CRYO CELL INTERNATIONAL INC
Form 10-Q
October 15, 2014
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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, 2014

¨ **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 10, 2014, 11,917,119 shares of $0.01 par value common stock were issued and 9,756,331 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, 2014 (unaudited)	November 30, 2013
Current Assets		
Cash and cash equivalents	$ 3,448,977	$ 3,925,156
Restricted cash	204,085	968,130
Marketable securities	122,663	37,910
Accounts receivable (net of allowance for doubtful accounts of $1,839,938 and $1,994,575, respectively)	3,950,622	3,336,460
Note receivable		550,782
Prepaid expenses and other current assets	539,924	644,969
Total current assets	8,266,271	9,463,407
Property and Equipment net	1,015,908	1,207,279
Other Assets		
Investment in Saneron CCEL Therapeutics, Inc.	758,764	684,000
Deposits and other assets, net	65,678	146,116
Total other assets	824,442	830,116
Total assets	$ 10,106,621	$ 11,500,802
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current Liabilities		
Accounts payable	$ 1,038,519	$ 1,194,825
Accrued expenses	1,143,235	1,800,811
Deferred revenue	6,621,864	6,814,797
Total current liabilities	8,803,618	9,810,433
Other Liabilities		
Deferred revenue, net of current portion	9,222,798	8,658,354
Long-term liability revenue sharing agreements	2,300,000	2,300,000
Total other liabilities	11,522,798	10,958,354
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; 11,916,286 issued and 9,821,169 outstanding as of August 31, 2014 and 11,870,040 issued and 10,743,225 outstanding as of November 30, 2013)	119,163	118,700
Additional paid-in capital	27,676,761	27,265,340
Treasury stock, at cost	(4,736,219)	(2,926,123)
Accumulated deficit	(33,279,500)	(33,725,902)
Total stockholders deficit	(10,219,795)	(9,267,985)
Total liabilities and stockholders deficit	$ 10,106,621	$ 11,500,802

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 Month Ended		For the Nine Months Ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Revenue:				
Processing and storage fees	$ 4,768,533	$ 4,505,823	$ 13,849,199	$ 13,312,709
Licensee income	169,412	323,816	1,302,074	975,580
Total revenue	4,937,945	4,829,639	15,151,273	14,288,289
Costs and Expenses:				
Cost of sales	1,499,739	1,360,267	4,323,805	4,015,104
Selling, general and administrative expenses	2,948,185	2,835,886	8,824,048	8,489,132
Abandonment of patents			25,649	378,837
Research, development and related engineering	17,852	8,139	50,543	26,125
Depreciation and amortization	43,211	42,811	131,415	144,666
Total costs and expenses	4,508,987	4,247,103	13,355,460	13,053,864
Operating Income	428,958	582,536	1,795,813	1,234,425
Other Income (Expense):				
Other income	195,010	7,708	230,253	30,934
Interest expense	(309,317)	(314,883)	(836,177)	(827,632)
Total other expense	(114,307)	(307,175)	(605,924)	(796,698)
Income before equity in losses of affiliate and income tax expense	314,651	275,361	1,189,889	437,727
Equity in losses of affiliate	(52,667)	(38,575)	(242,318)	(115,475)
Income before income tax expense	261,984	236,786	947,571	322,252
Income tax expense	(25,412)	(42,352)	(98,114)	(127,470)
Net Income	$ 236,572	$ 194,434	$ 849,457	$ 194,782
Net income per common share basic	$ 0.02	$ 0.02	$ 0.08	$ 0.02
	10,025,939	10,774,892	10,319,514	10,900,750

Weighted average common shares outstanding basic								
Net income per common share diluted	$	0.02	$	0.02	$	0.08	$	0.02
Weighted average common shares outstanding diluted		10,252,265		10,863,899		10,484,849		11,010,279

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, 2014	August 31, 2013
Net income	$ 849,457	$ 194,782
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	287,010	300,311
Abandonment of patents	25,649	378,837
Loss on sale of property and equipment		44,428
Compensatory element of stock options	255,380	225,177
Provision for doubtful accounts	913,235	583,182
Equity in losses of affiliate	242,318	115,475
Changes in assets and liabilities:		
Accounts receivable	(1,527,397)	(319,521)
Notes receivable	550,782	
Prepaid expenses and other current assets	105,045	136,719
Deposits and other assets, net	52,628	28,400
Accounts payable	(156,306)	34,929
Accrued expenses	(657,576)	(1,232,887)
Deferred revenue	371,511	353,993
Net cash provided by operating activities	1,311,736	843,825
Cash flows from investing activities:		
Release of restricted cash held in escrow	764,045	1,156,030
Purchases of property and equipment	(93,478)	(239,381)
Purchases of marketable securities and other investments, net	(84,753)	(18,480)
Investments in patents		(34,525)
Investment in affiliate	(150,000)	
Net cash provided by investing activities	435,814	863,644
Cash flows from financing activities:		
Treasury stock purchases	(2,294,631)	(672,066)
Proceeds from the exercise of stock options	70,902	14,950
Net cash used in financing activities	(2,223,729)	(657,116)
(Decrease) increase in cash and cash equivalents	(476,179)	1,050,353
Cash and cash equivalents beginning of period	3,925,156	2,677,382

Cash and cash equivalents end of period	$ 3,448,977	$ 3,727,735

Supplemental non-cash disclosure:		
Disposition of Cryo-Cell common stock held by Saneron, increase in investment	$ 74,764	

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

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CRYO-CELL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014

(Unaudited)

Note 1 Basis of Presentation and Significant Accounting Policies

The unaudited consolidated financial statements including the Consolidated Balance Sheets as of August 31, 2014 and November 30, 2013, the related Consolidated Statements of Operations for the three and nine months ended August 31, 2014 and August 31, 2013 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2014 and 2013 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, 2013 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, 2014 are not necessarily indicative of the results expected for any interim period in the future or the entire year ending November 30, 2014.

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 the processing of the specimen is complete. 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.

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 $10,280,000 and $10,852,000 as of August 31, 2014 and November 30, 2013, 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.

There was no U.S. income tax expense for the three and nine months ended August 31, 2014 due to the utilization of net operating losses and foreign tax credit carryforwards, which were not previously benefited in the Company s financial statements.

The Company records foreign income taxes withheld from installment payments of non-refundable up-front license fees and royalty income earned on the processing and storage of cord blood stem cell specimens in geographic areas where the Company has license agreements. The Company recognized approximately $25,000 and $42,000 for the three months ended August 31, 2014 and 2013, respectively, of foreign income tax expense. The Company recognized approximately $98,000 and $127,000 for the nine months ended August 31, 2014 and 2013, respectively, of foreign income tax expense. Foreign income tax expense is included in income tax expense in the accompanying consolidated statements of operations.

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

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. For the three and nine months ended August 31, 2014 and August 31, 2013, the Company had no provisions for interest or penalties related to uncertain tax positions.

In September 2013, the Internal Revenue Service issued final regulations governing the income tax treatment of the acquisition, disposition and repair of tangible property. The regulations are effective for taxable years beginning on or after January 1, 2014. The Company does not expect these new regulations to have a material impact on the financial statements.

Long-Lived Assets

The Company evaluates the realizability of its long-lived assets, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment, such as reductions in demand or when significant economic slowdowns are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment and carrying value is in excess of fair value, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing a discount rate.

Due to tests performed during the second quarter of fiscal 2014 and 2013, management decided to discontinue pursuing certain patents and trademarks related to the Company s menstrual stem cell technology resulting in a write-off of approximately $26,000 and $379,000, respectively, for abandoned patents and trademarks which is reflected as abandonment of patents in the accompanying consolidated statements of operations. The impact to future operations is insignificant and it will not impact the Company s core operations.

Leases

In June 2013, the Company signed an amendment to terminate the building lease on the additional 9,600 square feet that was entered into during June 2006. The termination fee was $150,000 and is reflected, net of rent paid for May and June 2013, in selling, general and administrative expenses for the three and nine months ended August 31, 2013.

Stock Compensation

As of August 31, 2014, the Company has three stock-based employee compensation plans, which are described in Note 4 to the consolidated financial statements. The Company s third stock-based employee compensation plan became effective December 1, 2011 as approved by the Board of Directors and approved by the stockholders at the 2012 Annual Meeting. The Company recognized approximately $48,000 and $63,000 for the three months ended August 31, 2014 and August 31, 2013, respectively, of stock option compensation expense. The Company recognized approximately $255,000 and $225,000 for the nine months ended August 31, 2014 and August 31, 2013, respectively, of stock option compensation expense.