CRYO CELL INTERNATIONAL INC
Form 10-Q
October 15, 2013
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended August 31, 2013

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

Commission File Number 0-23386

CRYO-CELL INTERNATIONAL, INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE	**22-3023093**
(State or other Jurisdiction of	**(I.R.S. Employer**

Incorporation or Organization) **Identification No.)**

700 Brooker Creek Blvd. Oldsmar, FL 34677

(Address of Principal Executive Offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes x No ¨ Not Applicable ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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

State the number of shares outstanding of each of the Registrant s classes of common stock, as of the latest practicable date. As of October 2, 2013, 11,870,040 shares of $0.01 par value common stock were issued and 10,761,325 were outstanding.

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	August 31, 2013 (unaudited)	November 30, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,727,735	$ 2,677,382
Restricted cash	1,420,814	2,576,844
Accounts receivable (net of allowance for doubtful accounts of $1,927,225 and $1,367,465, respectively)	3,577,637	3,401,597
Prepaid expenses and other current assets	522,460	659,179
Total current assets	9,248,646	9,315,002
Property and Equipment-net	1,190,219	1,281,075
Other Assets		
Marketable securities and other investments	32,140	13,660
Investment in Saneron CCEL Therapeutics, Inc.	684,000	684,000
Long-term note receivable, net of current portion	110,996	550,697
Deposits and other assets, net	99,011	486,225
Total other assets	926,147	1,734,582
Total assets	$ 11,365,012	$ 12,330,659
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current Liabilities		
Accounts payable	$ 1,244,902	$ 1,209,973
Accrued expenses	1,684,871	2,917,758
Deferred revenue	6,753,896	6,536,160
Total current liabilities	9,683,669	10,663,891
Other Liabilities		
Deferred revenue, net of current portion	8,500,790	8,364,533
Long-term liability - revenue sharing agreements	2,300,000	2,300,000
Total other liabilities	10,800,790	10,664,533

Commitments and Contingencies (Note 7)

Stockholders Deficit		
Preferred stock ($.01 par value, 500,000 authorized and none issued)		
Common stock ($.01 par value, 20,000,000 authorized; 11,870,040 issued and 10,775,275 outstanding as of August 31, 2013 and 11,860,040 issued and 11,067,666 outstanding as of November 30, 2012)	118,700	118,600
Additional paid-in capital	27,179,980	26,824,478
Treasury stock, at cost	(2,859,571)	(2,187,505)
Accumulated deficit	(33,558,556)	(33,753,338)
Total stockholders deficit	(9,119,447)	(8,997,765)
Total liabilities and stockholders deficit	$ 11,365,012	$ 12,330,659

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended August 31, 2013	For the Three Months Ended August 31, 2012	For the Nine Months Ended August 31, 2013	For the Nine Months Ended August 31, 2012
Revenue:				
Processing and storage fees	$ 4,505,823	$ 4,185,910	$ 13,312,709	$ 12,129,173
Licensee income	323,816	356,381	975,580	1,017,256
Total revenue	4,829,639	4,542,291	14,288,289	13,146,429
Costs and Expenses:				
Cost of sales	1,360,267	1,326,308	4,015,104	3,563,111
Selling, general and administrative expenses	2,835,886	3,059,678	8,489,132	10,505,171
Abandonment of patents			378,837	
Research, development and related engineering	8,139	66,046	26,125	88,466
Depreciation and amortization	42,811	51,816	144,666	152,906
Total costs and expenses	4,247,103	4,503,848	13,053,864	14,309,654
Operating Income (Loss)	582,536	38,443	1,234,425	(1,163,225)
Other Income (Expense):				
Other income	7,708	17,143	30,934	48,791
Extinguishment of revenue sharing agreements		(313,661)		(1,595,606)
Interest expense	(314,883)	(205,714)	(827,632)	(782,130)
Total other expense	(307,175)	(502,232)	(796,698)	(2,328,945)
Income (Loss) before equity in losses of affiliate and income tax expense	275,361	(463,789)	437,727	(3,492,170)
Equity in losses of affiliate	(38,575)	(38,450)	(115,475)	(116,114)
Income (Loss) before income tax expense	236,786	(502,239)	322,252	(3,608,284)
Income tax expense	(42,352)	(44,858)	(127,470)	(1,845,806)
Net Income (Loss)	$ 194,434	$ (547,097)	$ 194,782	$ (5,454,090)

Net income (loss) per common share - basic	$ 0.02	$ (0.05)	$ 0.02	$ (0.48)
Weighted average common shares outstanding - basic	10,774,892	11,166,496	10,900,750	11,325,280
Net income (loss) per common share - diluted	$ 0.02	$ (0.05)	$ 0.02	$ (0.48)
Weighted average common shares outstanding - diluted	10,863,899	11,166,496	11,010,279	11,325,280

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended August 31, 2013	August 31, 2012
Cash flows from operating activities:		
Net income (loss)	$ 194,782	$ (5,454,090)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	300,311	311,959
Abandonment of patents	378,837	
Loss on sale of property and equipment	44,428	7,210
Compensatory element of stock options	225,177	1,073,536
Provision for doubtful accounts	583,182	530,655
Equity in losses of affiliate	115,475	116,114
Loss on extinguishment of revenue sharing agreements		1,595,606
Deferred income tax expense		1,718,919
Changes in assets and liabilities:		
Accounts and notes receivable	(319,521)	(418,359)
Prepaid expenses and other current assets	136,719	119,318
Deposits and other assets, net	28,400	15,001
Accounts payable	34,929	575,609
Accrued expenses	(1,232,887)	(173,728)
Deferred consulting obligation		(72,183)
Deferred revenue	353,993	94,029
Net cash provided by operating activities	843,825	39,596
Cash flows from investing activities:		
Restricted cash held in escrow	1,156,030	51,502
Purchases of property and equipment	(239,381)	(137,678)
Purchases of marketable securities and other investments	(18,480)	(14,200)
Proceeds from sale of marketable securities and other investments		1,008,404
Investments in patents	(34,525)	(20,385)
Net cash provided by investing activities	863,644	887,643
Cash flows from financing activities:		
Extinguishment of revenue sharing agreements		(3,054,000)
Treasury stock purchases	(672,066)	(1,470,726)
Proceeds from the exercise of stock options	14,950	

Net cash used in financing activities	(657,116)	(4,524,726)
Increase (decrease) in cash and cash equivalents	1,050,353	(3,597,487)
Cash and cash equivalents - beginning of period	2,677,382	6,305,095
Cash and cash equivalents - end of period	$ 3,727,735	$ 2,707,608

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

CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2013

(Unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of August 31, 2013 and November 30, 2012, the related Consolidated Statements of Operations for the three and nine months ended August 31, 2013 and August 31, 2012 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2013 and 2012 have been prepared by Cryo-Cell International, Inc. and its subsidiaries (the Company or Cryo-Cell) pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Certain financial information and note disclosures, which are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company s November 30, 2012 Annual Report on Form 10-K. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for all periods presented have been made. The results of operations for the three and nine months ended August 31, 2013 are not necessarily indicative of the results expected for any interim period in the future or the entire year ending November 30, 2013.

Revenue Recognition

Revenue Recognition for Arrangements with Multiple Deliverables

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

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

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

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

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

Income Taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The Company has recorded a valuation allowance of $10,723,000 and $10,947,000 as of August 31, 2013 and November 30, 2012, respectively, as the Company does not believe it is more likely than not that all future income tax benefits will be realized. When the Company changes its determination as to the amount of deferred income tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to income tax expense in the period in which such determination is made. The ultimate realization of the Company s deferred income tax assets depends upon generating sufficient taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, the Company projects future levels of taxable income. This assessment requires significant judgment. The Company examines the evidence related to the recent history of income or losses, the economic conditions in which the Company operates and forecasts and projections to make that determination.

The Company did not record U.S. income tax expense during the three and nine months ended August 31, 2013 as the Company incurred a nine month cumulative tax loss which resulted in an increase to the net operating loss deferred tax asset, which was offset by an increase to the valuation allowance.

There was approximately $1,700,000 of U.S. income tax expense recorded for the nine months ended August 31, 2012 as a result of the C