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**Cord Blood America, Inc.****OTC BB: CBAI**

CURRENT PRICE: \$0.20

52-WEEK RANGE: \$0.09 - \$1.50

AVERAGE DAILY VOLUME (50-DAY): 116,000

FLOAT: 13.7 million

OUTSTANDING SHARES: 39.7 million

MARKET CAPITALIZATION: \$7.9 million

**INITIATING COVERAGE****COMPANY PROFILE**

Cord Blood America, Inc. ([www.cordblood-america.com](http://www.cordblood-america.com)), headquartered in Los Angeles, California, provides umbilical cord blood banking services in the U.S. Through Cord Partners, Inc. ([www.cordpartners.com](http://www.cordpartners.com)), its wholly-owned subsidiary operating since January 2003, the Company engages in the collection, testing, processing, and cryogenic preservation of cord blood stem cells specimens for cellular treatment of various life-threatening disorders, including primarily blood and immune system diseases, as well as cancers, especially following chemotherapy or radiotherapy. Long considered as medical waste, cord blood is a non-controversial source of hematopoietic stem cells, which have superior regenerative and reconstructive qualities, and have been increasingly used in transplants instead of bone marrow. Ongoing intensive stem cell research holds promise to discover an assortment of additional novel applications for cord blood stem cells, including remedies for cardiac, genetic and neural degenerative disorders.

The Company's key accomplishments in the first three quarters of 2005 could lead to substantial revenue growth in the near future. During nine months ended September 30, 2005, the Company generated revenues of approximately \$1.9 million, an increase of 96% compared to the same period of 2004, and collected 554 new cord blood units. In September 2005, the Company introduced a revolutionary installment pricing plan with 18 annual payments of \$269, eliminating a considerable typical upfront cost to customers, which placed a heavy burden on expectant families potentially limiting mass market penetration. Customers also have the option to pay \$1,695 upfront, with subsequent payments of \$115 annually. In August 2005, the Company signed a marketing and distribution agreement to offer cryogenic preservation services of peripheral blood stem cells provided by NeoStem, Inc., which is currently being acquired by Phase III Medical, Inc. (OTC BB: PHSM). Through a similar arrangement with Bio-Matrix Scientific Group, Inc. (Pink Sheets: BMXP), the Company also plans to offer storage of adult stem cells sourced from adipose, or fat, tissue. Finally, having acquired Rainmakers International and Family Marketing, Inc. in February and August 2005, respectively, the Company provides television, radio and internet advertising

services to businesses with family-oriented offerings, which can be leveraged for its main business development. Trading on the OTC Bulletin Board under the symbol CBAI, the Company is positioned to maintain its above-average growth in one of the fastest growing healthcare market segments, assuming ongoing funding for marketing is attainable in the future.

**STEM CELL TECHNOLOGY**

Over the past decade, stem cell research has gained considerable attention from medical scientists and the public, leading to advancement of treatments for various life-threatening diseases, but not without stirring ethical dilemmas. Unlike most living cells in the body, which have a pre-assigned specialized function, stem or progenitor cells have a unique ability to divide into various types of cells present in different tissues, organs and systems. Modern cellular therapies focus on utilizing stem cells to correct and/or replace diseased or damaged functional cells, which in a healthy organism are replaced continually. Due to their early stage of development, embryonic stem cells produced within eight weeks of conception are considered to offer the greatest scientific potential and at the same time fuel controversy. However, undifferentiated stem cells found in already-differentiated tissues after birth, referred to as adult stem cells, have also proven their tremendous value and efficacy in a wide range of medical applications.

Cord blood, which remains in the umbilical cord and placenta following full-term birth, contains hematopoietic, or blood-forming, stem cells also found in bone marrow and peripheral blood. Hematopoietic stem cells, which can mature into red blood cells, white blood cells and platelets, have been used in transplants for over 30 years, replenishing blood and restoring the function of the immune system, especially following the devastating effects of chemotherapy or radiation. As the best-studied and most frequently used stem cells, hematopoietic progenitors already found applications in treatment of over 70 disorders, including such blood and immune deficiencies as sickle cell anemia, thalassemia, aplastic anemia and SCIDs (severe combined immunodeficiencies), cancers such as leukemia and lymphoma, including Hodgkin's disease, as well as Tay Sachs disease, metabolic diseases and many others. Moreover, the potential for future medical applications of hematopoietic stem cells, especially the ones sourced

from cord blood, is virtually unlimited, primarily due to their relative immaturity.

The less mature cord blood has several advantages over bone marrow, the more traditional source of stem cells. Although possible only once in a lifetime, the collection of cord blood, which takes only a few minutes, is easy, safe, painless and does not interfere with the delivery or subsequent care of the newborn. Within 15 minutes after the umbilical cord has been cut and clamped, following either a vaginal or cesarean delivery, 3-4 ounces of blood can be drawn by piercing a vein in a sterilized 4-6 inch portion of the cord, without any need for a surgical procedure. More importantly, primitive cord blood stem cells are better tolerated in transplants than bone marrow, allowing more flexible matching. They are less likely to generate antibodies that attack a transplant recipient's normal tissues, a common and painful complication known as graft-versus-host disease (GVHD), which is the leading cause of death in patients treated with stem cell therapies. Cord blood is also less likely to contain certain infectious agents, like some viruses, that can pose a risk to transplant recipients. In addition, some studies suggest that cord blood may have a greater ability to generate new blood cells than bone marrow. Ounce for ounce, there are nearly 10 times as many blood-producing cells in cord blood. Furthermore, new research suggests that cord blood stem cells may differentiate into some specialized tissue other than blood components. By discovering increasingly effective means of altering cord blood stem cells into more adaptable embryonic-like stem cells, medical scientists continue to advance promising research and development of treatments for cardiac disorders, stroke, rheumatoid arthritis, spinal-cord injuries, Parkinson's, Alzheimer's, AIDS, diabetes, muscular dystrophy and a variety of genetic and neural maladies, among others. Finally, researchers' progress in improving expansion methods that increase the number of stem cells in cord blood slowly alleviates the problem of limited volume of cord blood collection samples, which often restricted their use to children.

### **CORD BLOOD BANKING INDUSTRY**

Cryogenic preservation of cord blood, most often using liquid nitrogen as refrigerant, has been practiced for less than two decades and only recently started attaining any critical mass, primarily due to advertising and awareness campaigns of commercial cord blood banks. Cord blood can be stored either in private or public banks, with a fundamental difference in ownership of the blood units. Private banks reserve specific newborn's cord blood sample for exclusive family use in exchange for a fee, while public banks share donated units, matching them to qualified recipients identified through a registry available in many countries. About 30 private banks currently store an overwhelming majority of over 500,000 cord blood units preserved in the U.S. Some 23 public cord blood banks cooperating with fewer than 65 hospitals equipped to accept donations throughout the country account for only about 60,000 cord blood units,

stored primarily as part of the National Marrow Donor Program (NMDP), which provides a registry and search database for both cord blood and bone marrow. Although public banks incur the cost of processing the cord blood sample, most of them require completion of lengthy parental health questionnaires, proof of negative test results for such diseases like hepatitis and HIV and at least 90 days advance in making the appropriate arrangements. As such, still only a tiny fraction of umbilical cords and placentas in over 4 million births nationwide each year are preserved, while the rest of afterbirths are simply discarded.

The special attractiveness of private banking services appears to rest primarily on the fact that preserved stem cells are unique to a particular newborn and genetically related to its family members, not only guaranteeing availability upon a potential need, but also optimizing the chances for a successful transplant match. Perceived as a form of supplementary household biological insurance, privately preserved cord blood is well suited for use by relatives, especially siblings, and above all for autologous, or self-donated, transplants. However, since it's reserved for a very limited number of potential users, privately banked blood is utilized less often than publicly stored units, especially when considered as a ratio of units stored versus units used in treatment. Actual transplants are most likely to involve philanthropically donated cord blood for unrelated patients. Out of over 6,000 cord blood stem cell transplants performed since 1988, only several hundred have been received by siblings and just about 14 have been autologous. Although the American Academy of Pediatrics and the American College of Obstetricians and Gynecologists, both of which encourage public banking, put the odds of a child needing an autologous cord blood stem cell transplant at only between 1 in 1,000 and 1 in 200,000, the practice of cord blood preservation in private banks is expanding rapidly.

In 2003, only about 5% of four million women who delivered babies knew about the possibility of banking their infants' cord blood, and about 70,000 families, or 1.75% of all births, actually took advantage of such opportunity privately. The number of preserved cord blood samples during 2004 grew about 75% and is expected to grow that much again in 2005, to approximately 5% of all births, or about 200,000 per year. The annual market is currently estimated at about \$250 million and could continue growing even more rapidly assuming successful research and development of new medical applications continues. Each year, just as an example, approximately 1.4 million Americans are diagnosed with cancer, over 550,000 with chronic heart disease, and 5,000 babies with 45 different brain disorders, driving the potential demand for preserved cord blood.

As cord blood increasingly plays a dominant role as a critical source of stem cells for transplants, it has received government attention and driven the need for consistent quality standards to ensure safety and

efficacy. Since May 2005, the private cord blood banking services are subject to cellular and tissue practice regulations and inspections of the U.S. Food and Drug Administration (FDA), which previously required only registration. Certain states, such as New Jersey and New York, require cord blood banks to be licensed. Also in May, the House of Representatives, by a virtually unanimous vote, passed the Stem Cell Therapeutic and Research Act Of 2005 (HR-2520), a bill that would boost research using adult stem cells, especially sourced from cord blood. The proposal will provide \$79 million in federal funding to increase the number of cord blood units available for matches to 150,000, which would translate into matches for about 90% of patients in need of them. Corresponding legislation is currently pending in the Senate and President Bush has indicated he would sign the bill, which will undoubtedly result in increased public awareness about cord blood.

### **SERVICES**

The Company offers a complete range of cord blood banking products and services, including provision of the collection kit, transport of the sample by a certified medical courier, testing and processing of the sample and its cryogenic storage. All specimens collected from the customers are tested and stored at Bergen Community Regional Blood Center in Paramus, New Jersey, part of Community Blood Services, a federally funded laboratory accredited by the American Association of Blood Banks (AABB). The stem cell preservation technology and processes are conducted pursuant to a non-exclusive patent license agreement from PharmaStem Therapeutics, Inc., the successor to Biocyte Corporation, a pioneer in cord blood stem cell preservation. Consistent with industry practice, the Company's cord blood collection kit has not been cleared as a medical device. Together with easy enrollment at 1-888-882-2673, general physician support and 24/7 customer service, the kit and related services are bundled for an initial service fee of \$1,695 and an annual maintenance fee of \$115, for the duration of the storage, a pricing plan comparable to the Company's competition. In September 2005, the Company became the first in the industry to offer an annual payment plan for the entire package of services without any money down at birth, which partially alleviates the financial burden typically born by parents. Pending credit approval, customers pay 18 equal annual payments of \$269, with the first one due six months following delivery. In addition, the Company recently began marketing collection, processing, testing and storage services for peripheral blood provided by NeoStem, Inc., and starting early next year plans to offer similar services of Bio-Matrix Scientific Group, Inc. (Pink Sheets: BMXP) relating to adipose tissue specimens.

Through its subsidiaries, Career Channel, Inc. d/b/a Rainmakers International and Family Marketing, Inc., acquired in February and April 2005, respectively, the Company also provides specialty marketing and lead generation services to businesses with family-oriented offerings, focusing on production and placement of ads

and commercials for television, radio, internet and print campaigns.

### **STRATEGY**

The Company is positioned to utilize its in-house advertising and promotion expertise of Rainmakers International and Family Marketing, Inc. to increase the brand awareness and significantly ramp up sales of its core Cord Partners, Inc. business. In addition to providing marketing services to business customers, the Company's subsidiaries support an intensified cord blood preservation advertising campaign across all media channels. In the next twelve months, the Company intends to allocate resources to improve internal lead generation and follow-up processes, expand its sales force and implement a viral marketing initiative designed to exploit pre-existing social networks, especially throughout the internet. The Company also will concentrate its efforts on building additional sales channels through healthcare professionals, primarily in obstetrics and gynecological practices, to boost awareness of its services among expectant families and their doctors.

In order to accelerate its organic growth, the Company is taking creative steps to add new sources of revenue in hopes of improving margins. At present, the Company's gross margin structure is relatively fixed, with 15% of all revenues generated from the collection and storage of cord blood paid to PharmaStem Therapeutics, Inc. and additional one-time payment of \$577.50 and \$50 per year for each cord blood sample due to the Community Blood Services. Recently, the Company announced plans of utilizing its sales and marketing organizations to offer cryogenic banking services for two additional adult stem cell types, expanding its service offering attainable with limited corresponding overhead. Through marketing and distribution agreements signed in August 2005 with NeoStem, Inc. and Bio-Matrix Scientific Group, Inc. (Pink Sheets: BMXP), the Company will provide to its existing and new customers the ability to store their stem cells sourced from peripheral blood and adipose tissue, respectively.

Finally, the Company from time to time explores merger and acquisition opportunities that could potentially enable it to increase its customer base, expand its service offering and geographical presence, as well as aid in building industry awareness among the public.

### **COMPETITION**

Cord blood banking is a highly competitive business with about 30 companies offering cryogenic preservation and storage. The industry is dominated by three major players, Cbr Systems, Inc. d/b/a Cord Blood Registry®, Cryo-Cell International, Inc. (OTC BB: CCEL) and ViaCord, Inc., a subsidiary of ViaCell, Inc. (NASDAQ: VIAC), which currently account for most of the total market. Cord Blood Registry®, the undisputed market leader stores 270,000 cord blood units, according to its management, and since 1995 released 37 of them for transplants, about half of which were preserved free of

cost specifically for a sick sibling. Cryo-Cell International, Inc. has 100,000 customers and released about ten units, while ViaCord, Inc., over 70,000 clients and released 16 units, 13 of which were collected specifically for sick siblings. Other private companies in the industry include LifebankUSA operated by Celgene Cellular Therapeutics, a wholly-owned subsidiary of Celgene Corporation (NASDAQ: CELG), which stores about 20,000 samples, and CorCell, Inc., with over 8,000 units. Other companies in the industry involved in research of new stem cell treatments include StemCells, Inc. (NASDAQ: STEM), Regeneration Technologies, Inc. (NASDAQ: RTIX) and Bio-Matrix Scientific Group Inc. (Pink Sheets: BMXP).

## MANAGEMENT

The Company's management team has a wealth of entrepreneurial spirit, proven executive leadership skills, and decades of marketing and sales experience and mutual collaboration.

Matthew L. Schissler, the Company's Chairman and CEO, is one of the founders of Cord Partners, Inc. with over a decade of consumer sales and marketing experience. Previously, Mr. Schissler was the President and Chief Executive Officer of Rainmakers International, Inc., an advertising agency he founded and held various management sales positions at TMP Worldwide, Inc., a personnel staffing company and a former parent of Monster.com, where he managed 200 sales staff.

Stephanie A. Schissler, Chief Operating Officer, is also one of the founders of Cord Partners, Inc., where she serves as President and Chief Operating Officer. Prior to founding Cord Partners, Inc., Mrs. Schissler was an Account Executive with Paychex Business Solutions, Inc., a payroll services company, a Director of Business Development at Mills & Murphy Software Systems, Inc., a software developer and reseller. She also held various sales and managerial positions with TMP Worldwide, Inc.

Sandra D. Smith, Chief Financial Officer, most recently served as the Accounting System Administrator for Bisk Education, Inc., a provider of online degree programs, and as a Financial Systems Consultant for Mills & Murphy Software Systems, Inc. In her career, Ms. Smith also held an accounting management position and was a member of the Mergers and Acquisitions team for TMP Worldwide, Inc.

Noah J. Anderson, Chief Technology Officer, joined the Company from Assent Solutions, an IT consulting firm he founded. Previously, Mr. Anderson was the Director of Technology at Mills & Murphy Software Systems, Inc. and held the position of Sr. Network Engineer at TMP Worldwide, Inc.

Joseph R. Vicente, Vice President and Director, is one of the founders of The Empower Network, Inc., a personnel staffing consulting company, where he served as President and Chief Operating Officer prior to joining the Company. In his career, Mr. Vicente served as a Vice President of Workplace Technology Ventures, Inc., a software developer and for nearly a decade held various

management sales positions, including Sr. Vice President of Operations, at TMP Worldwide, Inc.

Stephen Weir, the Company's Director, is one of the founders and President of Gecko Media, Inc., a website development company, and a founder and President of Global Interactive Network Systems, Inc., a network consulting company.

Gayl Rogers Chrysler, RN, MBA, has over 25 years experience in the blood banking and cord blood banking industry. Ms. Chrysler is the National Director of Operations, Cord Blood Program for the National American Red Cross, where she leads the development and implementation of strategy systems and partnerships to achieve optimal efficiency and the highest product quality at national collection and storage sites.

## FINANCIALS AND OUTLOOK

For the nine months ended September 30, 2005, the Company's revenues increased 96% to \$1,895,595 million, compared to approximately \$967,308 for the same period in 2004. Year-to-date gross profit increased 77% to \$463,614, from \$261,827 for the same period last year, while the net loss widened to \$3,986,867, or \$0.12 per share, from \$873,741, or \$0.03 per share. In the latest third quarter ended September 30, 2005 the Company reported revenues of \$431,685, an increase of 27% over \$338,859 reported for the same three months in 2004. The quarterly gross profit decreased 6% to \$86,297 from \$91,909, while the net loss increased to \$1,702,050, or \$0.04, from \$462,405, or \$0.02 per share, for the same period last year, respectively.

The Company continues to fund its marketing initiatives with external financing from Cornell Capital Partners, LP. After securing a 24-month \$5 million standby equity distribution agreement (SEDA) in March, the Company recently issued a total of 3,568,734 shares to repay \$1,360,553 in outstanding debt and interest advanced to the Company as part of the SEDA. The Company also successfully completed a 24-month \$5 million secured convertible debenture offering, maturing in September 2007 and convertible at a fixed price of \$0.35 per share into approximately 14.3 million shares of common stock, with additional warrants exercisable at \$0.35-0.40 per share to purchase approximately 22.6 million shares. Dilution from the debenture and SEDA transactions, which may add materially to the shares outstanding, can potentially produce downward pressure on the share prices once the registration becomes effective by the Securities and Exchange Commission (SEC). The Company also has a previously issued warrant exercisable at \$0.1875 to purchase one million common shares, resulting from unsecured debt transactions in 2004. As of September 30, 2005, the Company had cash of \$1,945,289, working capital deficit of \$600,430, total assets of \$2,103,032 shareholders' deficit of \$514,367 and virtually no long term debt.

As public awareness of cord blood preservation benefits increases, the Company's marketing efforts could lead to gains in market share. Continuing to focus on consumer

sales, with intensified and more consistent follow-up by telephone, direct mail and e-mail, as well as placing emphasis on educating physicians, hospitals and other caregivers, the Company is improving its visibility and enhancing its role in this fragmented industry. At current levels, the shares may present a speculative buying opportunity for long-term investors willing to accept the general high risks associated with emerging growth companies. Such risks include likely dilution, the lack of liquidity and price volatility, lack of current profitability, as well as the auditor's going concern opinion, shareholders' deficit, working capital deficit, relatively high burn rate of about \$1.5 million per quarter and potential for significant default risk associated with the introduction of the annual payment plan option. The Company is dependent on attracting new external financing to meet its ongoing obligations and to achieve a positive working capital and liquid position. Assuming the Company's marketing strategy is effective in overcoming intense industry competition and the overall business model proves sustainable, the Company could

experience high rates of revenue growth and may eventually become profitable operationally in the long term, if revenues increase several fold. Furthermore, the Company's position could also benefit greatly from results of a preliminary injunction motion filed in January 2005 by PharmaStem Therapeutics, Inc. against the industry leaders, Cbr Systems, Inc. and ViaCell, Inc., for infringement of patents relating to cryopreservation of cord blood. Near term additional financing expected from possible exercise of warrants, or future receipt of additional debenture proceeds, or SEDA financing from Cornell Capital Partners will significantly improve the current balance sheet and working capital position of the Company enabling it to continue to grow and expand marketing efforts. The Company's financial performance should improve if the revenue growth rates continue to dramatically climb, which would impact the perception of the marketplace.

**Alan Stone, Managing Director**

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