. Should they materialize, any of the risks described below could significantly and adversely affect our business, prospects, financial condition or results of operations. In that case, the trading price of our common stock could fall and you may lose all or part of the money you paid to buy our common stock.

Risks Related to Our Business

We may be forced to undertake lengthy and costly efforts to build market acceptance of our umbilical cord blood stem cell storage services, the success of which is critical to our profitability.

We anticipate that service fees from the processing and storage of umbilical cord blood stem cells will comprise a substantial majority of our revenue in the future and, therefore, our future success depends on the successful and continued market acceptance of this service. Broad use and acceptance of our service requires marketing expenditures and education and awareness of consumers and medical practitioners, and the time and expense required to educate and build awareness of our services and its potential benefits could significantly delay market acceptance and our ultimate profitability. The successful commercialization of our services will also require that we satisfactorily address the needs of obstetricians and family medicine practitioners in order to address potential resistance to recommendations for our services and ultimately reach our potential consumers.

Our placental stem cell storage services have not yet been offered, and there is no assurance that these services will be launched or will gain market acceptance.

We intend to launch our offering of the services of processing and storing Plureon® Stem Cells in the first half of 2007. The commercial launch of this offering is subject to certain developments, including completion of clinical validation and testing for commercialization of the process and the Company s development of its final business and economic model in offering this service. There can be no assurance that the necessary validation and testing and business developments will be successful or that the commercial service will ever be launched. The placental stem cell storage business represents a new and untested service offering of the Company, and there is no assurance that, if launched, it will gain market acceptance. Unlike umbilical cord blood stem cells, placental stem cells have not yet been used in human therapies, and research continues in the medical and scientific communities to attempt to find treatment applications for placental stem cells. Market acceptance of the Company s Plureon® Stem Cell storage services or potential storage services for other new types of stem cells will depend upon the willingness of prospective parents to pay for the processing and storage of such cells based upon the possibility that such treatments will be discovered in the future. Further, if there are setbacks in medical and scientific research relating to treatment applications for placental stem cells or other new cells, this may adversely affect our future sales of these services.

We operate in a regulated environment, and our failure to comply with applicable regulations, registrations and approvals could materially and adversely affect our business.

Historically, the FDA has not regulated banks that collect and store cord blood for private or family use. Recent changes, however, require establishments engaged in the recovery, processing, storage, labeling, packaging or distribution of any Human Cells, Tissues, and Cellular and Tissue-Based Products (HCT/Ps) or the screening or testing of a cell tissue donor to register with the FDA in January 2004. We voluntarily registered with the FDA in January 2003 and successfully updated that registration, thus meeting the compliance requirement. The FDA proposed rules that will regulate current Good Tissues Practices (cGTP). The final rules became effective during 2005. Future FDA regulations could adversely impact or limit our ability to market or perform our services. Failure to comply with applicable regulatory requirements can result in, among other things, injunctions, operating restrictions, and civil fines and criminal prosecution. Delays or failure to obtain registrations could have a material adverse effect on the marketing and sales of our services and impair our ability to operate profitably in the future.

International licenses of our technology and services account for a material portion of our income, and the continued success of our involvement in those arrangements involves unique risks.

Our licensing activities in Mexico/Central America and India accounted for $926,824 and $613,316 of licensee income for the years ended November 30, 2006 and 2005, respectively. Our international business activities present a number of challenges. Specifically, our growth and future license income and return on investments from these sources will face the following challenges, among others:

Local laws may not provide the same degree of protection against infringement of our intellectual property rights;

Local laws and business practices could prevent our business from operating or favor local competitors;

It may be difficult and time consuming to locate local organizations, with whom to partner, that are capable of undertaking and sustaining operations;

We may be forced to incur significant expenses related to entering into licensing and investment arrangements in new foreign markets; and

Because the majority of our international license fees are currently denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our services less competitive in international markets.

If we are unable to meet and overcome these challenges, our international growth may slow, be limited, or be altogether unsuccessful. To the extent our international business activities do not significantly improve in the near future we could have further write-downs of receivables arising from our licensing agreements.

We may be unable to protect our intellectual property from infringement by third parties, and third parties may claim that we infringe on their intellectual property, either of which could materially and adversely affect the Company.

We rely upon patent protection, trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position, and we typically require our employees, consultants and advisors to execute confidentiality and assignment of inventions agreements in connection with their employment, consulting or advisory relationships. There can be no assurance, however, that these agreements will not be breached or that we will have adequate remedies for any such breach.

Despite our efforts to protect our intellectual property, third parties may infringe or misappropriate our intellectual property or may develop intellectual property competitive to ours. Our competitors may independently develop similar technology, duplicate our processes, products or services or design around our intellectual property rights. As a result, we may have to litigate to enforce and protect our intellectual property rights to determine their scope, validity or enforceability. Intellectual property litigation is particularly expensive, time-consuming, diverts the attention of management and technical personnel and could result in substantial cost and uncertainty regarding our future viability. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection would limit our ability to produce and/or market our products in the future and would likely have an adverse affect on the revenues generated by the sale or license of such intellectual property. Furthermore, any public announcements related to such litigation or regulatory proceedings could adversely affect the price of our common stock.

We also may be subject to costly litigation in the event our products or technology infringe upon another party s proprietary rights. Third parties may have, or may eventually be issued, patents that would be infringed by our technology. Any of these third parties could make a claim of infringement against us with respect to our technology. We may also be subject to claims by third parties for breach of copyright, trademark or license usage rights. Any such claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party s patent, license alternative technology from another party or otherwise result in limitations in our ability to use the intellectual property subject to such claims.

We are involved in intellectual property litigation, which may hurt our business, may be costly to us and may prevent us from selling or licensing our products or services.

On February 22, 2002, the Company was named as a defendant in a complaint filed by Pharmastem Therapeutics, Inc. in the United States District Court of Delaware (Wilmington), Case No. 02-148-GMS, alleging patent infringement of U.S Patents Nos. 5,004,681 (681 patent) which relates to the collection processing, and storage of stem cells derived from umbilical cord blood and 5,192,553 (553 patent) which relates to the therapeutic uses of stem cells derived from umbilical cord blood. Pursuant to a jury verdict in 2003, a judgment was entered against the Company in the amount of approximately $958,000 for estimated damages relating to royalties resulting from revenues generated from specimens processed and stored from April 11, 2000 through August 31, 2003.

In 2004, the court reversed this judgment and issued two favorable rulings in favor of the Company and other defendants. However, PharmaStem has noticed an appeal of the decision to the United States Court of Appeals. Further, there is a separate action against the Company pending in Delaware state courts. The Delaware court has stayed all proceedings pending an outcome in the federal case. If the Court of Appeals and/or the Delaware court issues an adverse ruling, this could have a material adverse effect on the Company.

The stem cell preservation market has and continues to become increasingly competitive.

Stem cell preservation is becoming an increasingly competitive business. Our business faces competition from other operators of stem cell preservation businesses and providers of stem storage services. Currently, the Company competes against approximately 25 other national private cord blood banks. Some of these companies, such as Cord Blood Registry, Inc. are competitors who as privately owned entities, can leverage considerable resources to market and sell their services. Other competitors such as ViaCord (a division of ViaCell) and LifeBankUSA (a division of Celgene) are affiliates of publicly traded corporations. These competitors may have access to greater financial resources. In addition, established companies with greater access to financial resources may enter our markets and compete with us. Finally, various public cord blood banks are encouraging parents to donate their newborn s cord blood rather than privately banking it.

In the event that we are not able to compete successfully with our current or potential competitors, it may be difficult for us to grow our revenue and maintain our existing business without incurring significant additional expenses to try and refine our technology, services or approach to our business to better compete, and even then there would be no guarantee of success.

Because our industry is subject to rapid technological and therapeutic changes, our future success will materially depend on the continued viability of the use of stem cells.

Our success materially depends on the continued viability of stem cells for developing therapeutic treatments and cures for disease. The broader medical and research environment for such treatments and cures critically affects the utility of stem cells, the services we offer to the public, and our future success. The use of stem cells in the treatment of disease is subject to potentially revolutionary technological, medical and therapeutic changes. Future technological and medical developments could render the use of stem cells and our services and equipment obsolete and unmarketable. As a result, there can be no assurance that our services will provide competitive advantages over other technologies. If technological or medical developments arise that materially alter the commercial viability of our technology or services, we may be forced to incur significant costs in replacing or modifying equipment in which we have already made a substantial investment prior to the end of its anticipated useful life. Alternatively, significant advances may be made in other treatment methods or in disease prevention techniques which could significantly reduce or entirely eliminate the need for the services we provide. The materialization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Our information systems are critical to our business, and a failure of those systems could have a materially adverse effect on the Company s business, financial condition and reputation.

We depend on our ability to store, retrieve, process, and manage a significant amount of information through our computer systems. Like most computer systems, our systems are subject to the risks of failure, computer viruses, and unauthorized individuals (hackers) obtaining access to and inadvertently or purposefully damaging them. The Company believes the security systems and virus-detection controls we have implemented significantly reduce these risks. If our computer systems nonetheless fail or are compromised, sensitive information regarding our customers may become publicly available. In such an event, we may be exposed to liability from customers, may lose customers and may suffer significant damage to our business reputation. Any of these events could have a materially adverse effect on our business and financial condition.

A failure in the performance of our cryopreservation storage facility or systems could harm our business and reputation.

To the extent our cryopreservation storage service is disrupted, discontinued or the performance is impaired, our business and operations could be adversely affected. We store approximately 95,000 specimens in Oldsmar, Florida and approximately 33,000 split specimens at a secondary storage facility in Sedona, AZ. Any failure, including network, software or hardware or equipment failure, that causes a material interruption or discontinuance in our cryopreservation storage of stem cell specimens could result in stored specimens being damaged and unable to be utilized. Specimen damage, including loss in transit to the Company or loss of bulk shipments to its secondary storage site, could result in litigation against us and reduced future revenue to us, which in turn could be harmful to our reputation. Our insurance may not adequately compensate us for any losses that may occur due to any failures in our system or interruptions in our ability to maintain proper, continued, cryopreservation storage services. Any material disruption in our ability to maintain continued uninterrupted storage systems could have a material adverse effect on our business, operating results and financial condition. Our systems and operations are vulnerable to damage or interruption from fire, flood, equipment failure, break-ins, tornadoes and similar events for which we do not have redundant systems or a formal disaster recovery plan and may not carry sufficient business interruption insurance to compensate us for losses that may occur.

We may be required to spend substantial amounts to comply with legislative and regulatory initiatives relating to patient privacy.

Regulations issued under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, contain provisions that require us to adopt business procedures designed to protect the privacy of each of our patients individual health information. The Department of Health and Human Services recently issued health privacy regulations applicable to most health care organizations, including us, and we may incur material expenses associated with compliance efforts. In addition, compliance may require management to spend substantial time and effort on compliance measures. If we fail to comply with the new regulations, we could suffer civil penalties up to $100 per violation with a maximum penalty of $25,000 per each requirement violated per calendar year and criminal penalties with fines up to $250,000 per violation.

Our failure to comply with laws related to hazardous materials could materially harm us.

We are subject to state and federal laws regulating the protection of employees who may be exposed to hazardous material and regulating the proper handling and disposal of that material. Although we believe we are in compliance with all such applicable laws, a violation of such laws, or the future enactment of more stringent laws or regulations, could subject us to liability, or require us to incur costs that would have an adverse effect on us.

Risks Related to Our Common Stock

Our common stock price may be volatile and you may not be able to resell your shares of our common stock at or above the price you paid.

The market price for our common stock is likely to be highly volatile and is likely to experience wide fluctuations in response to factors including the following:

actual or anticipated variations in our quarterly operating results;

announcements of technological innovations or new services by us or our competitors;

changes in financial estimates by securities analysts;

conditions or trends in the stem cell preservation business;

changes in the economic performance or market valuations of other stem cell storage companies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

additions or departures of key personnel;

sales of additional shares of common stock by us;

adverse results on existing or potential new litigation;

investor perceptions of us and the stem cell preservation business;

general economic trends and market conditions;

adverse announcements by our competitors; and

adverse publicity.

Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Over the past two years, the price of our common stock has fluctuated from a high of $6.70 to a low of $2.15. To the extent our stock price fluctuates, it could impair our ability to raise capital through the offering of additional equity securities. As a result, holders of our common stock may not be able to resell their stock at or above the price at which they purchase it.

Our common stock trades in an illiquid market, which may make it difficult for you to sell your shares at times and prices you believe to be appropriate.

Trading of our common stock is conducted on the OTC Bulletin Board. This has an adverse effect on the liquidity of our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts and the media s coverage of our Company and its common stock. This may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for our common stock.

Our stock was delisted from the Nasdaq SmallCap market in July 2003. The Company expects to reapply for listing on the Nasdaq SmallCap market or another exchange in the next 12-18 months, but the Company may be unable to meet the applicable listing requirements at that time.

Our board of directors has the authority to issue preferred stock, which could deter takeover bids even if those bids are in the stockholders best interests.

We have 500,000 shares of authorized and unissued preferred stock, which could be issued to third parties selected by management or used as the basis for a stockholders rights plan, which could have the effect of deterring potential acquirers. The ability of our Board of Directors to

establish the terms and provisions of different series of preferred stock could discourage unsolicited takeover bids from third parties even if those bids are in the stockholders best interests. Further, the issuance of additional shares having preferential rights could adversely affect other rights appurtenant to shares of our common stock.

We have no intention of paying dividends on our common stock.

To date, we have not paid any cash dividends and do not anticipate the payment of cash dividends in the foreseeable future. Accordingly, the only return on an investment in shares of our common stock, if any, may occur upon a subsequent sale of such shares.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements and supplementary data listed in the accompanying Index to Consolidated Financial Statements are attached as part of this report.

The following consolidated financial statements of CRYO-CELL International, Inc. are included in Item 7:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of November 30, 2006 and 2005

Consolidated Statements of Operations and Comprehensive (Loss) Income

For the Years Ended November 30, 2006 and 2005

Consolidated Statements of Cash Flows

For the Years Ended November 30, 2006 and 2005

Consolidated Statements of Stockholders (Deficit) Equity

For the Years Ended November 30, 2006 and 2005

Notes to Consolidated Financial Statements

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of Cryo-Cell, International, Inc.:

We have audited the accompanying consolidated balance sheets of Cryo-Cell International, Inc. and subsidiaries (a Delaware corporation) as of November 30, 2006 and 2005, and the related consolidated statements of operations and comprehensive (loss) income, stockholders (deficit) equity, and cash flows for each of the two years in the period ended November 30, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cryo-Cell International, Inc. and subsidiaries as of November 30, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended November 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Tampa, Florida
February 21, 2007

CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	November 30, 2006	November 30, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 7,414,140	$ 7,979,377
Restricted cash	200,000	200,000
Marketable securities and other investments	989,581	484,491
Accounts receivable and advances (net of allowance for doubtful accounts of $905,984 and $633,557, respectively)	1,213,569	1,043,748
Deferred tax assets	45,000	45,000
Prepaid expenses and other current assets	649,971	693,852
Total current assets	10,512,261	10,446,468
Property and Equipment-net	3,188,662	2,923,959
Other Assets		
Marketable securities and other investments	50,760	35,222
Notes receivable	93,238	100,000
Investment in Saneron CCEL Therapeutics, Inc.	684,000	684,939
Deposits and other assets	111,462	42,922
Total other assets	939,460	863,083
Total assets	$ 14,640,383	$ 14,233,510
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current Liabilities		
Accounts payable	$ 1,207,167	$ 478,575
Accrued expenses	1,706,199	1,171,845
Deferred revenue	3,592,485	3,277,622
Total current liabilities	6,505,851	4,928,042
Other Liabilities		
Deferred revenue	5,875,107	4,457,245
Deferred tax liabilities	45,000	45,000
Long-term liability-revenue sharing agreements	3,750,000	3,750,000
Deferred consulting obligation	556,571	658,666
Total other liabilities	10,226,678	8,910,911
Commitments and Contigencies (Note 8)		
Stockholders (Deficit) Equity		
Preferred stock ($.01 par value, 500,000 authorized and none issued)		
Common stock ($.01 par value, 20,000,000 authorized; 11,624,629 as of November 30, 2006 and November 30, 2005 issued and outstanding)	116,247	116,247
Additional paid-in capital	23,929,761	23,768,054

Treasury stock	(839,301)	(839,301)
Accumulated other comprehensive loss	(111,876)	(274,834)
Accumulated deficit	(25,186,977)	(22,375,609)
Total stockholders (deficit) equity	(2,092,146)	394,557
Total liabilities and stockholders (deficit) equity	$ 14,640,383	$ 14,233,510

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

CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	For the Years Ended	
	November 30, 2006	November 30, 2005
Revenue	$ 17,180,383	$ 14,451,331
Costs and Expenses:		
Cost of sales	6,067,671	4,143,002
Marketing, general & administrative expenses	12,957,465	9,104,087
Research, development and related engineering	486,164	26,148
Renegotiation of deferred consulting agreement		(498,161)
Impairment of marketable securities	147,420	
Depreciation and amortization	481,727	452,295
Total cost and expenses	20,140,447	13,227,371
Operating (Loss) Income	(2,960,064)	1,223,960
Other Income (Expense):		
Interest income	322,369	143,495
Interest expense	(1,015,389)	(863,713)
Other (expense) income	(821)	109
Licensee income	926,824	613,316
Total other income (expense)	232,983	(106,793)
(Loss) Income before income tax benefit and equity in losses of affiliate	(2,727,081)	1,117,167
Income tax benefit		36,001
Equity in losses of affiliate	(84,287)	(119,762)
	(84,287)	(83,761)
Net (Loss) Income	$ (2,811,368)	$ 1,033,406
Net (loss) earnings per common share basic	($ 0.24)	$ 0.09
Weighted average common shares outstanding basic	11,624,629	11,582,147
Net (loss) earnings per common share diluted	($ 0.24)	$ 0.08
Weighted average common shares outstanding diluted	11,624,629	12,232,308
Comprehensive (loss) income:		
Net (loss) income:	$ (2,811,368)	$ 1,033,406
Unrealized gain (loss) on marketable securities	15,538	(144,584)
Recognition of unrealized loss on marketable securities	147,420	
Comprehensive (loss) income	$ (2,648,410)	$ 888,822

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

CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended November 30, 2006	November 30, 2006
Cash Flows from Operating Activities:		
Net (Loss) Income	$ (2,811,368)	$ 1,033,406
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization expense	724,524	597,366
(Gain) loss on sale of marketable securities	(5,510)	6,612
Loss on sale of property and equipment	6,331	5,179
Gain on renegotiation of deferred consulting agreement		(498,161)
Compensatory element of stock options	78,359	49,335
Provision for doubtful accounts	336,246	289,029
Impairment of marketable securities	147,420	
Equity in losses of affiliate	84,287	119,762
Changes in assets and liabilities:		
Accounts receivable and advances	(511,067	